
Clutha District Council

Item for DECISION

Report	Request to Accept a Late Item to the Council Meeting Agenda
Meeting Date	15 September 2022
Item Number	LATE ITEM 1
Prepared By	Steve Hill – Chief Executive
File Reference	751384

REPORT SUMMARY

The Council is requested to admit an agenda item to the public agenda of 15 September 2022.

The reason for the Late Item – Carbon Credit Advance Purchase is that it is preferable for Council to make this decision rather than leave it under CEO delegation because of the election period, and it is possible to put this matter for Council decision at this final meeting of Council.

Section 46A (7) of the Local Government Official Information and Meetings Act 1987 states:

An item that is not on the agenda for a meeting may be dealt with at the meeting if-

- (a) The local authority by resolution so decides; and
- (b) the presiding member explains at the meeting at a time when it is open to the public,
 - (i) the reason why the item is not on the agenda; and
 - (ii) the reason why the discussion of the item cannot be delayed until a subsequent meeting.

RECOMMENDATIONS

1. That the “Request to Accept a Late Item to the Council Meeting Agenda” report be received.
2. That Council accepts the following item as a Late Item:
 - Carbon Credit Advance Purchase

Clutha District Council

Item for DECISION

Report	Advance Purchase of Carbon Credits
Meeting Date	15 September 2022
Item Number	LATE ITEM 2
Prepared By	John Scott – GM Corporate Services
File Reference	751251

REPORT SUMMARY

This report is about seeking permission to buy carbon credits (NZUs or NZ's unit for one metric tonne of carbon-dioxide equivalent emissions) in advance in anticipation of price increases and unit reductions that are likely from the Ministry for the Environment proposed changes to the NZ Emissions Trading Scheme flagged in the September 2022 consultation document.

Approval is sought to purchase 22,000 carbon credits (NZUs) at approximately \$86 per unit requiring a \$1,892,000 payment. This payment will be reflected as a current asset until such time as it is expensed after assessment.

RECOMMENDATIONS

1. That Council receives the 'Advance Purchase of Carbon Credits' report.
2. That Council agrees to:
 - 2.1 The proposed advance purchase of Carbon Credits of \$1,892,000 or
 - 2.2 The proposed advance purchase of Carbon Credits of \$???

REPORT

1 Background

This report is about seeking permission to buy carbon credits (NZUs) in advance in anticipation of price increases that are likely from the Ministry for the Environment proposed changes to the NZ Emissions Trading Scheme flagged in the September 2022 consultation document.

At the 17 February 2022 Council meeting council approved the following amendment to the Investment and Treasury Management Policies:

95. Operational risk to minimise the financial impact of movements in the carbon credit prices requires balancing Council's need for price stability with the benefit of realising market opportunities to reduce costs as they arise. Emission liabilities are managed under the following risk control limits:

Period	Minimum Percentage	Maximum Percentage
0 to 1 year	0%	100%
1 to 2 years	0%	50%
2 to 3 years	0%	30%

Based on discussions with the Senior Infrastructure Engineer the following is our historical purchase of carbon credits that have increased over time due to changes in factors. We have also made an estimate (highlighted yellow) for the next 3 years. The data is presented in the table below:

Year	No of NZUs Purchased
2015	5,855
2016	5,118
2017	7,608
2018	9,158
2019	13,229
2020	14,022
2021	12,710
2022 – estimate	14,500
2023 – estimate	15,000
2024 - estimate	15,500

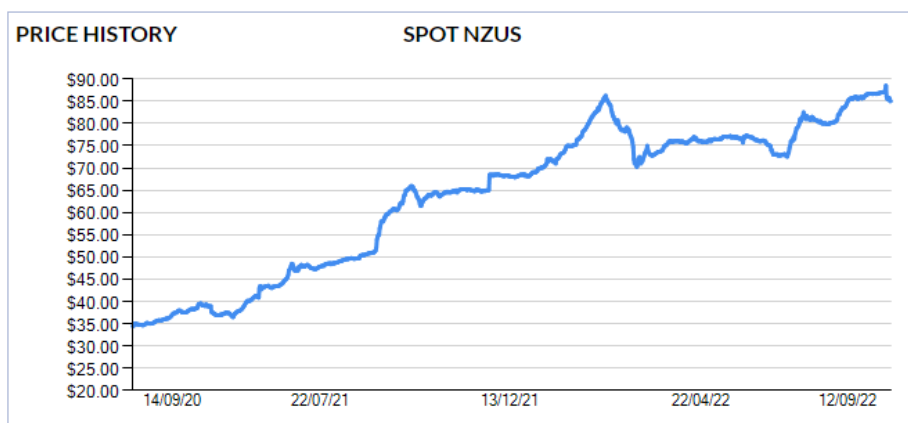
Applying the control limits above we arrive at the following potential maximum quantity of units to buy in advance in accordance with policy:

Year	Maximum Percentage	No of NZUs to be purchased
2022	100%	14,500
2023	50%	7,500
2024	0%	0
Total		22,000

What we do not know is where the market price will go but we do have a track record of historical prices which have risen from \$35 in September 2020 to \$85 in September 2022 – a 71% increase on average each year.

MARKET	MARKET RULES	TERMS	FAQ	CONTACT
CONTRACT DESCRIPTION (NZ\$)		BEST BID	BEST OFFER	LAST/FIX
NZUs - Spot		🔒	🔒	85.00
NZUs - April 2023		🔒	🔒	87.75
NZUs - April 2024		🔒	🔒	92.57
NZUs - April 2025		🔒	🔒	97.60
NZUs - April 2026		🔒	🔒	102.95
NZUs - April 2027		🔒	🔒	108.65

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For further details or access to Carbon pricing, please contact Jarden Securities on +64 (9) 521 7802 or carbon@jarden.co.nz

Per the policy the financial impact of movements in the carbon credit prices requires balancing Council's need for price stability with the benefit of realising market opportunities to reduce costs as they arise. Any purchase of Carbon Credits requires reporting to Council. We are applying for advance approval due to the convenience of the Council meeting.

The financial effect of this decision is 22,000 carbon credits (NZUs) at approximately \$86 per unit giving an approval amount of $(22,000 * \$86)$ \$1,892,000.

2 Strategic Goals and Outcomes

This recommendation is about financial prudence and taking advantage of market pricing opportunities.

3 Assessment of Options

There are 3 options:

- Don't buy any in advance
- Buy the maximum of 22,000 units or
- Buy an amount between 0 and 22,000.

4 Consultation

No consultation is required as the quantity of NZUs is within policy.

5 Policy Considerations

Extracts from the Investment and Treasury Management Policies are quoted in the body of this report.

6 Legal Considerations

No legal considerations are suggested as it complies with policy.

7 Financial Impact

The direct financial impact approximates the \$86 per NZU purchased – between \$1,892,000 and zero. There may be a borrowing cost around 5% pa if debt is required. This will depend on cashflow balances and the capital build programme versus income secured.

It should also be noted that the cost of the carbon credits are charged to the activity that will use them, including any financial charges, so there is no residual cost or profit from this purchase. The risk is that prices drop and we charge the activities higher than the market price.