

Supplementary Analysis Report: NZ ETS Settings Review Frequency

Decision sought	Analysis produced for the purpose of informing final Cabinet legislative decisions.
Agency responsible	Ministry for the Environment
Proposing Ministers	Minister of Climate Change
Date finalised	25 March 2026

Description of the Minister's proposal

The Minister's proposal is to change the current annual New Zealand Emissions Trading Scheme (NZ ETS) unit limit and price controls settings process to a biennial process.

The Minister's proposal to move to biennial settings was agreed in principle by Cabinet on 22 September 2025 [ECO-25-MIN-0151 items 3 and 4] [CAB-25-MIN-0324]. On 25 September 2025, the Minister subsequently agreed to technical changes required to implement biennial settings [as set out in Table 1 of BRF-6872]. These technical changes are outlined in **Appendix One** to provide complete information on the Minister's proposal.

Summary: Problem definition and options

What is the policy problem?

- The policy problem reflects differing interpretations of how the current annual settings process affects market outcomes. The Minister's view, as reflected in Cabinet's in-principle decision (**Appendix One**), is that annual settings decisions contribute to market uncertainty by creating frequent policy signals that may be disruptive or difficult to interpret. This uncertainty is seen as undermining market confidence and administrative efficiency. In contrast, the Ministry for the Environment's (the Ministry) on-balance judgement is that retaining an annual settings process is desirable to incorporate updated information to support emissions alignment and stakeholder decision-making, particularly in a market that is in transition.
- The core policy issue is determining whether annual or biennial NZ ETS settings decisions best support the objectives of market stability, alignment with emissions reduction targets, and administrative efficiency—and how these objectives should be weighted when assessing the most effective decision-making frequency.

What is the policy objective?

- The policy objective is to determine the frequency of NZ ETS settings decisions that strike the right balance between market stability, accordance with emissions reduction targets, and administrative efficiency.

What policy options have been considered, including any alternatives to regulation?

- The below options represent a range of scenarios that include the status quo (Option 1), the Minister’s preferred option (Option 2), and a hybrid scenario (Option 3). Ultimately, both the Minister’s and the Ministry’s positions are reasonable and reflect different weightings of the core considerations.
- **Option 1: Annual NZ ETS decisions (status quo).** Settings decisions are made annually and always require five years of settings in place. Settings cover the units and values for auction volumes and price controls. The Minister is required to consider updating years three and four when updating year five. The Minister could consider updating years one and two if special conditions are met.
- **Option 2: Biennial NZ ETS decisions (Cabinet’s in-principle decision and the Minister of Climate Change’s preferred option).** Settings decisions are made every two years and require at least five years of settings in place. A new fifth and sixth year of settings would be added with each settings update (ie, at two-yearly intervals). The Minister is required to consider updating years two through five when updating year six and could consider updating year one if special conditions are met.
- **Option 3: Biennial NZ ETS decisions with the option for a one-year review if special conditions are met.** As per Option 2, except with the option for a review in the “off-year” if special conditions are met. Special conditions would be based on the current special conditions outlined in [section 30GB](#) of Act (also in appendix Two) that allow Minister to update years one and two in the annual settings process.
- Non-regulatory options have not been considered as the requirements for NZ ETS settings decisions are prescribed in legislation and regulation.

What consultation has been undertaken?

- Targeted consultation has been undertaken with [9\(2\)\(b\)\(ii\)](#) and the Climate Change Commission (the Commission) from 30 September to 8 October 2025. The consultation occurred through online meetings. The problem statement, options, perceived risks and trade-offs, and any further options to consider were discussed.
- Overall, participants supported the proposed change to biennial settings, albeit with some important trade-offs.
- The primary trade-off noted was the potential for biennial settings to increase volatility in settings decisions, given the longer period between decisions.
- Further details are provided in **Appendix Three**.

Is the preferred option in the Cabinet paper the same as preferred option in the SAR?

- No. The preferred option in the Cabinet paper is to move to biennial NZ ETS decisions, while the preferred option in the SAR is to maintain annual NZ ETS settings decisions.
- Both the Minister’s and the Ministry’s positions are reasonable and reflect different weightings of the core considerations, which is ultimately an on-balance judgement.

Summary: Minister’s preferred option in the Cabinet paper**Costs (Core information)**

Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

- The proposal would mean that stakeholders (those being allocated, trading, and surrendering New Zealand Units (NZUs) would receive less frequently updated

information (on unit volumes for auction and price control settings) on which to base their NZU decisions.

- As a result, there is a risk of it being harder for stakeholders to accurately gauge the specific price pathway they need to navigate. However, there is other information available to them, such as secondary carbon market prices and annual emissions projections, and settings decisions currently provide one source of information about the five-year period ahead.
- Although auction volumes are small (and getting smaller) relative to holdings and activity, settings do have an impact on the market. Settings decision history shows that settings for a particular year are subsequently changed in a later updates about half of the time, including in years 1 and 2 of the five-year horizon.
- Less frequent updates to settings may result in higher risk that successive updates will result in greater changes on average than if updates were annual. Please refer to **Appendix Four** for historical annual decisions. 9(2)(g)(i)
- Less frequent updates to NZ ETS settings increase the risk of not achieving New Zealand's emissions budgets. This is because updated emissions projections and inventory data, information released annually, would not be incorporated into settings decisions in a timely manner. As a result, the NZ ETS may operate on outdated assumptions, reducing its effectiveness in meeting climate targets.

Benefits (Core information)

Outline the key monetised and non-monetised benefits, where those benefits fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

- The additional benefit of the proposal over the counterfactual is the possibility of greater market confidence (less volatility and 'noise') through longer duration settings.
- This benefit reflects the view that the settings process is a significant source of volatility in the market – the current process is drawn-out as it starts in March/April, with the publication of Commission advice, and continues through until Cabinet decisions are made public in August. A biennial process should reduce the annual uncertainty in the current settings process. Furthermore, because the annual process in settings decisions is resource and time-intensive, it has been seen as disruptive and as creating a level of policy uncertainty in the period leading up to decisions.
- This view suggests that the volatility in the market can be reduced significantly with beneficial effects for stakeholders by having less frequent settings reviews.
- As above, these impacts are indirect.
- In addition, a direct impact in administrative savings of about \$0.5 million in total, across the Commission and the Ministry, has been estimated (to be finalised in Budget 26). There would also be additional administrative savings in terms of time and effort for a biennial process.

Balance of benefits and costs (Core information)

Does the SAR indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

- The Ministry considers that annual settings are preferable because they better support alignment with emissions budgets, market confidence, and transparency, even though they involve more frequent engagement and administrative effort.
- Conversely, both the Minister and Cabinet's view is that biennial settings should reduce volatility caused by the annual policy process and deliver modest cost savings and is confident that this change will not impact accordance with emissions budgets.

- This SAR finds that both the Minister’s and the Ministry’s positions are reasonable and reflect different weightings of the core considerations. The Minister’s preference for biennial settings prioritises reducing ‘policy noise’ and administrative burden, while the Ministry places greater emphasis on managing accordance risk and responsiveness to market and climate data.
- The difference in preferred option is driven by uncertainty regarding how market design choices and specifically, the frequency of review, will drive additional market stability.
- Ultimately, the balance of benefits and costs depends on how much weight is placed on drivers of market stability, administrative efficiency, and climate goals.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

- The Ministry will be responsible for implementing the legislative change. It can be implemented within available funding.
- The legislative change is straightforward and presents no unusual risks requiring mitigation.

9(2)(f)(iv)

- As a result, the Government will be required to take NZ ETS settings decisions in 2027.
- A transitional arrangement will be provided for to not require five years of settings to be in place during the first year.

Limitations and Constraints on Analysis

Stakeholder engagement

- Full public consultation on the proposal was not undertaken given the time constraint to meet the legislative timeline, resulting in approximately one week for rapid engagement
- As a result, public consultation was not available and instead, we consulted with six stakeholders.
- While initial feedback did not raise major concerns, the limited scope and duration mean there is uncertainty in fully capturing the stakeholder impacts of the proposal. This presents a risk that important perspectives, including those of iwi and Māori, may not have been captured.
- The feedback received has been considered in the options analysis as an initial signal of stakeholder views.
- Stakeholder engagement overall was useful in validating the key risks and trade-offs associated with the proposed change, and importantly, to confirm that there remains uncertainty around how biennial settings may ultimately affect market stability.
- As mentioned in overall impacts of limitations and constraints below, we do not believe a full market engagement would change our objectives, final cost benefit analysis, or conclusion significantly.
- Broader engagement will occur through the select committee process.

Assumptions

- It has been necessary to make assumptions or judgements in the analysis about:
 - the sources of uncertainty underlying current concerns about market stability
 - the relationship between the timeliness of information provision and market confidence/stability
 - the trade-off between timeliness of information / market confidence and administrative efficiency.
- The above assumptions are driven by the lack of quantitative evidence surrounding the relationship between policy decisions and market stability. The above assumptions

result in a qualitative options analysis that does not rely on a robust decision-making methodology.

Fiscal impacts

- There is some uncertainty about the cost impact of a move from annual to biennial settings decisions. Staff savings for the Commission and the Ministry are expected in the order of \$0.5 million annually.
- The savings are indicative only at this stage. There are a range of details to be confirmed including the distribution of savings across the Commission and the Ministry.

Overall impact of limitations and constraints

- The limitations and constraints on the analysis above have not affected the quality of the analysis significantly.
- However, due to the extremely tight timeframe, the limited stakeholder engagement with only six participants may increase the risk that we do not capture the full breadth of diverse views and opinions. While this has resulted in a slightly less robust options analysis, we do not believe a full market engagement would change our objectives, final cost benefit analysis, or conclusion significantly and we continue to evaluate our options based on the qualitative evidence available.
- The information provided will assist Cabinet to make an informed decision.

I have read the Supplementary Analysis Report and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager signature:



**Ameera Clayton
 Manager, Emissions Trading Scheme Policy
 25 March 2026**

Quality Assurance Statement

Reviewing Agency: RIAP

QA rating: Partially meets

The SAR is complete and concise, providing a solid foundation for decision-makers and stakeholders to understand the proposals. The options analysis is generally persuasive and appropriately weighs the key considerations between the Minister’s preferred option of biennial ETS settings decisions and the Ministry’s preference for retaining the status quo.

The panel noted that while targeted engagement was undertaken, the SAR does not fully meet the Consulted requirement. Timing constraints precluded full public consultation, and the panel assessed that the limited, targeted engagement was likely insufficient to capture representative feedback across the breadth of stakeholder and iwi/Māori perspectives. However, the SAR transparently acknowledges these constraints.

Section 1: Diagnosing the policy problem

Glossary of terms used in this SAR

Act (or CCRA)	Climate Change Response Act (2002)
Adaptive management	Adaptive management refers to a non-legislative process that seeks to provide a more coherent and systematic approach to tracking, reviewing and responding to climate developments on an annual basis, particularly in relation to the second emissions reduction plan.
Emissions budget	An emissions budget is a total quantity of emissions that is allowed to be released during an emissions budget period. Each emissions budget covers a period of five years. Emissions budgets will act as stepping-stones, or interim targets, to reaching our 2050 emissions reduction targets.
Emission units	Tradable credits representing one tonne of carbon dioxide-equivalent emissions, used for compliance or trading.
EPA	The Environmental Protection Authority (EPA) performs the day-to-day operations of the NZ ETS.
NZ ETS	New Zealand's Emissions Trading Scheme, a cap-and-trade system for reducing greenhouse gas emissions.
NZ ETS cap	NZ ETS cap refers to how much of the emissions budget is expected to be achieved by sectors covered by the NZ ETS.
NZ ETS Settings	<i>Unit limits</i> and <i>price control settings</i> are a package of 'NZ ETS settings' required currently to be reviewed and updated every year to ensure accordance with emissions budgets and targets. They consist of NZUs available for sale at auction and price controls for those auctions.
NZU	New Zealand Unit. The NZU is the domestic unit for the NZ ETS and represents one metric tonne of carbon dioxide-equivalent emissions.
Participant / non-participant	A person or entity that carries out an activity covered by the NZ ETS. A Participant must report on emissions (or on carbon captured) and may need to surrender units to cover their emissions or may receive an entitlement of units for carbon capture. A person who is not a participant may have an interest in the NZ ETS (eg, as a trader of units).
Register	The New Zealand Emissions Trading Register (the Register) is New Zealand's national registry for emission units, including those owned by the Crown. The Register holds emission units. Anyone wanting to own or trade emissions units in New Zealand must have an account in the Register.
Regulations	Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020
Surrender	Surrender means the transfer of one or more units to the 'Crown surrender account' in the Register to meet an emissions obligation.

What is the context behind the policy problem

New Zealand Emissions Trading System (NZ ETS)

1. The NZ ETS is the Government's main tool for driving emissions in line with our emissions reduction targets. It is a cap-and-trade system based on Government-issued New Zealand Units (NZUs). Emitters in covered sectors must obtain and surrender one NZU per tonne of carbon dioxide or equivalent to the Government.
2. The NZ ETS cap refers to how much of the emissions budget is expected to be achieved by sectors covered by the NZ ETS. The cap informs both how many units can be made available for auction and the price control settings. Clarity on the NZ ETS cap is important for supporting market credibility.
3. The Government introduces NZUs into the market through quarterly auctions and direct allocations. NZ ETS unit limits and price control settings for those auctions are prescribed in the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 (the Regulations).

Overarching objectives

4. The Government has a 2050 net zero climate change target, with total net emissions of no more than 290 Mt CO₂-e from 2022 to 2025, 305 Mt CO₂-e from 2026 to 2030, and 240 Mt CO₂-e from 2031-2035.
5. The Government coalition agreements include the objective: restoring confidence and certainty in the NZ ETS.

Settings for next five years

6. Each year, the Minister of Climate Change is required by the Climate Change Response Act 2002 (the Act, or CCRA) to recommend NZ ETS settings for the next five years in the Regulations. The CCRA also requires the Climate Change Commission (the Commission) to provide annual advice on NZ ETS settings to inform NZ ETS settings decisions. Settings for five calendar years need to be in place at all times.
7. These settings include: volume of units sold at auction; and price controls for these units available by auction.
 - a. *Unit volumes* which specify the units available by auction and by other means including the cost containment reserve.
 - b. *Price control settings* which provide the Government with a mechanism to help prevent the NZ ETS auction price from being too low (which could lower the secondary market NZU price below what is needed for meeting emissions reduction targets) or too high (unnecessarily impacting on the cost of living and the economy). The auction price floor acts as an additional safeguard against over-supply, contributing to the broader role of the NZ ETS in managing risks to achieving targets and budgets.
8. These settings are linked to New Zealand's emissions targets through the accordance test¹ set out in sections 30GC (2) and (3) of the Act.

Emissions budgets

¹ Sections 30GC (2) and (3) of the CCRA require the Minister of Climate Change must be satisfied that NZ ETS settings accord with New Zealand's 2050 target and emissions budgets.

9. Each emissions budget must state the total emissions that will be permitted for the relevant emissions budget period, and include all greenhouse gases. Emissions are expressed as a net quantity of carbon dioxide equivalent. Clarity on emissions budgets and the NZ ETS cap is important for supporting market credibility.

NZ ETS market

10. The market consists of primary, secondary and international elements:
- a. The primary market involves the allocation of NZUs through auctions, industrial allocation, and allocation to reward carbon sequestration and other removals.
 - b. The secondary market involves the trading of NZUs. This is where NZ ETS account holders can buy and sell NZUs. Trades occur in the spot market via different trading platforms, directly between two parties on the Register, and through brokers.
 - c. Up until 2015, the NZ ETS was linked to international units, but is currently closed to international units (there is no import or export of units).

NZ ETS settings (and changes), and auctions

11. **Appendix Four** provides a summary of the annual NZ ETS settings for the years 2021 to 2030. In 2023, there were two updates (the second required by a judicial review), and in 2023 a two-tier system was introduced for the trigger price, which is the upper price control, and CCR. It also shows that a setting for a given year was changed in a subsequent settings update about half (54%) of the time. Such changes have occurred across both unit volume and price controls.
12. Units sold at auction have declined significantly since 2021-2022:
- In 2023 no units were sold.
 - In 2024 units were sold in the March and December quarters.
 - In 2025 no units were sold.
 - No units have been sold in 2026 to date.

Legal provisions

13. Sections 30GB and 30GC of the Act provide for regulations to be made about limits and price control settings for units and the requirements for those regulations (see **Appendix Two** for selected provisions). The key points are:
- Settings must be amended to ensure that, at all times, they prescribe unit limits and price control settings for each of the next five calendar years.
 - When settings are amended to apply to a further calendar year, the Minister:
 - **must** consider whether to recommend prescribing new unit limits and new price control settings for each of the two calendar years (years 3 and 4) before that further calendar year (year 5), and
 - **may** recommend prescribing new unit limits and new price control settings for the two early years (years 1 and 2).
 - However, new settings for years 1 and 2 may only be recommended if:
 - price control settings have had effect in the most recent year (reserve units have been released, or
 - units have been sold at the minimum price), or
 - the Minister is satisfied that the amendment is justified by **special circumstances**.

14. The legal provisions treat years 1 and 2 differently from years 3 and 4 in relation to changes in settings:
- For years 3 and 4, the potential for change must be considered for the purpose either of achieving accordance with budgets and targets, or for the Minister to be satisfied that any accordance that is not strict but still accords, is justified by other prescribed matters.
 - Years 1 and 2, however, can only be adjusted if special circumstances are met (See **Appendix Two**).
15. The overall effect of the legal provisions governing changes in settings suggests:
- There is significant judgement involved (eg, whether the Minister is satisfied that a discrepancy between settings and the strict accordance requirement is justified). The Commission is also required to provide annual advice, and the Minister is required to justify departure from that advice.
 - There is significant discretion involved (eg, whether to consider the potential for changes in years 1 and 2).
 - In practice, the restrictions on changing years 1 and 2 settings may not be as tight as they appear (eg, a special circumstance can include “any other matters that the Minister considers relevant” under section 30GC(5)(f))
 - It would likely be hard for a reasonably or fully informed market stakeholder to be able predict with confidence if and how settings for a given year or given years may be changed.

How is the status quo expected to develop?

16. If no action is taken, NZ ETS settings decisions will continue to be taken annually as required under the CCRA.
17. The operation of the NZ ETS market will be strengthened by a number of changes currently being considered or approved for implementation. These include a suite of minor and technical changes to the CCRA, including increased transparency in market governance, and the continued roll-out of more systematic adaptive management.
18. It seems likely that the NZ ETS market will continue to mature with increased certainty and stability due to the changes noted above, as well as a reduction in the stockpile of units. The secondary market will continue to grow, and auctions will become less important as auction volumes further reduce and come to an end in the 2030s.
19. It is acknowledged that the annual process of updating NZ ETS settings will continue to involve a degree of uncertainty, and that the process is drawn out over six months each year creating work for the government, the Commission, and NZ ETS stakeholders.

What is the policy problem or opportunity?

20. The policy problem reflects differing interpretations of how the current annual settings process affects market outcomes. The Minister’s view, as reflected in Cabinet’s in-principle decision (**Appendix One**), is that annual settings decisions contribute to market uncertainty by creating frequent policy signals that may be disruptive or difficult to interpret. This uncertainty is seen as undermining market confidence and administrative efficiency. In contrast, the Ministry considers that annual settings provide timely and necessary information to support emissions alignment and stakeholder decision-making, particularly in a market that is in transition. We acknowledge that both views are reasonable, and the choice is an on-balance judgement that reflects different weightings of the core criteria.

21. The core policy issue is determining whether annual or biennial NZ ETS settings decisions best support the objectives of market stability, alignment with climate targets, and administrative efficiency—and how these objectives should be weighted when assessing the most effective decision-making frequency.

What objectives are sought in relation to the policy problem?

22. The policy objective is to determine the frequency of NZ ETS settings decisions that strike the right balance between market stability, accordance with emissions reduction targets, and administrative efficiency.
23. Alignment and transparency tend to favour more frequent decisions, while administrative efficiency may favour less frequent decisions. The trade-off requires a judgement about the benefits of having more information on the settings path available for stakeholders versus the disruption of the annual process and its costs. This kind of trade-off does not lend itself to a clear quantitative decision method or threshold. While costs can be quantified the benefits in this case are qualitative.
24. Determining the optimal frequency requires consideration of the following:
- *alignment with climate outcomes and objectives* - settings should align with emissions projections and targets.
 - *market stability* - settings information should provide predictability and transparency, so that stakeholders can plan and invest with confidence.
 - *administrative efficiency* - settings decisions should not involve excessive costs or administrative time for relevant parties.
25. With settings decisions also, the question is where the balance rests:
- *Alignment with climate outcomes and objectives* suggests that decisions should be taken when new information is available that points to the need for a change. This consideration is most critical for the Crown because of its commitment to meeting emissions reductions targets.
 - *Market stability* suggests also that decisions should be taken when new information is available that points to a need for a change in order to maintain confidence. This consideration is most critical for stakeholders who may be acquiring, holding, or surrendering units because changes in settings have a financial impact on them.
 - *Administrative efficiency* suggests that costs are not excessive. In this context, this means that costs should be proportionate consistent with considerations of alignment and transparency above. Costs associated with settings decisions are borne largely by the Crown, although stakeholders do incur some costs - for example, in reviewing engagement materials and making submissions as part of the consultation process. In addition to cost, administrative and time should be proportionate and consistent with consideration of alignment above.

What consultation has been undertaken?

26. Targeted consultation was undertaken with selected NZ ETS stakeholders from 30 September to 8 October 2025. Engagement was with a limited number of stakeholders given the short turnaround time required (less than two weeks) to meet the legislative timetable. Engagement was conducted virtually via online meetings.
27. Stakeholders consulted comprised the following groups and organisations: 9(2)(b)(ii) and the Commission. It should be noted that the Commission did not provide a formal view. The majority of stakeholders above were NZ ETS market intermediaries.

28. Engagement material included a shortlist of questions to test the impacts of Option 1 (status quo), Option 2 (biennial review), and Option 3 (biennial review option for one year review if special conditions are met). Questions are summarised below:
- NZ ETS Settings every two years enhances confidence by reducing the number of policy decisions needed. Do you agree with the statement? Why or why not?
 - Are there any risks or unintended consequences you see?
 - Which option do you think best supports market stability and confidence?
 - Are there any other options you think we should consider?
29. Overall, participants supported the proposed change, albeit with some important trade-offs. Of the seven stakeholders, four supported the change, two were neutral, and one (b)(2)(b)(ii) preferred the status quo.
30. Four participants explicitly highlighted the trade-off between less frequent reviews and the potential for larger adjustments, which could result in increased volatility during the biennial settings period. We agree with the risks and trade-offs that stakeholders expressed, particularly the view that many participants emphasised that review frequency is just one of many factors influencing market stability, and not a silver bullet.
31. We also note that one participant explicitly suggested publishing longer settings trajectory, such as ten years of settings, in addition to publishing a data-only announcement during off-years.
32. Stakeholder engagement was valuable in validating the key risks and trade-offs associated with the proposed change, and importantly, in confirming that there remains uncertainty around how biennial settings may ultimately affect market stability.
33. Further details are provided in **Appendix Three**.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

34. The criteria are:
- a. **Alignment with climate targets and objectives**
Does the review frequency ensure the system aligns to emissions budgets and targets, and updated emissions projections? Can adjustments be made quickly enough if emissions forecasts drift from emissions budgets, or supply-demand balance?
 - b. **Maintains market stability**
Does the review frequency give stakeholders confidence in oversight and clear information? Does the frequency avoid policy “noise” or overreactions in the market? Does the review frequency provide a transparent and predictable environment for planning?
 - c. **Improves administrative efficiency and reduces compliance costs**
How resource-intensive is it for Ministers, Parliamentary Counsel Office (PCO), officials and stakeholders to conduct reviews? How effectively does this frequency keep the NZ ETS central to decision-making within the annual adaptive management process?
35. The criteria above are relevant because:

- **Criterion (a)** reflects the primary purpose of the NZ ETS, which is to reduce New Zealand's greenhouse gas emissions to help meet its domestic and international climate change targets. It does this by placing a price on emissions, creating a financial incentive for businesses to reduce them, and allowing for the trading of emission units. The NZ ETS covers a broad range of sectors and acts as the government's main tool for achieving its climate change mitigation goals.
- **Criterion (b)** reflects what is important for the operational success of the scheme. NZ ETS requires those involved in transacting NZUs to have the necessary information to engage with the scheme in different ways so that they can respond to price signals and choose the most cost-effective ways to reduce their emissions. The price of emissions (and expected price path) encourages businesses to invest wisely including in cleaner technologies.
- **Criterion (c)** is a generic, standard criterion reflecting trade-offs with the other criteria. It is also a legislative consideration: management of overall costs is a relevant factor in settings decisions as settings influence, and can help manage, the costs of the NZ ETS on the economy (households, sectors, regions).

What scope will options be considered within?

Focus of this Supplementary Analysis Report

36. Cabinet's impact analysis requirements apply to the proposal for biennial NZ ETS settings reviews, but there was no accompanying RIS, as this proposal was included late in the process at the direction of the Minister of Climate Change.
37. The Ministry for Regulation has not exempted the proposal and therefore it does not meet Cabinet's requirements for regulatory proposals. This supplementary analysis report will be provided before the ⁹(2)(f)(iv)

Defined scope

38. The scope of this analysis is limited to the assessed differences between annual and biennial settings decision options in relation to the settings outlined above. We have not considered other options in the SAR because the options considered were originally set out in previous briefings and received Minister approval (BRF-6777 and BRF-6872 refer).
39. Some issues that may have an impact on market stability and confidence are outside the scope of this analysis. For example, any change in an operational policy setting, that may have positive or negative impacts on stability and confidence, is outside of scope.

What options are being considered?

Option One – Annual settings decisions (Status Quo / counterfactual)

40. Settings decisions are made annually and always require five years of settings in place. Settings cover the units and values for auction volumes and price controls. The Minister is required to consider updating years three and four when updating year five. The Minister could consider updating years one and two if special conditions are met. At the time just prior to decisions there is a horizon of settings clarity for at least four years, and after decisions the horizon is five years.

Option Two – Biennial settings decisions (Cabinet agreement in principle)

41. Setting decisions are made biennially (once every two years) and require at least five years of settings in place. As for Option One, settings cover the units and values for auction volumes

and price controls. The Minister has agreed [BRF-6872] other policy details to operationalise this option as indicated at **Appendix One**.

42. Currently, years one and two of settings may be updated if there are special circumstances (as specified under section 30GB(5) of the Act). With the move to biennial settings it is necessary to provide for six years of settings and to adjust which years may be updated. The Minister has agreed that the legislation should be amended to give effect to the following:
- a. Year one may only be updated under special circumstances. This results in the same period of fixed settings as the status quo, being the next two years of settings being unable to be changed except if tests are met.
 - b. The Minister is required to consider updating years two through five when updating year 6. This change accounts for the change in which years must be considered under a biennial process.

Option Three – Biennial settings decisions with option for “off-year” review if special conditions are met

43. Setting decisions are made biennially (once every two years), with the option for a review in the “off-year” if special conditions are met. Special conditions would be based on the current special conditions in [section 30GB](#) of the Act surrounding years one and two. As for Options One and Two, settings cover the units and values for auction volumes and price controls.
44. This option is a hybrid of Option One and Option Two. It is assumed that if an annual settings review were triggered it would not change the biennial schedule. The next settings review would be in one year’s time, and then at two yearly intervals thereafter.

How do the options compare to the status quo/counterfactual?

Table 1: Options assessment (Status quo is benchmark)

<p>Option One – Annual settings decisions [Status Quo / counterfactual]</p>	<p>Option Two – Biennial settings decisions [Cabinet agreement in principle]</p>	<p>Option Three – Biennial settings decisions with option for “off- year” review if special conditions met</p>
<p><i>Criterion a. Alignment with climate outcomes and objectives</i></p>		
<p>There is annual alignment between emissions budgets and projections and NZ ETS settings.</p> <p>Any misalignment with emissions budgets and projections with NZ ETS settings does not endure for more than one year.</p> <p>This option therefore has the highest adaptability to adjust to updated emissions projections, and highest responsiveness.</p> <p>In allowing for fast adjustments, it may have less resilience to transient (shorter term) market signals.</p> <p>It has a lower risk of large (less frequent) changes being required.</p> <p style="text-align: center;">0</p>	<p>There is biennial alignment between emissions budgets and projections and NZ ETS settings.</p> <p>Any misalignment with emissions budgets and projections with NZ ETS settings does not endure for more than two years.</p> <p>This option has the potential for some misalignment enduring for an additional year relative to the status quo.</p> <p>This option therefore has lower ability to adapt to market dynamics such as to updated emissions projections.</p> <p>It has the lowest level of responsiveness to market signals, but higher resilience to shorter term transient signals. There is a higher risk of large (less frequent) changes being required.</p> <p style="text-align: center;">-</p>	<p>There is biennial alignment between emissions budgets and projections and NZ ETS settings, with the potential for annual alignment in any alternate year.</p> <p>Any misalignment with emissions budgets and projections with NZ ETS settings does not endure for more than one year (if there is a review), or two years (if not).</p> <p>This option has similar adaptability to the status quo.</p> <p>This option provides for a high level of responsiveness, dependent on the finalised special conditions. It has potentially higher resilience to short term transient market signals, yet potentially higher risk of large and less frequent changes.</p> <p style="text-align: center;">0/-</p>

<p>Option One – Annual settings decisions [Status Quo / counterfactual]</p>	<p>Option Two – Biennial settings decisions [Cabinet agreement in principle]</p>	<p>Option Three – Biennial settings decisions with option for “off- year” review if special conditions met</p>
<p><i>Criterion b. Market Stability</i></p>		
<p>NZ ETS settings are updated annually and communicated to the market.</p> <p>Annual settings allow for more frequent updates that can reflect updated information. 9(2)(g)(i)</p> <p>However, annual settings allow for smaller annual changes than Options Two and Three, which may better support market stability.</p> <p>Annual settings decisions enable high stakeholder engagement.</p> <p>Frequent reviews support a maturing (but still volatile and less predictable) NZ ETS market.</p> <p style="text-align: center;">0</p>	<p>NZ ETS settings are updated biennially and communicated to the market.</p> <p>Biennial settings allow for less frequent updates, which may provide greater regulatory stability to the market compared to Options One or Three.</p> <p>However, biennial settings allow for larger annual changes than Options One and Three, 9(2)(g)(i)</p> <p>Lower level of stakeholder engagement expected with less frequent settings updates.</p> <p>Less frequent reviews support a stable and predictable NZ ETS market with built in flexibility.</p> <p style="text-align: center;">0</p>	<p>This option is a hybrid of Options One and Two. NZ ETS settings are updated biennially and communicated to the market, except where that update and Communication occurs additionally in an alternate year if an “off-year” review has been triggered.</p> <p>Option Three has potential to allow for less frequent updates than Option One, which may provide greater regulatory certainty compared to status quo. However, this option also may have more uncertainty than Option One, driven by lower certainty on whether special conditions will be met, and whether the Minister chooses to review settings in the off-year.</p> <p>Option Three has potential to allow for larger annual changes than Option One, 9(2)(g)(i)</p> <p>It has a similar level of stakeholder engagement to the status quo.</p> <p>It supports an NZ ETS market in transition to stability and predictability.</p> <p style="text-align: center;">0</p>

Option One – Annual settings decisions [Status Quo / counterfactual]	Option Two – Biennial settings decisions [Cabinet agreement in principle]	Option Three – Biennial settings decisions with option for “off- year” review if special conditions met
Criterion c. Administrative efficiency		
<p>This option is the most resource intensive.</p> <p>The administrative cost of the annual settings process is largely borne by the Commission and the Ministry. There are also costs for Ministerial offices and other Parliamentary services (eg, Parliamentary Counsel Office). In addition to monetary costs, there is lower administrative time and effort savings compared to option 2.</p> <p style="text-align: center;">0</p>	<p>This option is the least resource intensive.</p> <p>The administrative cost of settings is estimated to be reduced by about \$0.5 million for the Commission and the Ministry. There would also be higher additional administrative time and effort savings compared to option 1 or 2.</p> <p>This saving is minor relative to the substantial market risk trade-off.</p> <p style="text-align: center;">+ [\$0.5 million saving]</p>	<p>This option has the potential to be less resource intensive than the status quo.</p> <p>The administrative cost saving will depend on the frequency of reviews. The cost saving will lie between the cost of annual and biennial reviews. In addition to monetary costs, there is lower additional administrative time and effort savings compared to option 2.</p> <p>This saving is minor relative to the substantial market risk trade-off.</p> <p style="text-align: center;">0 [saving up to \$0.5 million]</p>
Overall assessment		
0	0/-	0/-

Key for qualitative judgements:

- ++ much better than the status quo/counterfactual
- + better than the status quo/counterfactual
- 0 about the same as the status quo/counterfactual
- worse than the status quo/counterfactual
- much worse than the status quo/counterfactual

Further comment on context for options assessment

Information and promoting confidence and stability

45. Does more regular information for market stakeholders contribute to, or detract from, confidence and stability? Does it provide better information for decisions, or create unnecessary ‘noise’?
46. There are two distinct perspectives in this SAR:
 - a. The view reflected in the Minister’s preferred option that volatility is caused by the frequency of settings decisions and the disruptive effect of the process (eg, policy uncertainty) which is best managed by a move to a biennial process
 - b. The Ministry’s on-balance view that some volatility is inevitable in settings decisions, and that volatility is best managed by annual settings updates, with the provision of more timely information and likely smaller changes for stakeholders to accommodate.

Targeted engagement feedback

47. Due to the compressed timeline, stakeholder feedback was limited to seven participants, with a majority being market intermediaries. Officials from the Commission also provided input on the proposal, noting they were not providing a formal Commission view.
48. Overall, participants supported the proposed change, albeit with some important trade-offs. Many participants discussed market volatility in the context of market design, and noted that changing frequency is not a silver bullet approach to market stability. One participant — 9(2)(b) noted similar trade-offs and preferred the status quo (i.e., annual settings).
49. Overall, stakeholder engagement was valuable in validating the key risks and trade-offs associated with the proposed change, and importantly, in confirming that there remains uncertainty around how biennial settings may ultimately affect market stability.
50. Through this process, we gained confidence that the market participants we engaged with were motivated to prioritise stability and transparency, and that our qualitative approach to this options analysis was broadly aligned with stakeholder expectations. Please refer to **Appendix Three** for further detail.

Settings updates to ensure smooth pathway

51. In the period since 2021, it has not been uncommon for NZ ETS settings for a particular year to be updated in a subsequent annual review of settings.
52. The history of settings changes (see **Appendix Four**) highlights that:
 - a. a setting has been changed in a later settings update about half (54%) of the time
 - b. changes have occurred across both unit volumes and price controls
 - c. changes have been large and small
 - d. changes have occurred in the early as well as later years of five-year periods.
53. Any changes are made only when judged necessary to fulfil the requirements set out in the Act (eg, in line with emissions reduction targets, to manage overall costs to households and the economy).
54. In this context, the NZ ETS settings process is systematic but not mechanical. There are many inter-locking components. Changes in the market (level of emissions reductions), in the historical stockpile of units, in operational policy settings, and improved methodologies, for example, require consideration and judgement in order to target the key NZ ETS objectives. Moreover, there are competing policy dynamics built into the annual process (eg, assessing cost of living versus emissions impacts).

Market reaction to settings decisions

55. In recent years, announcements around the annual NZ ETS settings process have led to a notable market reaction (see **Appendix Five**).
56. In our assessment, these outcomes are likely shaped by the substantive content of the announcements, and the historically high levels of regulatory uncertainty. Market stability is more influenced by stability in policy settings and a consistent multi-year strategy for unit settings decisions.

Size and value of stakeholder interests

57. It is useful for stakeholders to have information that is reasonably up-to-date because of:
- a. the scale of the NZ ETS scheme with units valued at over \$7 billion
9(2)(b)(ii)
 - c. over 10,000 stakeholders registered
 - d. the size and value of stakeholder unit allocations (many exceed \$10 million a year).
58. There may be positive (or negative) adverse distributional and competitive impacts for some stakeholders where they make more (or less) accurate judgements/forecasts than other stakeholders about future NZ ETS settings.

Auction volumes reducing

59. Over the next five years, there will be a decline in auction volumes in line with emissions reduction targets (currently expected to reach zero in the mid-2030s, at which point there will be no further units to auction). For example, base auction volumes reduce from 5.2 million units in 2026 to 1.7 million units in 2030.
60. It will be important for unit-holders to have sufficient information on unit volumes and pricing during this transition to be able to judge the point at which no further units will be able to be purchased at auction.

Alignment with electoral cycle

61. The pre-election period (usually at least 3 months in duration) is a period of some policy restraint, and last ran from July through October. This period always results in reduced capacity and decision making capability at ministerial and Cabinet level as ministers are occupied with election campaign.
62. A biennial settings process would halve the number of future settings decisions that take place during an election year compared to an annual settings process, which serves to further reduce administrative burden.

Governance, adaptive management, and other changes

63. Changes being advanced in the context of market governance, and CCRA operational and technical amendments, are designed to increase transparency, improve incentives, and to support informed decision making (including informed trading).
64. Other approaches in train seek to provide a more coherent and systematic approach to tracking, reviewing and responding to climate developments on an annual basis. These include an adaptive management approach [BRF-5138] in relation to the second emissions reduction plan.
65. These changes aim to improve information flows by making them more regular and systematic. Less frequent decisions on NZ ETS settings could work against market confidence in this context.

ETS in other countries – annual or periodic

66. Direct comparison is difficult given the substantively different nature of other emissions trading schemes. Both the UK and the EU publish annual decisions on auction volumes, covering the following twelve months. An important distinction in the EU ETS is that annual decisions on auction volumes are largely mechanical, driven by the market stability reserve functions that adjust supply based on predefined rules. This differs from the NZ ETS, where annual settings decisions involve more discretion and are closely tied to broader policy considerations.
67. In addition to annual publishing, the EU also conducts major periodic reviews of its ETS policy settings approximately every five years, including its market stability mechanism (akin to our cost-containment reserves), with a major set of reviews coming to completion in 2025/26. The scope of these reviews is much wider than our annual regulatory process (and would be more akin to the NZ ETS review cancelled in 2023), covering issues of climate system performance and the effectiveness of past reforms.
68. Our research into international ETS markets highlights the range of approaches to market design, including mechanisms for price and supply control, auction design, legal frameworks, and review frequency. Importantly, both the EU and UK ETS demonstrate that market stability is influenced by a range of levers, with review frequency being just one component within a broader system design.

Administrative savings

69. Biennial settings is expected to result in some staff savings for the Commission and MfE – this is an improvement over the status quo. The saving is estimated at 3 to 4 full-time equivalent staff, representing a reduction in costs of about \$0.5 million. There is also an additional implied savings in administrative time and effort for a biennial process.
70. The savings are indicative only at this stage. There are a range of details to be worked through:
- a. The staff reductions might not occur (or all occur) among the NZ ETS specialists. Staff skills will of course need to be retained for the NZ ETS settings work:
 - i. These staff may be required to undertake additional work in other areas in alternate years when settings decisions are not taken (freeing up resource in those other areas).
 - ii. These staff may have a higher workload than currently in the years when settings decisions are taken if, on average, there are more changes involved in settings decisions in a biennial relative to an annual process.
 - b. The distribution of the savings across the Commission and the Ministry has yet to be fully analysed and confirmed.
 - c. For the size of the reductions involved, there is unlikely to be proportionate savings in overhead costs, which involve a significant fixed component (which reduces materially only with large-scale change).
71. Savings impacts will be finalised as a part of the Budget 26 process.

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

72. Judging the overall balance of benefits and costs is inherently complex, as it involves qualitative trade-offs and differing assumptions about the sources of market volatility and the role of information. Both the Ministry and the Minister agree that reducing administrative burden and ensuring alignment with climate goals are critical objectives to ensure proper

functioning of the NZ ETS. The differing rationale for preferred options reflect the uncertainty on drivers of market stability, in addition to how each weighs the above objectives in the current context.

- 73. The Minister’s preference for biennial settings reflects a view that frequent updates contribute to uncertainty and that reducing the frequency of decisions will improve market stability, market confidence and reduce administrative burden. The Ministry’s preference for annual settings reflects a view that timely and regular updates are preferable for maintaining transparency, supporting emissions alignment, and enabling stakeholders to make informed decisions.
- 74. Both positions are valid and arise from uncertainty on how review frequency will ultimately drive additional market stability, resulting in different prioritisation of the same core objectives. There are many drivers, other than frequency of settings reviews, that influence market confidence, which makes the options analysis especially nuanced. While biennial settings present a valid choice, this option may be more appropriate in a more stable future NZ ETS environment, while annual settings remain preferable during the current phase of market transition and declining auction volumes.
- 75. This SAR finds that while the Ministry ultimately prefers the status quo, both the Minister’s and the Ministry’s positions are reasonable. The Minister’s preference for biennial settings prioritises reducing ‘policy noise’ and administrative burden, while the Ministry places greater emphasis on managing accordance risk and responsiveness to market and climate data.

Is the Minister’s preferred option in the Cabinet paper the same as the agency’s preferred option in the SAR?

- 76. No. The Minister’s preferred option is for biennial settings decisions, as agreed in principle by Cabinet.
- 77. The preferred option in the SAR is to retain annual NZ ETS decisions (status quo).

What are the marginal costs and benefits of the preferred option in the Cabinet paper - biennial settings decisions (relative to annual decisions)?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option (biennial settings) relative to the status quo			
Regulated groups (those with NZ ETS obligations) Including emitting firms, firms that receive direct allocation Non-regulated groups (those without NZ ETS obligations) Including those who rely on NZU earnings / are impacted by NZU prices (landowners, households, etc)	Reduction in transparency and predictability in alternate years	Low to moderate	High
	Greater risk of larger, later adjustments required in response to settings (depending on future settings decisions)	Low to high depending on distributional impacts	Low to moderate
	9(2)(g)(i)	Low to moderate	Low to moderate
Government/regulators Crown, Ministers, Ministries, the Commission, agencies, etc.	Risks for alignment (eg, targets) Risks for adaptive management and other annual processes	Low	Low to moderate
Total monetised costs	-	-	-

Non-monetised costs	Reduction in transparency and risk of greater adjustment costs	Low	Moderate
Additional benefits of the preferred option (biennial settings) relative to the status quo			
Regulated groups (those with NZ ETS obligations) Including emitting firms, firms that receive direct allocation Non-regulated groups (those without NZ ETS obligations) Including those who rely on NZU earnings / are impacted by NZU prices (landowners, households, etc)	Reduction in consultation costs (halved) Potential reduction in 'noise' around climate policy in alternate years	Low to medium	High
Government/regulators Crown, Ministers, Ministries, the Commission, PCO, agencies, etc.	Potential for reduced time/cost of ministerial discussions of appropriate settings, saving in administration costs, and PCO and other agency costs	Moderate	High
Total monetised benefits	\$0.5 million (estimated)	Low	High
Non-monetised benefits	Less volatility (assumed) Reduction in consultation costs	Low	High

Section 3: Delivering an option

How will the proposal be implemented?

78. The proposal to move from annual to biennial NZ ETS settings decisions requires an amendment to the Act. The legislative change is straightforward and presents no unusual risks to be mitigated. The Ministry will be responsible for implementing the legislative change to the frequency of NZ ETS settings decisions. It can be implemented within available funding. Appendix Six further depicts the proposed option and how it will be implemented in practice.
79. The proposal is to be implemented as part of the Climate Change Response (Adaptation, Efficiency and Effectiveness) Amendment Bill 9(2)(f)(iv) [REDACTED]. This means that the move to biennial settings could begin in calendar year 2028. A transitional arrangement will be provided - to not require five years of settings to be in place during the first year, resulting in four years of settings in place for settings 2028, and at least five years of settings in place thereafter.
80. This change has been publicly communicated in November alongside other broad CCRA changes. Officials will also reference this proposal in the 2026 NZ ETS Settings consultation document planned for release around May 2026 9(2)(f)(iv) [REDACTED]. Lastly, the proposal will also be incorporated into the CCRA Amendment Bill, 9(2)(f)(iv) [REDACTED] providing a further opportunity to communicate policy intent and to seek stakeholder views.
81. Following settings decisions, schedule 3 of the Regulations will continue to be updated to reflect the new settings every two years. The amendment regulations will be published in the New Zealand Gazette to take effect from 1 January of the applicable year.

How will the proposal be monitored, evaluated, and reviewed?

Change to review and decision frequency

82. The key change with biennial rather than annual NZ ETS settings decisions is that there would be no settings review and decision process in each alternate year. There would be no legal ability for the Minister to make settings decisions in the alternate year.
83. The Minister will continue to monitor the NZ ETS market for proper functioning. If the proposed change creates unexpected outcomes, proactive and necessary steps will be taken to remediate any issues.

Existing functions will continue

84. Existing monitoring and evaluation functions associated with NZ ETS settings, as summarised below, will continue to be performed whether settings decisions are taken annually or biennially.
85. Officials will closely monitor the impacts of NZ ETS settings. The Ministry routinely tracks the price of units and informs the Minister of this, as well as the flow of units within the NZ ETS and the secondary market. It also measures and reports domestic emissions annually. This will be used to assess the impact of the NZ ETS under the proposed settings.
86. Agencies will continue to update and refine emissions projections that will be used for future emissions budgets and informing NZ ETS settings. The broader economic impacts of the proposed NZ ETS settings will be monitored and assessed by an array of government agencies, and other public and private organisations.
87. The Commission will continue to have a role monitoring and reviewing NZ ETS settings. Under section 5ZOA of the Act, the Commission must recommend to the Minister unit limits and price control settings, including any desirable emissions price path, each time regulation updates are required.

AGREED TECHNICAL CHANGES

Change	Current Situation	Agreed Approach
<i>Length of settings</i>	There must be five years of settings in place, at all times.	There must be at least five years of settings in place, at all times. This would have the effect of requiring decisions for at least the next six years of settings in the biennial decision year. There would be settings in regulations for the following five years of settings in the off year.
<i>Considerations</i>	Minister is required to consider updating year three and year four when updating year five.	Minister is required to consider updating years two through four when updating years five and six. This change accounts for the intended level of considered years under a biennial process.
<i>Special circumstances</i>	Years one and two of settings can only be updated under special conditions.	Only year one requires special conditions to be updated. Amending this requirement would build in the intended level of flexibility.
<i>Transitional clause</i>	The off-year decision will begin in the first year that biennial settings come into effect, resulting in four years of settings in place.	Provide transitional clause to not require five years of settings to be in place during the first year of biennial settings.

**SELECTED LEGAL PROVISIONS RELATING TO NZ ETS SETTINGS FREQUENCY AND UPDATES
UNDER CLIMATE CHANGE RESPONSE ACT 2002****Section 30GB Regulations about limits and price control settings for units**

...

- (3) The Minister must recommend the making of regulations under this section so that:
- (a) when the regulations are first made, they prescribe limits and price control settings for each of the next 5 or 6 calendar years; and
 - (b) the regulations are amended to ensure that, at all times, they prescribe limits and price control settings for each of the next 5 calendar years.
- (4) Each time the Minister is to recommend that the regulations be amended to apply to a further calendar year under subsection (3)(b), the Minister—
- (a) must consider whether to recommend prescribing new limits and new price control settings for each of the 2 calendar years before that further calendar year; and
 - (b) may recommend prescribing new limits and new price control settings for 1 or both of the 2 calendar years after the year in which the amendment is made.
- (5) However, the Minister may make a recommendation under subsection (4)(b) only if:
- (a) in the year in which the amendment is made, the price control settings have had effect by
 - (i) the release of a reserve amount of units; or
 - (ii) the sale of units at the minimum price; or
 - (b) the Minister is satisfied that the amendment is justified by the following special circumstances:
 - (i) a change that has significantly affected any matter that the Minister was required to consider under section 30GC when recommending the limits and price control settings that are to be amended; or
 - (ii) a change in the budget or contribution described by section 30GC(2)(a) or (b) that applies to the year to which the amendment applies; or
 - (iii) a *force majeure* event.

...

SUMMARY OF STAKEHOLDER INTERVIEWS

Stakeholder Name	Main Points
<p>9(2)(b)(ii)</p>	<ul style="list-style-type: none"> • Comfortable with move to biennial NZ ETS settings • Acknowledged that biennial NZ ETS settings could lead to greater volatility and larger adjustments • Did not support a longer than 2-year settings gap • Proposed two adjustments to enhance market transparency: <ul style="list-style-type: none"> • Move to publish longer-term settings trajectory instead of 5 years (must include price controls) - suggests moving to 10 years trajectory • Publishing an interim data announcement during off-years • Did not support a discretionary ministerial power to change settings in off-years under special circumstances • Highly valued stability in policy and settings
<p>9(2)(b)(ii)</p>	<ul style="list-style-type: none"> • Supported change to biennial NZ ETS settings • On balance, noted that annual settings do help concentrate market attention on short-term price signals and policy direction • Understood logic about certainty • Recognised that increased Government workload would be required to change settings • Supported move to a longer term settings trajectory instead of 5 years (having 10 years in place instead) • Did not support a discretionary ministerial power to change settings in off-years under special circumstances
<p>9(2)(b)(ii)</p>	<ul style="list-style-type: none"> • Supported change to biennial NZ ETS settings • Supported greater stability to the market • Stated that some clients are reluctant to trade during period leading up to annual policy changes • Supported granting the Minister a discretionary power to change settings during off-years under special circumstances


	<ul style="list-style-type: none"> • Supported a long-term settings trajectory to be published by Government • Supported Government publishing an interim data update during off-years
9(2)(b)(ii)	<ul style="list-style-type: none"> • Stated that recent policy stability has supported the market and that a change in review frequency may signal a shift in approach • Noted that biennial reviews could limit responsiveness to stockpile changes • Noted flexibility in auction volumes as key to price stability • Concerned that biennial reviews may concentrate volatility around review years • Did not expect material stability gains from reduced review frequency
9(2)(b)(ii)	<ul style="list-style-type: none"> • Did not think that biennial reviews have a significant impact on market certainty or long-term investment decisions • Policy settings have greater influence on market stability than timing of reviews • Stated that predictable, mechanical adjustments matter more than review frequency • Identified a trade-off between intra-year and inter-year volatility, with potential for larger adjustments in review years
9(2)(b)(ii)	<ul style="list-style-type: none"> • Considered a shift to biennial settings appropriate and further suggested that extending the period to up to five years could be preferable • Believed that data availability is less of a concern, citing confidence in the quality and consistency of information provided by MPI; supported the idea of releasing data annually • Felt that the existing safeguards which limit the Government's ability to change near-term settings were ineffectual, as market participants tend to look through them • Was not concerned about the risks of increased volatility from biennial settings. Believed that in the event of significant market fluctuations under a biennial settings regime, existing safeguards such as the auction Cost Containment Reserve (CCR) would provide adequate protection

	<ul style="list-style-type: none"> • Suggested that any change to frequency of settings to market should be well communicated
<p style="text-align: center;">Climate Change Commission Officials</p> <p><i>(Note: This feedback reflects the views of individual officials and not the position of the Commission)</i></p>	<ul style="list-style-type: none"> • Distinguished between stability and predictability, noting predictability is easier to achieve in the NZ ETS context • Suggested frequent adjustments can support predictability, while long-term stability may reduce responsiveness • Warned that biennial reviews could lead to compounded surprises and unhelpful market speculation • Questioned how settings align with electoral cycles, noting some cycles may only include one decision point • Emphasised that biennial reviews are not a silver bullet for market stability • Did not support off-year decision-making powers, as future governments may use the NZ ETS differently • Questioned how advice would be resourced and delivered under a biennial model • Suggested regular publication of data and analysis in non-decision years could help maintain transparency • Noted that timing of forestry data (Mandatory Emissions Reporting Period) may not align well with biennial decisions, and end-of-MERP data could bring surprises

NZ ETS SETTINGS 2020 TO 2025

	Year decisions take effect						# of changes	# of opportunities to change	% of opportunities taken		
	2021 4-Jan-21	2022 1-Jan-22	2023 1-Jan-23	2023 1-Nov-23	2024 1-Jan-24	2025 1-Jan-25				2026 1-Jan-26	
Limit/setting for											
2030 Auction units (m units)							5.6	0			
Overall units							9.6	0			
Min.Auct p (\$)							87	0			
Trigger price (a)							248	0			
Trigger price (b)							309	0			
Reserve (a) (m units)							1.4	0			
Reserve (b)							2.5	0			
2029 Auction units (m units)						7.1	7.1	0	0%		
Overall units						12.6	11.1	1	100%		
Min.Auct p (\$)						82	82	0	0%		
Trigger price (a)						235	236	1	100%		
Trigger price (b)						294	295	1	100%		
Reserve (a) (m units)						1.7	1.7	0	0%		
Reserve (b)						3	3	0	0%		
2028 Auction units (m units)					12.3	8.6	8.6	1	2	50%	
Overall units					18.1	14.2	12.7	2	2	100%	
Min.Auct p (\$)					79	78	78	1	2	50%	
Trigger price (a)					226	224	224	1	2	50%	
Trigger price (b)					283	280	280	1	2	50%	
Reserve (a) (m units)					1.9	1.9	1.9	0	2	0%	
Reserve (b)					3.4	3.4	3.4	0	2	0%	
2027 Auction units (m units)			17.6	15	15	10.2	10.2	2	4	50%	
Overall units			23.7	20.9	20.9	15.9	14.6	3	4	75%	
Min.Auct p (\$)			44.35	75	75	75	75	1	4	25%	
Trigger price (a)			129.97	215	215	213	213	2	4	50%	
Trigger price (b)			N/A	269	269	267	267	1	3	33%	
Reserve (a) (m units)			5.9	2.1	2.1	2.1	2.1	1	4	25%	
Reserve (b)			N/A	3.8	3.8	3.8	3.8	0	3	0%	
2026 Auction units (m units)		21.7	20	17.2	17.2	11.7	11.7	3	5	60%	
Overall units		27.9	26.2	23.2	23.2	17.4	16.3	4	5	80%	
Min.Auct p (\$)		39.2	41.45	72	72	71	71	3	5	60%	
Trigger price (a)		110.15	115.84	205	205	203	203	3	5	60%	
Trigger price (b)		N/A	N/A	256	256	254	254	1	3	33%	
Reserve (a) (m units)		6.7	6.5	2.3	2.3	2.3	2.3	2	5	40%	
Reserve (b)		N/A	N/A	4.2	4.2	4.2	4.2	0	3	0%	
2025 Auction units (m units)	22.4	23.3	22.5	19.7	19.7	13.1		4	5	80%	
Overall units	31.1	29.6	28.8	25.8	25.8	19.1		4	5	80%	
Min.Auct p (\$)	21.65	36.75	38.67	68	68	68		3	5	60%	
Trigger price (a)	54.12	98.34	103.24	194	194	193		4	5	80%	
Trigger price (b)	N/A	N/A	N/A	243	243	242		1	2	50%	
Reserve (a) (m units)	6.9	6.8	7.2	2.6	2.6	2.6		3	5	60%	
Reserve (b)	N/A	N/A	N/A	4.5	4.5	4.5		0	2	0%	
2024 Auction units (m units)	24.2	25	24.8	21.8	21.8			3	4	75%	
Overall units	32.9	32.9	31.1	27.9	27.9			2	4	50%	
Min.Auct p (\$)	21.22	34.35	35.9	64	64			3	4	75%	
Trigger price (a)	53.06	87.81	91.61	184	184			3	4	75%	
Trigger price (b)	N/A	N/A	N/A	230	230			0	1	0%	
Reserve (a) (m units)	7	7	7.7	2.8	2.8			2	4	50%	
Reserve (b)	N/A	N/A	N/A	4.9	4.9			0	1	0%	
2023 Auction units (m units)	25.6	25.6	25.9	23				2	3	67%	
Overall units	34.5	34.5	32.3	29.2				2	3	67%	
Min.Auct p (\$)	20.81	32.1	33.06	60				3	3	100%	
Trigger price (a)	52.02	78.4	80.64	173				3	3	100%	
Trigger price (b)	N/A	N/A	N/A	216					0		
Reserve (a) (m units)	7	7	8	2.9				2	3	67%	
Reserve (b)	N/A	N/A	N/A	5.1					0		
2022 Auction units (m units)	26.3	26.3						0	1	0%	
Overall units	34.5	34.5						0	1	0%	
Min.Auct p (\$)	20.4	30						1	1	100%	
Trigger price (a)	51	70						1	1	100%	
Trigger price (b)	N/A	N/A							0		
Reserve (a) (m units)	7	7						0	1	0%	
Reserve (b)	N/A	N/A							0		
2021 Auction units (m units)	26								0		
Overall units	34.4								0		
Min.Auct p (\$)	20								0		
Trigger price (a)	50								0		
Trigger price (b)	N/A								0		
Reserve (a) (m units)	7								0		
Reserve (b)	N/A								0		
								count	81	149	54%
	A change is made within 2 years of the figure being set or last updated										
	Years 1 and 2		Years 3 and 4		Year 5						

9(2)(b)(ii)



BIENNIAL SETTINGS FREQUENCY

Settings Year	Description	Y+1	Y+2	Y+3	Y+4	Y+5	Y+6
2026	Status Quo	2027	2028	2029	2030	2031	
2027	Status Quo	2028	2029	2030	2031	2032	
2028	Transitional Year	2029	2030	2031	2032		
2029	Biennial Year	2030	2031	2032	2033	2034	2035
2030	Off Year	2031	2032	2033	2034	2035	
2031	Biennial Year	2032	2033	2034	2035	2036	2037
2032	Off Year	2033	2034	2035	2036	2037	