Ministry for the Environment
Manatū Mō Te Taiao

PROACTIVE RELEASE COVERSHEET

Minister	Hon Simon Watts	**Portfolio**	Climate Change
Name of package	NZ ETS Settings decisions for 2026-2030 package	**Date to be published**	12 September 2025

List of documents that have been proactively released		
Date	***Title***	***Author***
21 May 2025	1. Approval to consult: NZ ETS Settings and Regulatory Updates 2025	Ministry for the Environment
21 May 2025	2. ECO-25-MIN-0074 NZ ETS Settings and Annual Regulatory Updates 2025: Approval to Consult	Cabinet Office
13 August 2025	3. BRF-6351 NZ ETS Settings and Annual Regulatory Updates 2025 – final policy decisions. 4. New Zealand Emissions Trading Scheme unit limits and price control settings for 2026-2030. 5. 2026-2030 unit limits and price control settings accordance assessment 6. Matters the Minister must have regard to when making NZ ETS regulations 7. Regulatory Impact Statement: 2025 update to New Zealand Emissions Trading Scheme limits and price control settings for units	Ministry for the Environment
13 August 2025	8. ECO-25-MIN-0120 New Zealand Emissions Trading Scheme Unit Limits and Price Control Settings for 2026-2030	Cabinet Office

Information redacted **YES X** **NO**

Any information redacted in this document is redacted in accordance with the Ministry for the Environment's policy on proactive release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Summary of reasons for redaction

Some information has been withheld to maintain legal privilege, protect the confidentiality of advice tendered by officials, commercial sensitivity and policy decisions still under consideration.

Error correction:

The ETS settings final decisions Cabinet paper contains an error in the modelling appendix. The option 2 net emissions uncertainty ranges used the "2025 market clear scenario" numbers when they should have used the "non-market clearance scenario". For comparison, the Cab paper lists the EB3 range as 232.1-258.8Mt when it should be 236.1-259.3Mt. This means they understate emissions under the lower uncertainty bound. The upper bound is also slightly understated, although only at 1dp. Central estimates used the correct scenarios.

CLASSIFICATION

Office of the Minister of Climate Change

ECO - Cabinet Economic Policy Committee

Approval to consult: NZ ETS Settings and Annual Regulatory Updates 2025

Purpose

1. I seek Cabinet approval to publicly consult on:

   1.1 options for unit limit (auction volumes) and price control settings (price controls) for the New Zealand Emissions Trading Scheme (NZ ETS settings) to meet the requirements of the Climate Change Response Act 2002 (the Act); and

   1.2 routine technical updates to NZ ETS regulations.

Relation to government priorities

2. The proposals in this paper support the Government's Climate Strategy, in particular pillar two: credible markets; and the delivery of the Government's Target 9. This paper also enables the Government to meet its statutory obligations to consult on NZ ETS settings and any other NZ ETS regulatory changes under the Act.

Executive Summary

3. The NZ ETS is the Government's main tool to reduce net emissions. The NZ ETS settings is an annual process to set regulations for the maximum number of units the government will make available for auction in future years and at what prices. This Government last made NZ ETS settings decisions in July 2024, when we agreed to substantially reduce the auction volumes to better support achievement of emissions reduction targets.

4. The Climate Change Commission (the Commission) is required to provide annual advice on NZ ETS settings. This year, the Commission's advice includes two key recommendations: (a) 13.6 million more units could be auctioned over 2028-2030 and (b) price controls remain unchanged apart from routine inflation adjustments.

5. I seek approval to consult on options to update the NZ ETS settings. The two key points in the consultation relate to:

   5.1 **Auction volumes**: I propose to consult on two approaches: an option to keep auction volumes consistent with last year's decisions ('the status quo') and the option proposed by the Commission ('the Commission's option').

   5.2 **Price controls:** I propose to seek feedback on one option: maintaining current price control settings (including the auction price floor, which is the minimum price at which units may be sold at auction) with inflation adjustments only. This option is in line with the Commission's recommendation.

6. I also propose to consult on a provisional NZ ETS cap for the third emissions budget period which covers 2031-2035 (EB3). Specification of this cap is not required by legislation, but it is an important element of the NZ ETS settings.

7. As part of this consultation, I am also proposing technical changes to NZ ETS regulations as regular updates to the regulations are required to maintain the integrity of the NZ ETS.

8. I will return to Cabinet in July/early August to seek approval for decisions on NZ ETS settings and any regulatory updates that may have non-minor impacts. I have delegated authority to make decisions about minor and technical changes to regulations [CAB-24-MIN-0156 refers]. I am seeking delegated authority to make decisions about some additional minor and technical changes to regulations and a relevant order in council. I will return to Cabinet in September to seek approval to notify these amendments in the Gazette.

Background

9. The NZ ETS is a cap-and-trade system. The government issues a set number of units via auction or industrial allocation[1]. The government also issues units for removal activities, mainly forestry. Organisations can trade units in the secondary market. Emitters in covered sectors (which currently account for 44% of gross emissions) must obtain and surrender to the Government one unit per tonne of carbon dioxide equivalent emitted each year.

10. The NZ ETS settings update is an annual process to set the number of units the Government will auction in future years and at what prices. Changes to auction volumes and price controls for 2026-2030 must be in regulations no later than 30 September this year, to come into effect by 1 January 2026. Consultation on these changes is a statutory requirement under the Act.[2] The Commission is required to provide annual advice on NZ ETS settings. The Act requires me to consider the Commission's recommendations when recommending changes to NZ ETS settings.[3]

11. The NZ ETS settings must accord with the relevant emission budgets, Nationally Determined Contributions (NDC)[4] and the 2050 target.[5] If unit settings are not strictly in accordance with the emissions budgets and NDC, the discrepancy must be justified after considering matters prescribed in the Act. The Act does not allow for any discrepancy in terms of accordance with the 2050 target. The 2050 target, emissions budgets, and NDCs are referred to throughout this paper collectively as emissions reduction targets.

12. Units can be banked indefinitely in private accounts, the total of which is called the stockpile. The 'surplus stockpile' is the estimated number of units in the stockpile that are not held for future surrender liabilities. The existence of the stockpile presents a risk to meeting emissions budgets because it means the government is unable to tightly limit emissions in a given period.

13. In last year's NZ ETS settings update, Cabinet agreed to reduce the auction volume for the period 2025-2029 by more than half (from 45 to 21 million units) in an effort to

[1] The government provides free units to firms for activities that are both emissions-intensive and trade-exposed. This is called industrial allocation.
[2] Sections 3A(b)(iv), 3B(3)(b) and 3B(4).
[3] Section 30GC(5)(e).
[4] Section 30GC(2)(a).
[5] Section 30GC(2)(b).

drive the surplus stockpile down to zero by 2030 [CAB-24-MIN0303]. Auctioning fewer units helps meet our emissions budgets by encouraging emitters to draw units from the surplus stockpile to meet surrender obligations, increasing the likelihood of achieving emissions reduction targets.

14. Following a period of stability after last year's NZ ETS setting decisions, prices declined from around $65 in January, to below $50 in early May (a level nearly 30 per cent below the 2025 auction price floor). Prices have stabilised over recent weeks, and were around $53 on 14 May. There are a number of potential drivers of the recent decline in prices. Market commentary has focused on potential short-term explanations that could reverse, including weakening global and domestic sentiment and financial pressures faced by small foresters. Some commentary has suggested that the decline could represent a fundamental repricing in the market based on a change in participants' expectations of supply and demand in the NZ ETS. Under this view, current price levels indicate the market is sufficiently supplied with units and additional units from government auctions are not currently needed.

15. The NZ ETS settings consultation document will explore current market dynamics and include questions to deepen our understanding of the potential causes and implications of current market pricing, to support final decisions.

16. Technical updates to NZ ETS regulations is also an annual process. Consultation on these changes is a statutory requirement under the Act.[6]

Auction volumes and price controls

The Commission's recommendations

17. The Commission has made two key recommendations in its advice on this year's NZ ETS settings:

    17.1 13.6 million more units could be auctioned over 2028-2030 (no change to the current auctions volume for 2026 and 2027, but an increase to auction volumes in 2028-2030), and

    17.2 price controls, including the auction price floor, remain unchanged.

18. The increase in auction volumes in the Commission's advice is driven by two key factors:

    18.1 Major changes to methodologies used for assessing auction volumes this year. On net, these changes lead to a potential increase in auction volume (whilst remaining aligned with emissions reduction targets) by about 10 million units (± 1 million) compared with the methodologies used last year.[7]

    18.2 An assumption that auction volumes increase due to both the surplus stockpile being lower than expected (driven by the 7.1 million units unsold units that did not clear from 2024 NZ ETS auctions) and lower-than-expected industrial allocation (by 4.4 million units).

[6] Sections 3A and 3B.

[7] We estimate changes to the surplus methodology account for 7 (± 1 million) million units of this year's surplus reduction. A further 3.5 million units are available due to a technical adjustment no longer being applied.

19. The treatment of units not cleared from last year's auctions described in paragraph 18.2 has led to confusion among some commentators. I propose to include material in the consultation document to explain the current approach and to seek feedback on whether it remains appropriate or whether an alternative approach could be justified.

20. The Commission's recommendation on price controls is grounded in its analysis of the range of emissions prices that are consistent with meeting emissions reduction targets. It assesses that any change in current price controls would be inconsistent with those prices and thereby undermine the investments required to meet EB2.

Potential impacts of the Commission's recommendations

21. The Commission's advice is focussed on the regulatory period 2026 to 2030 (EB2 period). Achievement of EB2 still appears likely under the Commission's option. ERP2 projected EB3 will be 9.2 megatonnes carbon dioxide equivalent (Mt) unfavourable to the budget. Increased unit supply late in the 2020s under the Commission's option would make it harder to achieve EB3, compared with the status quo. The third emissions reduction plan (due by 2030) will lay out the full approach for meeting EB3 including any additional policies that may be needed.

22. Officials have undertaken preliminary modelling analysis to estimate the potential impact of these recommendations on the NZ ETS market prices. Projecting prices is highly challenging and relies on a multitude of judgements and assumptions, including about the drivers of current pricing behaviour and the extent to which future auctions clear. The analysis suggests that increasing auction volumes to levels under the Commission's option would result in a decrease in secondary market prices, compared with status quo settings, of around $5 to $15. A weaker price outlook would also reduce the likelihood of future auctions clearing.

23. The Government is not required to accept the Commission's advice or take the same approach. However, I must consider the Commission's advice when proposing NZ ETS settings. Consulting on the Commission's option supports this requirement and provides an opportunity to formally test the public reaction to the Commission's advice.

My proposed approach: Auction volumes

24. I propose to consult on a status quo option and the Commission's option. The status quo option would retain the current level of auction volumes and extend them to the year 2030.

25. Last year, our decision to halve auction volumes provided a strong signal to the market about this Government's intentions for the role that we expect the NZ ETS to play in achieving our emission reduction targets. The Commission's option would result in significant changes to auction volumes compared to those agreed to last year. 9(2)(g)(i) [redacted] I therefore consider it is important to consult on the status quo option as an alternative to the Commission's option, especially given the following uncertainty associated with the Commission's advice:

    25.1 The Commission's methodological changes are new and have substantial implications. At a high level, I consider the changes to be conceptually valid, but the detail would benefit from further testing. Even relatively small refinements to the current estimates could have a material impact on assessments of the auction volumes needed to align with EB2.

25.2 Retaining the status quo auction volumes would increase the likelihood of achieving EB2 and later budgets. It does this by supporting a faster drawdown of the surplus stockpile and reducing the risk posed by the stockpile to achieving both EB2 and EB3.

25.3 Current market pricing and the partial clearance of auctions in 2024 suggests that additional auction volume may not be required by the market.

26. These options illustrate the proposed spectrum of possibility for setting unit limits in 2025. Consulting on the two options does not constrain final decisions to only these options. The final decisions that I bring to Cabinet will be informed by the feedback I receive through consultation and the additional information and data that emerges over the coming months.

My proposed approach: Price controls

27. I have considered whether a change to the price controls is justified. Price controls include the auction price floor, the cost containment reserve (CCR) trigger price and the CCR volume. When the CCR trigger price is reached or exceeded during auction, this will 'trigger' the release of the additional units (i.e., the CCR volume). I have considered the Commission's advice and have concluded that a change to the current price controls is not warranted, in line with the Commission's recommendation. I propose to consult on retaining the current price controls, with adjustment to inflation.

28. Officials have advised me they consider my proposed options for consultation on auction volumes and price controls meet the statutory accordance requirements. I will consider a full accordance assessment later this year before I return to Cabinet with final decisions.

Additional proposals for consultation

An NZ ETS cap for EB2 and provisional NZ ETS cap for EB3

29. 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 NZ ETS cap supports market confidence by providing the market greater regulatory certainty and informs how many units can be made available for auction. ERP2 proposed a provisional NZ ETS cap for EB2 of 91Mt and committed to consulting on this number through NZ ETS setting this year.

30. ERP2 did not propose a provisional NZ ETS cap for EB3. I propose to also consult on a provisional NZ ETS cap for EB3, as this cap will be needed to inform NZ ETS settings updates from next year onwards as these settings cover part of EB3. There is therefore value in the Government consulting on a proposed approach now to allow the Commission to consider this in its advice next year.

31. Any NZ ETS cap for EB3 would be provisional. A final decision on the NZ ETS cap for EB3 can be made when developing the third emissions reduction plan which will need to be published by the end of 2029. 9(2)(f)(iv) [redacted].

32. To set a cap for EB3, we need to outline our expectations for where the additional emissions reductions to achieve EB3 will come from. There are two main options. The

first is to expect that the additional reductions will be achieved by NZ ETS covered sectors. This is what the Commission assumes in its advice. The second is to expect the additional reductions be split proportionately between NZ ETS and non-NZ ETS covered sectors.

33. I propose to consult on a cap set using the first option (i.e. that the additional emissions reduction comes from NZ ETS covered sectors). This approach would be consistent with the Government's Climate Strategy which relies on the NZ ETS as the key tool for achieving New Zealand's emissions reduction targets. It would also be consistent with achieving a methane target at 24% below 2017 levels by 2050, which is the bottom of the current target range. There may be some trade-offs associated with this approach for NZ ETS covered sectors. I will consider these trade-offs and alignment with the Government's least-cost approach to achieving emissions reductions targets as part of final decisions later this year. 9(2)(f)(iv) .

Technical changes to NZ ETS regulations

34. Alongside this consultation, I propose to consult on a series of minor changes to the NZ ETS regulations designed to improve the operation of the NZ ETS. Many of these changes are routine and operational, including updates to clarify the calculation and reporting of emissions for some sectors, reduce unnecessary administrative requirements for participants in specific circumstances and correct cross-refence errors to align with existing policy intent.

35. One change is more substantive. I propose to consult on a change to how units that do not sell at auctions are carried over to later auctions in that year, so that unsold units are only offered at later auctions if demand exceeds the standard auction volume. Making this change would reduce the risks of a declined auction that may be posed by the accumulation of unsold units under the current provisions. I will return to Cabinet in July/early August to seek approval for policy decisions on this matter.

Requesting additional delegated authority for minor and technical decisions

36. I have existing delegated authority to make post-consultation decisions on the purely technical matters in the NZ ETS regulations [CAB-24-MIN-0156 refers]. I propose to progress a minor and technical change to the Climate Change (Synthetic Greenhouse Gas Levies) Regulations 2013 to reflect updated tariff items. As this is a purely technical update, I am seeking agreement from Cabinet not to consult on these changes and to make decisions about minor and technical changes to these Regulations to reflect updated tariff items without publicly consulting in future years.

37. My existing delegation to make post-consultation decisions on purely technical matters on NZ ETS regulations does not extend to Orders in Council. This package of regulatory updates includes a minor update to the Climate Change (General Exemptions) Order 2009 (General Exemptions Order), and I also seek delegated authority to make decisions regarding purely technical changes to the General Exemptions Order this year and in future years.

Next steps

38. I propose the Ministry for the Environment publicly consult on the two appended consultation documents from late May. I will return to Cabinet in July/early August to seek policy decisions. These will then be drafted as regulations and considered by Cabinet by the 30 September 2025 deadline required by section 30H of the Act.

Cost-of-living Implications

39. There are no cost-of-living implications of approving consultation.

40. NZ ETS price impacts on energy and fuel are relatively small. The NZ ETS impact on the average household is estimated to rise from about $450 per annum today to around $650-850 per annum in 2030 under status quo settings and to around $600-700 per annum under the Commission's option. The impacts on consumer inflation are expected to be modest under both auction volume options, adding about 0.1 per cent per annum to inflation. Cost-of-living implications will be further described when I seek policy decisions after consultation.

Financial Implications

41. There are no financial implications of approving consultation. Financial implications of proposed updates will be further described when I seek policy decisions post-consultation.

9(2)(h)

42. 9(2)(h)

[8] 9(2)(h)

45. 9(2)(h) [redacted]

Legislative Implications

46. Amendments to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 will be required to give effect to Cabinet's decisions on NZ ETS settings. Drafting approval for these would be sought at the time of policy decisions following consultation.

47. The amendment regulations need to be published in the New Zealand Gazette by 30 September 2025, to meet the requirement that NZ ETS settings are prescribed for each of the next five years.

48. I have delegated authority to make post-consultation decisions on the purely technical matters in the NZ ETS regulations, including to issue drafting instructions [CAB-24-MIN-0156 refers]. I intend to make policy decisions on these matters following public consultation, in order to come into effect by 1 January 2026.

Impact Analysis

Regulatory Impact Statement

49. As required by the Ministry for Regulation, the quality assurance panel from the Ministry for the Environment (the Panel) has reviewed the discussion document and determined that it will lead to effective consultation and enable the development of future impact analysis. A separate regulatory impact statement (RIS) is not required at this stage. A full RIS will be completed at a later stage to inform Cabinet's final decisions on this proposal.

50. The Ministry for Regulation has determined that proposed technical updates to NZ ETS Regulations are exempt from the requirement to provide a RIS on the grounds that they have no, or only minor, economic, social or environmental impacts.

Climate Implications of Policy Assessment

51. The CIPA team has been consulted and confirms that the CIPA requirements do not apply at this time but are expected to apply when policy decisions are sought in July.

Population Implications

52. There are no population implications for approving consultation. Population implications of any updates will be described when I seek policy decisions.

Human Rights

53. There are no inconsistencies between these proposals and the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Use of external Resources

54. No external resources were contracted for the development of this paper.

Consultation

55. The Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, the Ministry of Transport and the Treasury, the Environmental Protection Authority, Department of Conservation, Te Tari Whakatau, Te Puni Kokiri, Ministry of Justice, Ministry for Regulation, Ministry for Foreign Affairs and Trade, Inland Revenue were consulted on this paper as appropriate. The Department of Prime Minister and Cabinet was informed. Feedback has been considered and incorporated as appropriate.

Communications

56. Consultation on NZ ETS settings for 2026-2030 and proposed changes to NZ ETS regulations will run in parallel. I consider that a consultation timeframe of up to five weeks enables stakeholders sufficient time to submit on the proposals, while also balancing the need to seek policy decisions for regulatory amendments in July/early August.

57. The Ministry will publish supporting technical modelling information alongside the NZ ETS settings consultation document.

Proactive Release

58. As soon as practicable after decisions being confirmed by Cabinet and public announcements being made, I intent to proactively release this paper, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Climate Change recommends that the Committee:

1. **note** that each year the Minister is required by the Climate Change Response Act 2002 (the Act) to update the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 to determine NZ ETS settings for the following five-years

2. **note** that the Climate Change Commission (the Commission) has recommended updates to the Minister, and that public consultation on the Commission's recommendations helps to support market confidence and demonstrate compliance with the statutory requirement for the Minister to consider the Commissions' recommendations

3. **agree** that the Ministry for the Environment carry out public consultation on the two sets of proposed updates to NZ ETS regulations from late May to late June 2025

4. **approve** the release of the attached documents to support consultation on this update:

    4.1 Annual Updates to the New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2025

    4.2 Proposed Changes to New Zealand Emissions Trading Scheme Regulations 2024

5. **authorise** the Minister of Climate Change to approve minor changes to the consultation documents consistent with these decisions, prior to public release.

6. **note** that the Ministry for the Environment will publish further technical modelling to support public consultation on NZ ETS settings

7. **authorise** the Minister of Climate Change to make decisions on minor or technical amendments to the Climate Change (Synthetic Greenhouse Gas Levies) Regulations 2013 to reflect updated tariff items, including to issue drafting instructions, without publicly consulting on the changes, this year and in future years;

8. **authorise** the Minister of Climate Change to make decisions on minor or technical amendments to the Climate Change (General Exemptions) Order 2009, including to issue drafting instructions, this year and in future years;

9. **invite** the Minister to seek final policy decisions and approval to issue drafting instructions once consultation is complete

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

ECO-25-MIN-0074

Cabinet Economic Policy Committee

Minute of Decision

NZ ETS Settings and Annual Regulatory Updates 2025: Approval to Consult

Portfolio **Climate Change**

On 21 May 2025, the Cabinet Economic Policy Committee (ECO):

1 **noted** that each year the Minister of Climate Change (the Minister) is required by the Climate Change Response Act 2002 (the Act) to update the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 to determine the New Zealand Emissions Trading Scheme (NZ ETS) settings for the following five years;

2 **noted** that the Climate Change Commission (the Commission) has recommended updates to the Minister, and that public consultation on the Commission's recommendations helps to support market confidence and demonstrate compliance with the statutory requirement for the Minister to consider the Commissions' recommendations;

3 **agreed** that the Ministry for the Environment (MfE) carry out public consultation, from late May to late June 2025, on the two sets of proposed updates to NZ ETS regulations;

4 **approved** the release of the documents, attached under ECO-25-SUB-0074, to support consultation on:

4.1 Annual Updates to the New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2025;

4.2 Proposed Changes to New Zealand Emissions Trading Scheme Regulations 2024;

5 **authorised** the Minister to approve minor changes to the consultation documents, consistent with the above decisions, prior to public release;

6 **noted** that MfE will publish further technical modelling to support public consultation on NZ ETS settings;

7 **authorised** the Minister to make decisions on minor or technical amendments to the Climate Change (Synthetic Greenhouse Gas Levies) Regulations 2013 to reflect updated tariff items, including to issue drafting instructions, without publicly consulting on the changes, in 2025 and in future years;

8 **authorised** the Minister to make decisions on minor or technical amendments to the Climate Change (General Exemptions) Order 2009, including to issue drafting instructions, in 2025 and in future years;

9 **invited** the Minister to report back to ECO to approval of seek final policy decisions and to issue drafting instructions once consultation is complete.

Rachel Clarke
Committee Secretary

Present:
Rt Hon Winston Peters
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Simeon Brown
Hon Brooke van Velden
Hon Shane Jones
Hon Erica Stanford
Hon Paul Goldsmith
Hon Louise Upston
Hon Dr Shane Reti
Hon Todd McClay
Hon Tama Potaka
Hon Simon Watts
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:
Office of the Prime Minister
Office of Hon Simon Watts
Officials Committee for ECO

Ministry for the Environment
Manatū Mō Te Taiao

Briefing: NZ ETS Settings and Annual Regulatory Updates 2025 - final policy decisions

Date submitted: 5 August 2025
Tracking number: BRF-6351
CLASSIFICATION
MfE priority: Urgent

Actions sought from Ministers		
Name and position	***Action sought***	***Response by***
To Hon Simon WATTS **Minister of Climate Change**	**Approve** the Cabinet paper for lodging, subject to incorporation of any feedback from Ministerial consultation	6 August 2025

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (advice@mfe.govt.nz).

Appendices and attachments
1. Cabinet paper: *New Zealand Emissions Trading Scheme unit limits and price control settings for 2026-2030*
2. Regulatory Impact Statement: 2025 update to New Zealand Emissions Trading Scheme limits and price control settings for units
3. 2026-2030 unit limits and price control settings accordance assessment

Key contacts at Ministry for the Environment			
Position	***Name***	***Cell phone***	***First contact***
Principal Author	Ameera Clayton		
Responsible Manager	Simon Mandal-Johnson	9(2)(a)	✓
General Manager	Mark Vink	9(2)(a)	

Minister's comments

NZ ETS Settings and Annual Regulatory Updates 2025 - final policy decisions

Key messages

1. We seek your approval to lodge the attached Cabinet paper on 7 August for consideration at Cabinet Economic Policy Committee on 13 August, subject to officials incorporating any feedback you receive from ministerial consultation.

2. We have revised the Cabinet paper to reflect feedback from Crown Law and Treasury.

Unit limits and price control settings for the NZ ETS

3. Your decisions on unit limits and price controls settings for the New Zealand Emissions Trading Scheme (NZ ETS settings) for 2026-2030 must be considered together as a package to assess whether NZ ETS settings accord with the emissions budgets, the National Determined Contributions (NDCs) and the 2050 target.

4. To inform our advice, we considered three options for unit limits (or auction volume) alongside the proposal to maintain current price control settings, with updates for inflation and extended to 2030. These options are:

    i The status quo unit limits extended to 2030 (status quo unit limits).

    ii A refinement of the Climate Change Commission's (the Commission) recommended option with updated forecasts and calculations.

    iii The Commission's recommended option to increase unit limits.

5. All three options accord with the third emissions budget (EB3) and NDCs, and strictly accord with the second emissions budget (EB2) and the 2050 target. Detailed advice on accordance with NDCs and EB3 is in paragraphs 59-64.

6. Of the options analysed, progressing status quo unit limits:

    i Best supports achieving EB2 and positions New Zealand better for achieving EB3 including by supporting faster drawdown of the surplus stockpile.

    ii Is most consistent with NZ ETS market pricing signals and most likely to support market confidence.

    iii Best balances the risks of not achieving emission budgets with the risk that additional supply of units may be needed later in the EB2 period. Auction volume can be increased in future NZ ETS settings decisions if further information suggests increased supply may be needed.

7. The Cabinet paper presents 1) status quo unit limits and 2) maintaining current price control settings, adjusted for inflation, extended to 2030 as the preferred option.

NZ ETS caps, treatment of unsold auction volume and annual regulatory updates

8. We also recommend confirming the NZ ETS cap for EB2 as 89.4 MT CO_2-e and setting a provisional NZ ETS cap for EB3 of 40.7 Mt CO_2-e.

9. We have not included a recommendation on how unsold auction volumes at the end of a calendar year should be considered in Government decisions for NZ ETS units limits. 9(2)(f)(iv)

10. We have also included advice on two technical changes requiring Cabinet decisions: 1) the auction rollover within a calendar year and 2) correcting an error regarding data use for waste participants. The proposal relevant for waste participants has been revised slightly in the attached Cabinet paper and been tested with the Minister for the Environment.

9(2)(f)(iv)

Recommendations

We recommend that you:

a. **agree** to present the following as the preferred option for Cabinet consideration:

   i. Status quo unit limits extended to 2030

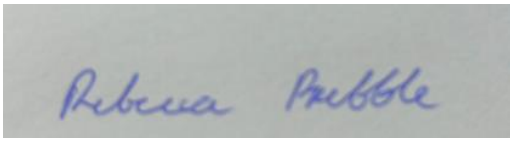
   ii. Current price control settings, adjusted for inflation, extended to 2030

Yes | No

b. **approve** the attached Cabinet paper for lodging, subject to incorporation of any further feedback from your Ministerial colleagues.

Yes | No

Signatures



Becky Prebble
Chief Advisor
Climate Change Mitigation and Resource Efficiency
5 August 2025

Hon Simon WATTS
Minister of Climate Change

Date:

NZ ETS Settings and Annual Regulatory Updates 2025 Updates 2025 - final policy decisions

Purpose

12. We seek your decisions on the NZ ETS settings for 2026-2030, NZ ETS regulatory updates and your approval to lodge the attached Cabinet paper.

Background

13. The NZ ETS is the Government's main tool for driving emissions in line with New Zealand's emissions reduction targets. Each year, you are required to update regulations for NZ ETS settings covering the next five years.

Consultation on NZ ETS settings and annual regulatory updates

14. On 26 May, Cabinet approved consultation on NZ ETS settings and annual regulatory updates [CAB-25-MIN-0171 refers].

15. Consultation ran from 28 May to 29 June and sought feedback on:

    i The proposal to maintain current price control settings, adjusted for inflation.

    ii The following two options for unit limits:

        i. The status quo unit limits extended out to 2030 (16.9 million units over 2026-2030).

        ii The Commission's recommended option to increase unit limits by 13.6 million units (30.5 million units over 2026-30).

    iii The methodological approach for determining NZ ETS settings.

    iv The proposed approach to setting a NZ ETS cap for EB2 and a provisional NZ ETS cap for EB3.

    v Proposed regulatory updates including how to manage within year unsold auction volume and correcting an error regarding data use for waste participants.

16. Officials received 68 unique submissions on NZ ETS settings, from a variety of individuals and groups including subject matter experts, businesses, industry bodies and NGOs. We provided you with key themes via the climate weekly update for the week ending 4 July 2025. Feedback informed analysis to support final policy decisions as noted below and in the Cabinet paper. We will provide a summary of submissions for publication alongside a draft paper due to you in September, to support Cabinet approval of the final regulations.

17. Following consultation, officials developed an additional option that was not part of consultation. This option applies the same approach used by the Commission in its

advice this year but with updated forecasts and estimates. This is option two, discussed in paragraph 39.

18. Officials received 24 unique submissions on NZ ETS Regulatory updates from individuals, industry bodies, businesses and NGO's. Feedback on the regulatory proposals are specific to each update as outlined in your briefing requesting approval to issue drafting instructions for NZ ETS Regulatory updates 2025 [BRF-6385 refers].

Accordance

19. 9(2)(h) [redacted]

20. Officials consider that all options presented in this paper can be justified as being in either accordance or strict accordance. The accordance assessment is included in **Appendix Three.**

9(2)(f)(iv) [redacted]

The Commission's 2025 monitoring report for emissions reductions

23. The Commission has provided you with its 2025 monitoring report assessing progress towards meeting New Zealand's emissions budgets and the 2050 target. It states that emissions are on track for the first budget but will need more work to set up for future reductions in advance of ERP3.

24. The report recommends the Government acts ahead of the third emissions reduction plan, to reduce risk for the second emissions budget and get on track for the third budget and 2050 target. This includes by strengthening the New Zealand Emissions

Trading Scheme (NZ ETS) to ensure it can be effective as a key policy tool for reducing emissions.

25. The recommendations to strengthen the NZ ETS go beyond the scope of NZ ETS settings decisions and aren't addressed in the analysis or options within this paper. This paper focuses on the appropriate NZ ETS settings, given the existing NZ ETS design and emissions reduction targets.

26. In the report, the Commission highlights that updating unit supply and price control settings in a predictable way is also necessary to maintain market confidence. The options presented in this paper align with this approach. The status quo approach best supports market confidence and, of options analysed, best supports New Zealand to achieve the emissions budgets and 2050 target. This is discussed further in the Regulatory Impact Statement.

Key decisions for 2025 NZ ETS settings

27. The two key decisions for 2025 NZ ETS settings are 1) how many units to make available for auction (ie, unit limits) and 2) the price control settings for 2026-2030.

28. Options must be considered as a combined package of auction volumes and price control settings to assess their overall impacts and accordance with emissions reduction targets.

Unit limits

Key consultation feedback on unit limits options

29. Almost all submissions supported maintaining status quo unit limits because they think this approach supports a faster draw down of the surplus stockpile, better supports achieving emissions reduction targets and provides greater predictability of unit supply. Those in support were a mix of individuals, subject matter experts, organisations including trading platforms, foresters, large emitters, and the Tairāwhiti Whenua Charitable Trust.

30. Three submissions in support of the status quo also suggested tightening unit limits (reduction auction volume) further to better support meeting emissions budgets. These submissions were from 9(2)(b)(ii) . This option was not included in consultation earlier this year. 9(2)(f)(iv)

31. Most submissions that commented on recent market dynamics suggested the market being well-supplied with units was a key factor for prices declining from around $65 in January to around $55 at present.

[4] 9(2)(b)(ii) .

32. Additionally, around half of submissions that commented on recent market dynamics also pointed to market uncertainty as a driver of recent price dynamics. Some submitters pointed to uncertainty regarding climate policy as a driver of this market uncertainty.

33. Five submissions did not express a preferred option for unit limits and the remaining four submissions supported the option to increase unit limits. These submissions were from 9(2)(b)(ii), 9(2)(ba)(i), 9(2)(b)(ii). The rationale for supporting this option was a suggestion that increasing unit limits would better reflect the current state of the market, support market stability, and a that increasing unit limits would allow for the lowest cost path to our 2030 targets.

Key consultation feedback on changes to approach to estimating the surplus stockpile

34. Consultation on NZ ETS settings sought feedback on key aspects of the changes to how the surplus stockpile is estimated.

35. Ten submitters provided feedback on the changes to the way the surplus stockpile is estimated. We have included key feedback below on the new and updated assumptions underlying the estimate. The full summary of submissions will provide more detail on responses to other consultation questions on the methodology.

    i. Two agreed. One submitter was supportive of the Commission updating and adapting models based on new information and market activity and stated that although this year's assumption changes are uncertain, they appear appropriate.

    ii. Three disagreed. One of these submitters stated that they have concerns about the stockpile estimate more broadly i.e., that they don't see enough clarity, real data and understanding, and discussion on the potential benefits and impacts of any stockpile assessments to warrant the risk of undermining the NZ ETS. Another submitter said it ignores that owners of forests under stock change will likely not harvest if the price of NZUs is attractive enough in comparison to the income they can generate from harvesting with the latter being impacts by more regulations, environmental constraints and increasing harvesting costs.

    iii. Four were unsure. One of these submitters said that the approach is untested and it is too early to say if the revisions better approximate reality. Another submitter stated it was hard to say whether the new methodology was effective given the uncertainties in estimating the surplus. They said that separating out the hedging and holding volumes goes some way to reflect participant behaviour, however some units are held as an income stream and are not required to meet surrender obligations.

    iv. One suggested using the 95th percentile estimate of the surplus stockpile.

We have identified three main options for unit limits for consideration

36. We have outlined all three options that we analysed below.

37. **Option one - status quo volumes extended to 2030.** This option includes total auction volumes of 16.9 million units across the settings period. Auction volumes are unchanged from 2024 settings, which apply to 2025-29, and would be extended to 2030. 2024 NZ ETS settings decisions were based on the seven-step methodology

The seven-step methodology is an approach for calculating maximum annual auction volumes.

38. Auction volume for 2030 is based on the same information used to determine 2024 settings, including industrial allocation forecasts and surplus drawdown volumes as estimated at the time, making it internally consistent with the settings currently in regulation.

39. **Option two - updated methodology.** This option includes total auction volumes of 26.9 million units across the settings period. This option uses the same approach as the Commission but with two main changes:

    i. Updated forecasts for data on expected industrial allocation.

    ii. A refinement of the estimate of future hedging volumes leading to a higher surplus stockpile estimate. This was to account for potential double counting under the updated methodology for calculating the surplus this year.

40. This option was not included in consultation. We did, however, seek feedback via consultation on the methodological approach for determining NZ ETS settings, such as how the surplus should be estimated. This included questions regarding how unsold auction volume at the end of the calendar year should be considered in Government decisions for NZ ETS settings and hedging versus holding volume should be treated as part of this.

41. **Option three - Commission recommended volumes.** This option includes total auction volumes of 30.5 million units across the settings period. The Commission determined its recommended auction volumes based on the seven-step methodology.

Options analysis

42. ERP2 showed New Zealand is projected to reduce net emissions to 2030 to meet EB2 and that EB3 emissions will be 9.2 Mt CO2-e above the budget.

43. Of the options presented, **option one is most likely to support achieving emissions reduction targets.** This option is consistent with the NZ ETS settings playing their intended role for achieving EB2 and positions New Zealand better for achieving EB3, including by supporting faster drawdown of the surplus stockpile. This will help to reduce the risk that an oversupply of units poses to achieving our emissions reduction targets and drive greater emissions reductions.[5]

44. Option one is **most consistent with NZ ETS market pricing signals and is most likely to support market confidence.** Recent market signals, including the fact that prices are sitting significantly below the auction price floor and unsold auction units in 2024 and 2025, suggest that there remains strong supply of NZUs in the market, evidence that further supports option one.

45. Both options two and three reflect a lower revised estimate of the surplus, reflecting that auction volume that went unsold in 2024 did not enter the surplus as was

[5] Option one will result in 10 million fewer units available for auction over the next five years compared with option two and 13.6 million fewer unit compared with option three.

estimated in 2024 NZ ETS settings decisions. This issue has been highlighted by submitters and market participants as leading to uncertainty. Some said auctions not fully clearing is sign that the market is sufficiently supplied and so these unit should not be 'reintroduced' in later years. 9(2)(f)(iv) [redacted]

46. Maintaining status quo volumes will likely lead to higher NZU prices, all else equal, compared with options that increase unit supply (approximately $5, or 7%, higher by 2030 under my preferred option compared with option two). This is projected to lead to net emissions of around 303 Mt CO_2-e in EB2[6], similar to the level projected in ERP2 and within the 305 Mt CO_2-e limit. Options with higher unit supply are projected to result in slightly higher net emissions (304 Mt CO_2-e) and less reduction in the stockpile.

47. Net emissions in NZ ETS sectors are relatively unresponsive in the short term, leading to similar levels of net emissions in EB2 across different options even though the risk posed by the stockpile is significantly reduced under option one. Additional supply under options two and three increases the risk of not achieving emissions reductions targets.

48. There is a risk that additional unit supply is needed in 2028-30 and that the tighter supply under option one could make it difficult for some compliance participants to source units and lead to price volatility. This risk was signalled by the Commission. This would be undesirable for market stability and for supporting investment certainty and could delay or discourage emissions reductions investments. However, recent low secondary market prices suggest there is still strong supply, and the risk of tight supply leading to price volatility is relatively low.

49. This risk is outweighed by the increased risk of not achieving emissions reductions targets under options two and three. Progressing option one **best balances the risks of not achieving emissions budgets with the risk that additional supply may be needed later in the EB2 period.** Auction volumes can be increased in future NZ ETS settings decisions if further information suggests increased supply may be needed.

50. A summary of the options and their estimate impact is included as Appendix One in the Cabinet paper.

51. Higher NZU prices under the status quo have a negligible impact on inflation (0.01% per annum) and increases NZ ETS costs to households by about $40 per annum in 2030 compared with option two. Petrol prices would be around 1 cent per litre higher than option two in 2030.

[6] These projected emissions estimates are based on ERP2 projections, supplemented by analysis using the ETS market model and other information that informed the unit settings options. The 2025 official projections, developed in a different model called ENZ, are currently being prepared and will be available later in 2025. While the emissions projections differ slightly between the market model and ENZ, the key insights they provide are consistent.

Price controls

52. Price controls 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). These price controls include the:

    i. auction price floor – the price below which the Government will not sell units at auction. It stays at a prescribed value for each auction in a year. This acts as an additional safeguard against over-supply, and therefore forms part of the overall risk management the NZ ETS can provide against exceeding emissions reduction targets.

    ii. cost containment reserve (CCR) trigger price(s) – the price or prices at which additional units will be released if an auction's interim clearing price reaches or exceeds this level.

    iii. CCR volume(s) – the number of units that will be released if the trigger price is reached.

53. Many submitters did not express views on the price control settings. Of those that did, most supported maintaining current price control settings. A few submissions suggested increasing the auction price floor and only one submission supported reducing or removing price control settings.

54. Current secondary market prices are below the auction price floor. This could mean the market is well-supplied with units which would indicate that the auction price floor is appropriate for limiting additional supply into the market at this time.

55. 9(2)(g)(i) [redacted]

56. As with last year, there is no indication that changes to CCR trigger prices or CCR volumes are needed. We consider the current trigger prices and volumes to be sufficient for the CCR to perform its role of supporting NZ ETS prices from increasing to undesirable levels with flow-on financial pressures on households without risking accordance with emissions reduction targets if the CCR is triggered.

Proposed price control settings for the next five years, 2026–30

	2026	2027	2028	2029	2030 (new)
Auction price floor	$71	$75	$78	$82	$87
Cost containment reserve (CCR) tier 1	$203	$213	$224	$236	$248
CCR tier 2	$254	$267	$280	$295	$309
Tier 1 volume (million NZUs)	2.3	2.1	1.9	1.7	1.4
Tier 2 volume (million NZUs)	4.2	3.8	3.4	3.0	2.5
Total CCR volume (million NZUs)	6.5	5.9	5.3	4.7	3.9

Accordance

57. All three options for auction volumes along with the proposal to extend price control settings accord with the EB3 and NDCs and strictly accord with EB2 and the 2050 target. Option one is more likely to support achieving the emissions reduction targets because it supports a faster drawdown of the stockpile. There is, however, risk regarding accordance especially with EB3, NDC1 and NDC2.

58. Any options that have not been tested through the "in accordance" test under s30GC would need further advice to test for accordance under s30GC before making a final decision. This will ensure you do not decide on NZ ETS settings that do not accord with the emissions reductions targets.

Accordance with EB3

59. 9(2)(f)(iv)

60. Because emissions projections are above EB3, we have assessed that the recommended 2025 NZ ETS settings do not strictly accord with EB3. However, our assessment is that it does still accord, for the following reasons:

    i. The surplus is expected to be removed before the start of EB3. The recommended NZ ETS settings increase the chances of fully reducing the surplus by 2030.

    ii. The gap of 9.2 Mt CO2-e, projected in ERP2, can be closed through future NZ ETS settings decisions and complementary policies. The Government can:

        i. Reduce units further by tightening future NZ ETS settings that fall within the EB3 period, or by tightening settings within the EB2 period if necessary.

        ii. Develop complementary policies as part of ERP3 to further reduce emissions. The Government is required to set out an ERP3 that will meet EB3.

        iii. Develop additional complementary policies through the EB2 period as part of its adaptive management approach.

    iii. Maintaining current price controls ensures that auction volume will only be released at a price that is expected to be necessary to meet EB3. The Commission found that although higher prices could potentially be needed to meet EB3, existing price controls were appropriate for the time being.

61. The deviation from strict accordance is justified primarily because of the expected impacts on the proper functioning of the NZ ETS if settings were reduced to the level necessary for strict accordance. Additionally, there remains large uncertainty over the level of reductions that will be required by ETS-covered sectors to achieve EB3 and the costs of necessary reductions.[7]

[7] Main matters in CCRA section 30GC(5)(b), section 30GC(5)(d) and section 30GC(5)(f).

Accordance with NDC1 and NDC2

62. We have assessed that the recommended 2025 NZ ETS settings do not strictly accord with NDC1 because there is currently a shortfall between the emissions reductions that can be achieved domestically and NDC1. Our assessment is that it does still accord, because:

    i. We remain on track for achieving EB1 (this is unaffected by the 2025 NZ ETS settings decision, but EB1 reductions are contributing to NDC1).

    ii. Under Option one, there is a high probability of achieving domestic emissions reductions required for EB2.

    iii. The Government remains committed to achieving NDC1.

63. The deviation from strict accordance is justified primarily because of:

    i. The expected impacts on the proper functioning of the NZ ETS, and the forecast availability and cost of ways to reduce greenhouse gas emissions that may be needed for New Zealand to meet its targets for the reduction of emissions.8

    ii. In its advice on NZ ETS unit limits and price control settings for 2026–2030, the Commission highlighted that meeting the first NDC with domestic action only would require reducing auction volumes significantly and a scale and pace of economic, social and technological change over the next five years that would be highly disruptive, with severe economic and social consequences.

    iii. Reducing auction volumes significantly with little to no signalling to participants (as this option was not consulted on) is likely to significantly disrupt the market and could make it difficult for some compliance participants to source units in the short term.

    iv. The level of emissions reductions required to meet NDC1 exceed the remaining auction volumes for the 2026-2030 period, meaning the NZ ETS could not deliver sufficient emissions reductions to meet NDC1, even if no further units were auctioned over the next five years.

64. Our NDC2 target is closely aligned with EB3, and the assessment of accordance with NDC2 largely matches that with EB3. That is, the recommended NZ ETS settings accord with NDC2, but do not strictly accord. The targets are not identical as EB3 is a cumulative budget across the 2031-2035 period, while NDC2 is a single-year target for emissions in the year 2035. However, the difference in required emissions reductions is still within an achievable range and the rationale for accordance and justification for deviating from strict accordance are still aligned with those of EB3 above.

9(2)(g)(i)

[redacted]

8 Main matters in CCRA section 30GC(5)(b) and section 30GC(5)(d).

66. 9(2)(g)(i) [redacted]

A NZ ETS cap for EB2

68. 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 NZ ETS cap supports market confidence by providing the market greater regulatory certainty and informs how many units can be made available for auction. ERP2 proposed a provisional NZ ETS cap for EB2 of 91 Mt CO_2-e and committed to consulting on this number through NZ ETS settings this year. The NZ ETS cap was subsequently refined, using more granular data, to 89.4 Mt CO_2-e for consultation.

69. Seven submissions from 9(2)(b)(ii) [redacted] 9(2)(ba)(i) [redacted], [redacted] 9(2)(b)(ii) [redacted] responded to this proposal:

    i Three submissions agreed aligning the NZ ETS cap with the ERP2 cap is important given that the NZ ETS is the Government's main tool for reducing emissions and for demonstrating consistency and predictability.

    ii Two submissions suggested that the first step would be to consider the impacts of policies outlined in ERP2 to know how much of a role the NZ ETS needs to play.

    iii Two submitters stated that without a clear plan from the Government on how to achieve NDC1, the NZ ETS cap should incorporate additional domestic reductions so that settings accord with statutory goals.

70. Two responses were received from 9(2)(b)(ii) [redacted] in response to the question of what a more appropriate method for determining the NZ ETS cap should be. One stated that the ETS cap should be adjusted down to account for the 4 Mt CO_2-e of reductions expected from the NZ Steel electric arc furnace. The other was concerned that any changes would need to be clearly signalled to ensure market stability.

[9] [redacted] 9(2)(b)(ii)

71. We recommend aligning the NZ ETS cap for the second emissions budget with ERP2 projections, which results in a cap or allocation of 89.4 Mt CO_2-e. Taking this approach and finalising this now provides clarity to the market on our approach for future settings decisions.

A provisional NZ ETS cap for EB3

72. A NZ ETS cap for EB3 will be needed to inform NZ ETS settings updates from next year onwards as these settings cover part of EB3. As part of consultation, the Government sought views on a proposed provisional NZ ETS cap for EB3. The proposal was to set the NZ ETS cap for EB3 based on the expectation that the additional 9.2 Mt CO_2-e emissions reductions that ERP2 projected would be needed to achieve EB3 will come from NZ ETS covered sectors.

73. Five submissions provided feedback on this proposal from 9(2)(b)(ii) , 9(2)(ba)(i) , 9(2)(b)(ii) :

    i Two submissions thought the proposal approach aligns with the decision that the NZ ETS is the main tool for achieving emissions reduction targets and makes sense in the absence of other policies or mechanisms to reduce emissions in non-NZ ETS covered sectors.

    ii One submission was neutral on the proposal but stated that further developments must be carefully managed to give stable and clear policy signals.

    iii Two submitters did not support the proposal. Their rationale included that the proposal seemed inequitable and arbitrary. One submitter also said it would negatively impact NZ ETS covered sectors, for example manufacturing, mining, coal, forestry and waste.

74. We recommend seeking Cabinet agreement to confirm the proposed provisional NZ ETS cap for EB3 of 40.7 Mt CO_2-e. Our view is that this approach is appropriate given it reflects the Government's direction that the NZ ETS is the main tool to reduce net emissions and will also support market confidence in the NZ ETS and 2) it results in a cap similar to the 38 Mt CO_2-e EB3 NZ ETS cap that was provided by the Commission's demonstration pathway. Taking this decision now also helps provide clarity now given that an NZ ETS cap for EB3 will be needed to inform NZ ETS settings from next year onwards.

75. 9(2)(f)(iv)

9(2)(f)(iv)

[redacted]

Other regulatory updates

82. There are also two NZ ETS Regulatory updates that do not meet the purely technical threshold for delegated authority and require Cabinet approval.

Managing unsold auction volumes

83. We recommend amending the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 so that unsold units be rolled over, but only made available if the originally allocated volumes clear at auction.

84. This change will better achieve the policy intent for NZ ETS auctions by allowing auctioning of units when there is demand for units above the confidential reserve price. Compared with the status quo, and other options considered, this approach maintains

the ability for participants to access units at auctions later in the year if there is sufficient demand, while eliminating the increased risk of later auctions not clearing because of the additional volume.

85. A more detailed explanation of this change can be found in the Regulatory Impact Statement attached as **Appendix Two.**

Require waste participants to use time series data in landfill gas modelling

86. We recommend amending section 23C of the Climate Change (Unique Emissions Factors) Regulations 2009 to fix cross referencing errors so that waste participants applying for a unique emissions factor use multiple composition data in their methane emissions modelling.

87. This technical amendment will improve the accuracy of emissions reporting and alignment with the national greenhouse gas inventory. The Government agreed to this change during the 2024 regulatory updates. This decision is necessary to fix drafting errors to allow the policy to come into effect.

88. The impact of this change is to apply last year's policy decision, resulting in a modest increase in costs to impacted landfills that is likely to be passed on to end users. Consultation for NZ ETS Regulatory updates ran together with NZ ETS unit limits and auction price control settings. Submissions were broadly supportive of the updates as proposed with one requesting additional time for landfill operators to prepare. However, this change has already been deferred for a year to allow time for landfill operators to adjust their charges.

Authority to make regulations and matters the Minister must have regard to

89. The Minister has authorisation to make these amendments to Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 and Climate Change (Unique Emissions Factors) Regulations 2009 under sections 30GA and 164 of the CCRA.

90. Under sections 3A and 3B of the CCRA, you must consult, or be satisfied that the chief executive has consulted, representatives of iwi and Māori likely to have an interest in the regulations, and persons that appear likely to be substantially affected by the regulations. Officials carried out public consultation on all of the proposed regulatory changes and used relevant ETS stakeholder lists to let people know, including EPA lists of all registered participants. Consultation included a discussion document, opportunity to provide feedback online or directly, two webinars. We also offered to discuss NZ ETS settings as part of targeted engagement with two pan Māori groups – 9(2)(b)(ii) . Officials did not receive specific feedback on any regulatory updates. One submission was received by a Māori representative group who stated that they were supportive of the regulatory updates as proposed in the consultation document.

Te Tiriti analysis

91. We have analysed the impacts of the status quo option against options two and three for the following Māori groups. We know these groups have an interest in the NZ ETS:

    i For Māori foresters, businesses and investors reliant on earning NZUs – option one would likely lead to greater returns due to the likely increased value of NZUs.

    ii For groups considering land use change but have obligations under the NZ ETS – costs of deforestation would increase and may incentivise afforestation.

    iii For Māori households and whānau, particularly those in lower income groups – costs are projected to increase as the higher NZU prices are passed through into household goods, such as fuel, electricity and food.[10]

92. As part of the consultation process, one submission was received from 9(2)(b)(ii) [redacted] support the status quo option for unit limits as lower unit volumes are more likely to lift the prosperity and participation of whenua Māori in the forestry/carbon industry.

Other considerations

Agency consultation and engagement

93. The Treasury, the Ministry of Foreign Affairs and Trade, the Ministry for Primary Industries, the Ministry of Business, Innovation and Employment, the Environmental Protection Authority, the Ministry of Transport, the Ministry of Social Development and Te Puni Kōkiri, and the Department of Prime Minister and Cabinet were consulted on the Cabinet paper. Agencies were supportive of the proposals. We have reflected or responded to other feedback where it was received.

Risks and mitigations

94. There are no risks associated with the proposals that have not already by been detailed elsewhere in this briefing.

[10] Our modelling estimates that Option one could result in NZU prices around $5-12 and $9-17 higher in 2030 than Option two and three respectively, resulting in $40-80 and $60-120 higher NZ ETS cost to households annually by 2030. A $10 increase in NZU prices is estimated to increase annual household expenditure on emissions costs by about $84 (in 2025 dollars) for the average household ($1.61 per week). For lower income households, the increase is estimated at $44–52 per annum, while for higher income households it is estimated at $120–147.

9(2)(h)

95. 9(2)(h)

Financial, regulatory and legislative implications

101. We expect tighter unit limits under the status quo option compared to options two and three, to place upwards pressure on NZU prices. Progressing with the status quo option makes it more likely that upcoming auctions will clear. Under the status quo option, assuming that auctions clear, projected cash receipts range from $1.3 billion if auctions clear at the auction price floor, up to $2.3 billion. The central price estimate projects $1.4 billion in cash receipts.

102. The decisions in the attached Cabinet paper will also require amendments to the relevant Climate Change Regulations. Officials will provide you with further information to make these amendments following Cabinet policy decisions.

Next steps

103. The Cabinet paper has already been updated to:

i Focus on the status quo approach to, and Commission's recommendation for, unit limits

ii We have made changes to the Cabinet paper to reflect additional feedback from Crown Law Office and Treasury.

iii To reflect another review and quality assurance process.

104. Subject to officials reflecting any feedback following ministerial consultation, we seek your approval to lodge the Cabinet paper on 7 August for Cabinet Economic Policy Committee (ECO) on 13 August and Cabinet on 18 August. Further details on timelines in the table below.

Milestone	**Date**
Ministerial consultation	Monday 28 July -
Lodge	Thursday 7 August
ECO	Wednesday 13 August
Cabinet	Monday 18 August

105. We will also provide you with talking points to support you at ECO and material to support you to announce the final policy decisions.

106. Following Cabinet policy decisions, officials will provide you with a paper in September to support you to seek Cabinet approval to final regulations. These milestones are to support gazettal of the relevant regulations by 30 September 2025.

Policy and Privacy

CLASSIFICATION

Office of the Minister of Climate Change

ECO – Economic Policy Committee

New Zealand Emissions Trading Scheme unit limits and price control settings for 2026-2030

Proposal

1 I seek Cabinet approval to set the New Zealand Emissions Trading Scheme (NZ ETS) unit limits and auction price controls for the next five years.

Relation to government priorities

2 The proposals in this paper support:

2.1 The Government's Target 9: New Zealand is on track to meet its 2050 net zero climate change targets, with total net emissions of no more than 290 Mt from 2022 to 2025, and 305 Mt from 2026 to 2030.

2.2 The coalition agreements between the National Party and coalition partners: restoring confidence and certainty in the NZ ETS.

Executive Summary

3 The NZ ETS is the Government's main tool for driving emissions in line with our emissions reduction targets. Each year, I am required to update regulations for NZ ETS settings covering the next five years. These settings include two parts:

3.1 volume of units supplied at auction; and

3.2 price controls for these units available by auction.

4 I propose no change to our approach to NZ ETS settings and that we maintain the status quo agreed by Cabinet last year.

5 NZ ETS settings are subject to statutory requirements, including a requirement that settings accord with emissions budgets and targets ("the accordance test"). Decisions on settings will be subject to a high degree of scrutiny.

6 This year I consulted on a proposal by the Climate Change Commission (the Commission) to extend the price control settings that Cabinet agreed to last year, and on the following two options for unit limits:

6.1 Status quo unit limits, extended out to 2030 (16.9 million units over 2026-2030).

6.2 The Commission's recommended option to increase unit limits by 13.6 million units (30.5 million units over 2026-30).

7 The majority of submissions supported maintaining status quo unit limits (87 per cent) and also favoured not changing the current price control settings (80 per cent).

8 In recommending to maintain status quo NZ ETS settings, I have carefully considered this feedback, and the advice from the Commission. I also considered another option that refined the Commission's approach with updated data, forecasts and calculations (Option 2). My recommendation is consistent with the greatest level of certainty and credibility for the market.

9 Maintaining the status quo will likely lead to higher New Zealand Unit (NZU) prices than if we increased unit supply, all else equal, with projected prices around 7 per cent ($5/NZU) higher by 2030 compared with Option 2. This would translate to marginally higher costs for households, equivalent to an increase of around 0.01 per cent per annum as measured by the CPI. It also increases the likelihood that auctions will clear.

10 The 'NZ ETS cap' refers to how much of New Zealand's overall emissions budget is expected to be achieved by sectors covered by the NZ ETS. The cap is a critical component of settings decisions that is required for both the calculation of unit volumes and determining price control settings. During public consultation, we sought feedback on the preliminary NZ ETS cap proposed in the second emissions reduction plan (ERP2) for the second emissions budget (EB2) of 89.4Mt CO_2-e, and a provisional NZ ETS cap for the third emissions budget (EB3) of 40.7 Mt CO_2-e. Both caps are consistent with the direction set in ERP2 and reflect the NZ ETS as our main tool to reduce net emissions.

11 I have considered the limited feedback on these proposals, consider the above values are appropriate and seek Cabinet agreement to formalise the NZ ETS cap for EB2, and set the provisional NZ ETS cap for EB3. 9(2)(f)(iv) .

NZ ETS Regulatory changes

12 Additionally, there are two regulatory updates that do not meet the threshold for me to progress under delegated authority and therefore I seek Cabinet approval to progress:

12.1 Restricting how unsold auction units are rolled over within a calendar year so units that rollover do not make it more difficult for auctions to clear.

12.2 Correcting referencing errors so that waste participants use compositional time series data when reporting emissions for landfill gas capture systems.

13 These changes will improve the efficiency of auctions and accuracy of emissions reporting. They were generally supported by submissions.

Background

14 The NZ ETS is a cap-and-trade system based on government-issued NZUs. Emitters in covered sectors must obtain and surrender one NZU per tonne of carbon dioxide or equivalent to the Government.

15 The NZ ETS has undergone a period of significant volatility over the last few years, particularly as a result of successful Judicial Review of the last Government's settings decisions, and a review of the NZ ETS which considered removing forestry from the NZ ETS and vintaging (expiring) of units.

16 The Coalition government cancelled the review of the NZ ETS as part of the National-New Zealand First Coalition agreement, reasserted the NZ ETS as our main tool for reducing emissions and made credible markets a pillar of the government's climate strategy. While these actions have been positively received by market participants, maintaining stability and credibility is still critical for the success of the NZ ETS.

17 Each year, I am required by the Climate Change Response Act 2002 (the Act) to recommend settings for the next five years in the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 (the Regulations). These settings are linked to New Zealand's emissions targets through the accordance test set out in sections 30GC (2) and (3) of the Climate Change Response Act. I will recommend settings that enact Cabinet's decisions made in this paper.

18 Last year Cabinet agreed to reduce auction volumes to reduce the risk of missing EB2 and to position us better for achieving EB3. This decision has been effective at reducing the 'surplus stockpile' of units, which is the amount of banked units that can enter the market relatively easily and enable emissions to exceed emissions budgets.

19 This year I consulted on a proposal by the Climate Change Commission (the Commission) to extend the price control settings that Cabinet agreed to last year, and on the following two options for unit limits:

19.1 Status quo unit limits, extended out to 2030 (16.9 million units over 2026-2030).

19.2 The Commission's recommended option to increase unit limits by 13.6 million units (30.5 million units over 2026-30).

9(2)(h) 9(2)(h)

[1] 9(2)(h)

9(2)(h) [redacted]

[redacted]

Options for NZ ETS settings 2026 - 2030

23 The CCRA requires me to consider options as combined packages of auction volumes and price control settings to assess their overall impacts and accordance with emissions reduction targets. I have considered three options for NZ ETS unit limits and price control settings for the next five years. They are presented as Table 1 below. All of the options extend status quo price controls to 2030, with minor adjustments for inflation, but differ in the unit limits.

Table 1: NZ ETS unit limits and price control settings options

Option	Total auction volumes across 2026-2030	Description of option
Option 1 – Status quo	16.9 million units	Auction volumes are unchanged from 2024 settings, which apply to 2025-29, and are extended to 2030. Auction volume for 2030 is calculated on a consistent basis as the 2024 settings decisions.
Option 2 – Updated methodology	26.9 million units	A refinement of the Commission's recommendation with updated forecasts for industrial allocation and calculation of the surplus stockpile.
Option 3 –Commission recommendation	30.5 million units	Using the Commission's standard methodology, including data and methodology updates compared with their 2024 recommendation.

Summary of consultation responses

24 Consultation on NZ ETS settings ran from 28 May 2025 to 29 June 2025. Officials received 68 unique submissions, from a variety of respondents including subject matter experts, businesses, industry bodies and NGOs.

25 The majority of submissions (87 per cent) supported maintaining status quo unit limits, primarily because they would better support achieving emissions reduction targets and market confidence. Four submissions supported the Commission's option to increase unit limits.

26 Most submissions on the auction price floor (80 per cent) preferred the current price floor.

27 The differences in views are considered more fully in the Regulatory Impact Statement. I have taken these into account when forming the recommendations in this paper.

Unit limits

28 I recommend Option 1 – Status quo, as it is my view that we need to support market stability and credibility and to increase the likelihood of achieving New Zealand's emissions budgets.

29 This view is supported by the majority of submissions through consultation. It differs from the Commission recommended volumes, but I believe that is justified because:

29.1 Recent market signals, including the fact that prices are sitting significantly below the auction price floor, and unsold auction units in 2024 and 2025, suggest that there remains strong supply of NZUs in the market. This supports taking a more conservative estimate of the surplus stockpile, and not increasing auction volumes compared with the status quo.

29.2 Option 1 – Status quo will result in 10.0 million fewer units available for auction over the next five years compared with Option 2. This will help to reduce the risk that an oversupply of units poses to achieving our emissions reduction targets and drive greater emissions reductions.

30 **Appendix One** summarises the key impacts and considerations for each option. I have assessed all options as meeting the accordance requirements, but Options 2 and 3 involve more downsides and risks compared with Option 1. A full accordance assessment of the status quo option is attached as **Appendix Two**.

31 Maintaining unit supply will likely lead to higher NZU prices, all else equal, compared with options that increase unit supply (approximately $5, or 7 per cent, higher by 2030 under my preferred option compared with Option 2). This is projected to lead to net emissions of around 303Mt CO_2-e in EB2[2], similar to the level projected in ERP2 and within the 305Mt CO_2-e limit. Options with higher unit supply are projected to result in higher net emissions (304Mt CO_2-e) and less reduction in the stockpile. EB3 is projected to be exceeded under all three options, but Option 1 will best position New Zealand for achieving EB3 by supporting faster drawdown of the surplus stockpile.

Price control settings

32 Price control settings 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 is managing risks to achieving targets and budgets.

33 I believe the existing price control settings remain fit for purpose at this stage – the likely market price required to achieve emissions budgets sits at or above the current auction price floor.

34 Current secondary market prices are below the current auction price floor, which could be a signal that the market is currently oversupplied. The Ministry for the Environment's modelling suggests that pricing is likely to return to above the auction price floor by maintaining the status quo settings.

35 I am therefore recommending that we maintain status quo price control settings, extending them to 2030 subject to updating for inflation projections. All options in this paper take this approach.

NZ ETS caps for EB2 and EB3

36 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

[2] These projected emissions estimates are based on ERP2 projections and other modelling and information that informed the unit settings options. The 2025 official projections are currently being prepared and will be available later in 2025.

can be made available for auction and the price control settings. Clarity on the NZ ETS cap is important for supporting market credibility.

37 ERP2 proposed a provisional NZ ETS cap for EB2 of 91Mt CO_2-e and committed to consulting on this number through NZ ETS settings this year. The NZ ETS cap was subsequently refined, using more granular data, to 89.4Mt CO_2-e for consultation. Only a handful of submitters responded to this question, and after considering their feedback I recommend that Cabinet should now finalise the provisional cap to provide clarity to the market on our approach for future settings decisions.

38 Consultation on NZ ETS settings also sought feedback on a proposed provisional NZ ETS cap for EB3 of 40.7Mt CO_2-e, which will be needed for future NZ ETS settings updates. This value is determined by taking ERP2 projections for emissions by NZ ETS-covered sectors, and then subtracting the 9.2 Mt CO2-e difference in emissions between ERP2 projections and the EB3 target. This provisional approach means ETS-covered sectors account for the additional reductions needed to accord with EB3, reflecting the direction set in ERP2 that the NZ ETS is the main tool to reduce net emissions. I recommend that Cabinet now confirm this provisional cap to provide clarity for future ETS settings advice, 9(2)(f)(iv)

Consideration of unsold auction volumes

39 Consultation sought feedback on how unsold auction volume at the end of a calendar year should be considered in Government decisions for ETS unit limits in future years. Feedback suggests that the market is seeking long-term clarity on this issue. 9(2)(f)(iv)

9(2)(h) 9(2)(h)

NZ ETS Regulatory updates

43 I also seek Cabinet approval for two other NZ ETS regulation updates this year. I have given regard to the statutory matters when recommending these updates. My analysis is outlined in **Appendix Three**. Consultation submissions were generally supportive of the recommended changes.

Auction rollover changes

44 The number of NZUs set for auction in a year are evenly distributed into quarterly auctions. For auctions to clear, there must be no bids below the confidential reserve price (CRP) *or* enough bids above the CRP to sell all the units available for auction.

45 Currently, unsold NZUs accumulate into progressively larger auction volumes throughout the year, increasing the chance that bids below the CRP prevent auctions from clearing. This means that even when there are bids for units above the CRP, the current design can prevent auctions from clearing.

46 I recommend amending the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 so that unsold units can be rolled over to a subsequent auction within the same calendar year, but with a safeguard so that they are only made available at that subsequent auction if there is demand for more units on top of the original volume. This change will better achieve the policy intent for NZ ETS auctions by allowing auctioning of units when there is demand for units above the CRP. Compared with the status quo, and other options considered, this approach maintains the ability for participants to access units at auctions later in the year if there is sufficient demand, while eliminating the increased risk of later auctions not clearing because of the additional volume.

Require waste participants to use compositional time series data in landfill gas modelling

47 In 2024, the Government agreed to require waste participants to use compositional time series data when calculating emissions from landfills. However, there are drafting errors in the regulations scheduled to take effect on 1 January 2026. I propose to amend the Climate Change (Unique Emissions Factors) Regulations 2009 to fix these cross referencing errors so that the amended regulations take effect as intended. This change will improve the accuracy of emissions reporting and improve alignment with the national greenhouse gas inventory.

48 This change accurately apply last year's policy decision, resulting in a modest increase in costs to impacted landfills that is likely to be passed on to end users. Consultation feedback supported this change, with one respondent seeking additional time for landfill operators to prepare. However, this change has already been deferred for a year to allow time for landfill operators to adjust their charges.

Cost-of-living Implications

49 The cost of living implications are similar across all options. Maintaining the status quo approach to unit supply will likely lead to slightly higher NZU prices compared with a decision to increase unit supply (approximately $5 higher by 2030 under my preferred option compared with Option 2). This will have a negligible impact on inflation (0.01 per cent per annum) and increases NZ ETS costs to households by about $40 per annum in 2030 compared with Option 2. Petrol prices would be around 1 cent per litre higher than Option 2 in 2030.

Financial Implications

50 We expect the recommended status quo option to place upwards pressure on NZU prices, compared with options two and three. Progressing with the status quo option therefore makes it more likely that upcoming auctions will clear. The proposed auction rollover changes may further increase the chance of auctions clearing. Under the status quo option, if all auctions clear, cash receipts are estimated at $1.4 billion over 2026-30, within a range of $1.3-2.3 billion.[3]

51 Although NZ ETS auctions generate a cash inflow for the Crown and reduce net debt, they do not immediately impact Crown revenue. This is because the newly auctioned NZUs are a liability for the Crown (representing the Crown's obligation to accept NZUs for NZ ETS participants' emission responsibilities).

Legislative Implications

52 Amendment to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 is required to give effect to Cabinet's decisions on unit settings and changes to the rollover of unsold auction units. Amendments to the Climate Change (Unique Emissions Factors) Regulations 2009 are also required to give effect to Cabinet's decisions on application of the oxidation factor and requiring waste participants to use time series compositional data. I seek Cabinet approval to issue drafting instructions to Parliamentary Counsel Office.

53 The amendment regulations need to be published in the New Zealand Gazette by 30 September 2025, so that unit settings are prescribed for each of the next five years. I will seek to publish changes to the other regulations at the same time.

Impact Analysis

Regulatory Impact Statement

54 A Quality Assurance Panel with members from the Ministry for the Environment has assessed the Regulatory Impact Statement (RIS). The Panel considers that the RIS outlines the policy problem, assesses the associated options, and sufficiently justifies the preferred option. Using the criteria (complete, convincing, consulted, clear & concise), for all relevant sections of the document, the Panel considers that the paper meets the Quality Assurance standard.

Climate Implications of Policy Assessment

55 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply as this proposal will potentially have a significant impact on emissions. A quantitative assessment of emissions impacts was included in **Appendix One**. The impact of NZ ETS price and unit settings on emissions is also dependant on several other factors such as the impact of non-price policies and individuals' and firms' decision making.

[3] Lower end of cash receipts estimate assumes auctions clearing at the floor price. Central and upper estimates are based on auctions clearing at the modelled central and upper price projections, which average about $82 and $135 across the settings period respectively.

Population Implications

56 Higher NZ ETS prices disproportionately impact lower socio-economic groups because those groups spend a relatively greater portion of their income on emissions-intensive items and have less capacity to substitute for low-emissions options.

Human Rights

57 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Use of External Resources

58 No external resources were used in the development of this paper.

Consultation

59 Feedback from public consultation has informed the proposal in this paper.

60 The Treasury, the Ministry of Foreign Affairs and Trade, the Ministry for Primary Industries, the Ministry of Business, Innovation and Employment, the Environmental Protection Authority, the Ministry of Transport, the Ministry of Social Development, and Te Puni Kōkiri were consulted on the content in this paper. DPMC were informed. Where I received feedback, it has been considered and incorporated as appropriate.

Communications

61 Following established protocols, I will announce Cabinet's decisions on this paper via press release, an email sent to NZ ETS stakeholders, and publication on the Ministry for the Environment's website.

Proactive Release

62 I intend to proactively release this paper and associated Cabinet committee papers and minutes within 30 business days of the publication of amended regulations, subject to redaction as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Climate Change recommends that the Committee:

1 **note** that the Minister of Climate Change (Minister) is required by the Climate Change Response Act 2002 to update limit and price settings (unit settings) for New Zealand Units (NZUs) under the New Zealand Emissions Trading Scheme (NZ ETS) so that they continue to cover five calendar years at all times

2 **note** the accordance requirements means the unit limits and price control settings must be considered as a package and in the context of other climate change policies because their effect on unit supply (and ultimately emissions) are interdependent

3 **note** I have considered consultation feedback in formulating options presented below

4 **agree** to maintain the current price control settings, including the cost containment reserve volumes (CCR), with minor changes made to reflect Treasury Budget 2025 inflation forecasts, and extend the price control settings to 2030, as outlined below:

	Adjusted for new inflation forecasts				New
	2026	2027	2028	2029	2030
Auction price floor	$71	$75	$78	$82	$87
CCR Tier 1	$203	$213	$224	$236	$248
CCR Tier 2	$254	$267	$280	$295	$309
CCR Tier 1 volume (millions)	2.3	2.1	1.9	1.7	1.4
CCR Tier 2 volume (millions)	4.2	3.8	3.4	3.0	2.5
Total CCR volumes (millions)	6.5	5.9	5.3	4.7	3.9

5 **agree** to update limits for units for 2026-2030 as outlined below:

Unit limits (millions)	2026	2027	2028	2029	2030
Base auction volumes	5.2	4.3	3.3	2.4	1.7
Total CCR volumes	6.5	5.9	5.3	4.7	3.9
NZUs available by auction	11.7	10.2	8.6	7.1	5.6
Industrial allocation (not subject to NZ ETS settings decision)	4.6	4.4	4.1	4.0	4.0
Approved overseas units	0	0	0	0	0
Overall limit on units	16.3	14.6	12.7	11.1	9.6

6 **note** that if Cabinet wishes to consider an option not included in this paper, the new option will need to be assessed for accordance with emissions budgets and targets

7 **agree** to change the approach for units unsold at auction such that unsold units are rolled over to future auctions within the calendar year, but only made available if the volumes originally allocated to those future auctions clear at auction

8 **agree** to fix cross referencing errors in regulation 23C so that waste participants use compositional time series data when modelling emissions for landfills with gas capture systems

9 **authorise** the Minister to issue drafting instructions to the Parliamentary Counsel Office (PCO) to amend the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 and the Climate Change (Unique Emissions Factors) Regulations 2009

10 **authorise** the Minister to further clarify and develop policy matters relating to the amendments recommended above, in a manner consistent with Cabinet decisions

11 **agree** to formalise the NZ ETS cap for EB2 at 89.4Mt CO_2-e over 2026-2030

12 **agree** to set a provisional NZ ETS cap for EB3 at 40.7Mt CO_2-e over 2031-2035.

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

Appendices

Appendix One – Options and estimated impact for settings 2026-2030

Option	Summary of accordance	Summary of projections and net emissions impacts[1]	Summary of household impacts[2]
Option 1	**Meets accordance test.** • Modelling indicates this option meets EB2. • It does not meet EB3 but positions us better than Options 2 or 3. • It has the highest chance of eliminating the stockpile risk to budget accordance, with the surplus projected to be eliminated in 2030.	**Estimate of total net emissions (Mt CO_2-e)** **EB2 (305)**: 303.1 (290.5-307.4) **EB3 (240)**: 249.2 (232.1-258.8)	• Modelling projects NZU prices to rise to between $87 and $103 by 2030. • This would result in household expenditure caused by emissions pricing between $650 to $770 per household, or between 0.5% and 0.6% of household gross income, in 2030.
Option 2	**Meets accordance test, with more risk than Option 1** • Modelling indicates this option meets EB2. • It does not meet EB3 and has a higher chance of retaining surplus stockpile into the EB3 period, with a higher risk to budget accordance.	**Estimate of total net emissions (Mt CO_2-e)** **EB2 (305)**: 303.5 (290.5-307.4) **EB3 (240)**: 249.8 (232.1-258.8)	• Modelling projects NZU prices to rise to between $82 and $91 by 2030. • $40-$90 lower annual household expenditure in 2030 compared with Option 1
Option 3	**Meets accordance test, with more risk than Options 1 or 2** • Modelling indicates this option meets EB2. • It does not meet EB3 and has the highest chance of retaining surplus stockpile into the EB3 period, and highest risk to budget accordance.	**Estimate of total net emissions (Mt CO_2-e)** **EB2 (305)**: 303.7 (293.2-308.0) **EB3 (240)**: 249.9 (236.1-259.3)	• Modelling projects NZU prices to rise to between $78 and $86 by 2030. • $70-$120 lower annual household expenditure in 2030 compared with Option 1

1. Modelled impacts are derived from the ETS market model using ERP2 projections and information that informed unit settings options. They are not the official emissions projections which will be presented to Cabinet later this year. Central emissions estimates represent officials' judgement of the most likely short-term market outlook under each option. Bracketed ranges represent the modelled uncertainty bands using different price responsiveness assumptions. Central total net emissions estimates for EB3 have been calculated by taking the ERP2 projection for this period and adding the modelled difference in emissions impacts from different price pathways.
2. Modelled ranges for price and household impacts are dependent on the level of stockpile liquidity and assumptions about market activity in 2025, including whether prices rise above the auction floor price by the end of the year. Price and household impacts are expressed in 2025 dollar terms. Cost of living impacts noted in the main body of this paper are compare the lower end of these ranges.

Appendix Two

Assessment of accordance

Appendix Three

Matters the Minister must have regard to when making NZ ETS regulations

Appendix Four

Regulatory Impact Statement

2026-2030 unit limits and price control settings accordance assessment

The Minister of Climate Change (the Minister) is responsible for making regulations to set the 2026-2030 New Zealand Emissions Trading Scheme unit limits and price control settings (NZ ETS settings). Before recommending the regulations, the Minister needs to be satisfied of accordance with the statutory tests outlined in section 30GC of the Climate Change Response Act 2002 (the Act).

This document provides officials' assessment of the 2026-2030 NZ ETS settings' compliance with the statutory tests in 30GC of the Act, to inform the Minister's assessment of accordance with the statutory tests.

There are three parts to this document:

Part 1: Approach to this accordance assessment

This part provides a general description of the approach taken and key assumptions made.

Part 2: Assessment of accordance

This part assesses accordance for 2025 NZ ETS unit limits and price control settings options, including justification for deviation from strict accordance, where relevant.

Part 3: Mandatory matters – in general terms

This part steps through each of the matters the Minister must consider under section 30GC of the Act before recommending unit settings.

Part 1: Approach to this accordance assessment

Assessing strict and general accordance

1. Before recommending unit settings, the Minister must be satisfied that either:

   - the unit settings strictly accord with all extant emissions budgets, New Zealand's Nationally Determined Contributions under the Paris agreement (NDCs), and the 2050 target (collectively 'emissions goals') (section 30GC(2)); or

   - if the unit settings do not strictly accord with the emissions budgets or the NDC, that the discrepancy is justified after considering prescribed statutory matters (section 30GC(3)).[1]

2. Strict accordance will be demonstrated where the settings can be shown – to a very high probability – to equate with what is required to ensure the emissions generated by sectors covered by the ETS are constrained to the level necessary for those sectors to remain within their allocation of the budgets, NDC, and 2050 target.

3. Predicting the future involves uncertainty, so some judgement is required within the margins, based on best evidence. This means making reasonable assumptions and forecasts about New Zealand's projected emissions trends and the effects of emissions policies. It also means accounting for how well-supplied markets are.

4. In cases where the Minister can justify settings that do not strictly accord, the Act still requires general accordance – settings must ensure a good probability of meeting the targets.

5. The calculation of accordance must consider the whole package of settings (unit limits and price controls) because their effects on unit supply (and ultimately emissions) are interdependent.

6. Determining the ETS share of emission targets in order to test accordance must also occur in combination with an assessment of the predicted emissions impacts of New Zealand's other climate policies and the uncertainties related to those projections. This includes emissions policies for sectors not covered by the NZ ETS (for example agriculture), the role of offshore emissions abatement and the predicted effects of complementary NZ ETS policies.

7. Determining strict accordance or general accordance requires assessing the likelihood of achieving the emissions budgets, NDCs, and the 2050 target, including assessing the risks and mitigations.

8. We have therefore approached the assessment by using a **combination** of modelling results and the seven step methodology (described in the mandatory matters section below). This includes analysis of relevant information such as projections of emissions in ETS and non-ETS sectors, estimates of 'surplus' units in the stockpile of privately held units and broader climate change policies as outlined in the second emissions reduction plan. The implications of recent secondary market and auction outcomes also inform judgements in this assessment.

Seven step methodology

9. Developed in 2020, the seven steps methodology is an organising framework for calculating maximum annual auction volumes. The Government and the Climate Change Commission have used this framework every year since then. This is relevant for *Main matter 30GC(5)(a) - the projected trends for New Zealand's greenhouse gas emissions in the 5 years after the current*

[1] Section 30GC(3) requires strict accordance with the 2050 target.

year, as it factors in estimates and caps for upcoming emissions reductions. This is explained more in the Main matters section.

10. The appropriate auction volumes are determined using seven calculations.

    i. Align with emissions reduction targets.
    ii. Allocate the emissions budgets to NZ ETS and non-NZ ETS sectors.
    iii. Make technical adjustments.
    iv. Account for industrial allocation volumes.
    v. Set the reduction volume to address the New Zealand Unit (NZU or unit) surplus.
    vi. Set the approved overseas unit limit.
    vii. Calculate the base auction volumes and assess risk.

11. Working through these seven steps provides an estimate of the maximum number of units that could be auctioned while meeting our emissions reduction targets, given current circumstances and our best assumptions for other sources of units. Different assumptions and choices can result in different estimates for auction volumes.

Surplus stockpile

12. The seven step methodology takes a binary approach to estimating the surplus – units are either surplus or non-surplus, within a large range of uncertainty. It assumes that:

    a. All units that have been assessed to be surplus could come to market and allow for excess emissions.

    b. NZU prices have no impact on the release or otherwise of stockpiled units (i.e. the size of the surplus and their availability is not influenced by the price).

13. This approach is a simplification of the real world to support a policy process. This methodology takes a precautionary approach to the surplus stockpile and aims to eliminate the risk it poses by reducing this surplus to zero. By contrast, the NZ ETS Market Model allows for a spectrum of liquidity across the stockpile (see next section).

NZ ETS Market Model

14. The NZ ETS market model estimates supply and demand for NZUs under different conditions and can generate price projections based on supply and demand.

15. The ETS market model allows for a more realistic approximation of the real-world situation. It determines demand for NZUs in terms of price-responsiveness and allows for more of a spectrum of liquidity across units in the stockpile. This means that if the marginal price of reducing emissions is lower than the expected value of holding the most liquid unit in the stockpile, emitters will choose to reduce emissions rather than purchase a surplus unit for surrender. The practical consequence of this is that the model can show units remaining in the stockpile beyond 2030 without meaning that net emissions necessarily exceed emission budgets. It also means that in scenarios when the model projects non-surplus units come to market, emissions budgets can be exceeded even if the surplus stockpile is eliminated.

16. As with any model there are limitations in the modelling and it is unlikely that things will play out precisely as the model suggests. The model was not designed to estimate total net emissions; its focus is on net emissions covered by the NZ ETS. However, the projections from the model can be combined with other information to estimate total net emissions. This can help with assessing whether a given combination of unit and price control settings are in accordance with emissions budgets.

Recent secondary market and auction outcomes

17. The signals provided by the secondary market are a further source of information to be reflected in the assessment of unit and price control settings. This has particular relevance to the assessment of the stockpile and the risk it poses to budgets.

18. Following a period of stability after the 2024 settings decisions were announced, secondary market spot prices declined from around $65 in January 2025 to below $50 in late April. Across June and July, prices were tightly range bound around the $57-58 mark, about 15% below the floor price of $68. Forward and futures price curves are sitting below future auction price floor levels, although these instruments are not traded in large volumes. No bids were made at either the March or June auctions.

19. Market commentary has been mixed on the possible cause of the decline in prices. Some has focused on short-term factors that could reverse, such as selling by smaller foresters to meet cashflow needs, and weakening global and domestic economic sentiment.

20. Other commentators have noted that current price dynamics could represent a more fundamental re-pricing of the cost of reducing net emissions. This means that emissions budgets could be achievable at a lower market price than previously anticipated. Afforestation has been considerably higher over the past few years than was anticipated when auctions were introduced. In addition, a growing share of forestry has switched into the permanent forest category, which frees up NZUs previously held against future harvest liabilities.

21. To the extent a repricing is taking place, current price levels would indicate that the market has enough supply that additional units from auction are not needed.

Assumptions and uncertainties

22. Projections done for the second emissions reduction plan (ERP2) suggests that New Zealand is expected to meet the second emissions budget (EB2). We assume that ERP2 policies will be fully implemented and deliver the emissions reductions outlined in ERP2. However, there will always be risks to achieving emissions budgets (e.g. economic patterns or dry/wet weather years), and the Government will actively manage these risks through an adaptive management approach, set out in ERP2. Adaptive management is also a key part of the annual ETS settings process. The Act allows the Government to change settings if the market is responding differently to how we expected. However, there are limitations to this. If developments over the coming years suggest that emissions are likely to exceed emissions budgets it will be increasingly more difficult to correct for this because:

    - due to the declining ETS cap, there would be limited auction volume available to respond to any increase in emissions
    - the one-sided nature of auctioning means the government can only supply NZUs, it cannot remove them
    - there is only a small window of time available to develop and implement alternative policies
    - the first two years of settings are unable to be changed, unless the special circumstances required under the Act have been met.

23. The NZ ETS share of EB2 and the 2050 target is derived from projections in the ERP2. ERP2 set out a provisional EB2 NZ ETS cap of 91 Mt CO_2-e over 2026-2030. This was refined, using more granular data, to 89.4Mt CO_2-e for consultation[2].

24. ERP2 projections show a 9Mt CO_2-e gap between projected emissions and EB3. The Government has not yet made a final decision on the share of effort between NZ ETS and non-NZ ETS-covered sectors in addressing the EB3 gap. However, Cabinet will consider setting a provisional cap EB3 NZ ETS cap of 40. 7Mt CO_2-e. This provisional approach means ETS-covered sectors account for those additional reductions needed to accord with EB3, reflecting the direction set in ERP2 that the NZ ETS is the main tool to reduce net emissions. The Government is required through the development of the third emissions reduction plan (ERP3) to determine policies and a pathway that will ensure the achievement of EB3. While the NZ ETS will play a key role, other policies and measures expected through development of ERP3 will be required to ensure the achievement of EB3. Settings decisions this year, need to position the NZ ETS well to play that role during the EB3 period.

25. 2025 emissions projections were being developed at the time the 2025 unit and price control settings were being assessed. These projections incorporate the 2025 greenhouse gas inventory, revisions to the outlook for key emissions drivers such as natural gas supply and livestock numbers and updates to emissions mitigation policies. The 2025 emissions projections will inform adaptive management framework advice, which in turn may inform 2026 ETS unit and price control settings. However, the 2025 emissions projections were not finalised in time to be considered in this year's settings.

26. There are also other key assumptions:

- Liquidity of the stockpile

  We have made an assessment on the size of the liquid 'surplus' stockpile based on the expected use of NZUs. We continue to improve our methodology for measuring the surplus stockpile, and to test the methodology through consultation. However, there is a significant level of uncertainty in this estimate. Our projections assume that flat to falling price expectations will lead to some of the non-surplus stockpile becoming more liquid, which could allow excess emissions. Alternatively, the total stockpile may be less liquid than assumed which means a greater chance of meeting EB3 but could raise issues with regard to proper functioning of the ETS. Different options have made different assumptions with regard to the size of the surplus stockpile and the related surplus drawdown.

- Responsiveness of emitters to price.

  There is limited evidence on how emitters respond to higher NZU prices. If emitters are less responsive than assumed, it would make emissions budgets harder to achieve, and vice versa.

- Restrictions on converting productive farmland to forestry.

  Our modelling assumes that the Government's Climate Change Response (Emissions Trading Scheme – Forestry Conversion) Amendment Bill that partially restricts whole farm conversions from registering in the NZ ETS will act to cap afforestation at around 30,000 ha

[2] For more detail on the Commission's methodology see: Climate Change Commission. 2025. Advice on NZ ETS Unit Limits and Price Control Settings for 2026–2030. Technical annex 1: Unit limit settings. Wellington: Climate Change Commission, p 5

per annum. There is limited evidence on whether and to what extent this policy might act to constrain overall exotic afforestation. ERP2 projections and updated modelling to support 2025 ETS settings assume that afforestation rates will sit just below the estimated soft cap of this policy, at around 27,000 ha per annum. However, modelled prices are well above levels needed to incentivise afforestation. Therefore, if this policy is less binding than we assume (through greater displacement of afforestation to unrestricted land use classes for example), then there could be more removals from exotic afforestation. Because there is a delay between planting trees and the actual removal of emissions, this is unlikely to impact on EB2 much but could close some of the gap in EB3.

27. Timelines for securing offshore mitigation have not been decided. The international market for international mitigation and new mechanisms and possibilities for international cooperation are still developing. The Government remains committed to achieving NDC1 and officials are currently exploring all options to access offshore mitigation in the future. This includes:

- Agreeing to develop a climate change cooperation arrangement with the Philippines and a recently signed arrangement with Vietnam.
- Investing in capacity building and market development including through funding towards initiatives such as the Global Green Grown Institute's Readiness Fund and the Asia Development Bank's Climate Action Catalyst Fund.

Part 2: Assessment of accordance for 2025 NZ ETS unit limits and price control settings options

28. There are three 2025 NZ ETS unit limits and price control settings options presented for the consideration of the Minister of Climate Change (the Minister). All three options extend status quo price controls to 2030, with minor adjustments for inflations, but differ in the unit limits

    a. Option 1 - Extend status quo unit limits and price control settings to 2030 - **Recommended**

    In option one, auction volumes are unchanged from 2024 settings, which apply to 2025-29, and would be extended to 2030. 2030 auction volume is based on the same information used to determine 2024 settings, including industrial allocation forecasts and surplus drawdown volumes as estimated at the time, making it internally consistent with the settings currently in regulation. NZ ETS settings decisions in 2024 were based on the seven-step methodology, previously used by the Government and the Commission.

	2026	2027	2028	2029	2030
Unit limits (millions)					
Base auction volumes	5.2	4.3	3.3	2.4	1.7
Total CCR volumes	6.5	5.9	5.3	4.7	3.9
NZUs available by auction	11.7	10.2	8.6	7.1	5.6
Price controls					
Auction price floor	$71	$75	$78	$82	$87
CCR Tier 1	$203	$213	$224	$236	$248
CCR Tier 2	$254	$267	$280	$295	$309
CCR Tier 1 volume (millions)	2.3	2.1	1.9	1.7	1.4
CCR Tier 2 volume (millions)	4.2	3.8	3.4	3.0	2.5

Total CCR volumes (millions)	6.5	5.9	5.3	4.7	3.9

b. Option 2 – Updated methodology and price control settings extended to 2030

This option uses the same seven-step methodology as the Commission but with updated forecasts for data on expected industrial allocation and a refined, more conservative estimate of the stockpile surplus

	2026	2027	2028	2029	2030
Unit limits (millions)					
Base auction volumes	5.2	4.3	5.8	5.8	5.8
Total CCR volumes	6.5	5.9	5.3	4.7	3.9
NZUs available by auction	11.7	10.2	11.1	10.5	9.7
Price controls					
Auction price floor	$71	$75	$78	$82	$87
CCR Tier 1	$203	$213	$224	$236	$248
CCR Tier 2	$254	$267	$280	$295	$309
CCR Tier 1 volume (millions)	2.3	2.1	1.9	1.7	1.4
CCR Tier 2 volume (millions)	4.2	3.8	3.4	3.0	2.5
Total CCR volumes (millions)	6.5	5.9	5.3	4.7	3.9

c. Option 3 - Commission recommended volumes and price control settings extended to 2030

The Commission determined its recommended auction volumes based on the seven-step methodology explained above.

	2026	2027	2028	2029	2030
Unit limits (millions)					
Base auction volumes	5.2	4.3	7.0	7.0	7.0
Total CCR volumes	6.5	5.9	5.3	4.7	3.9
NZUs available by auction	11.7	10.2	12.3	11.7	10.9
Price controls					
Auction price floor	$71	$75	$78	$82	$87
CCR Tier 1	$203	$213	$223	$235	$248
CCR Tier 2	$254	$267	$279	$293	$308
CCR Tier 1 volume (millions)	2.3	2.1	1.9	1.7	1.4
CCR Tier 2 volume (millions)	4.2	3.8	3.4	3.0	2.5
Total CCR volumes (millions)	6.5	5.9	5.3	4.7	3.9

29. The tables below provide officials' assessment of accordance of these three options with the emissions budgets, NDCs, and 2050 target. This includes justification for deviation from strict accordance, where relevant. This assessment is to support the Minister by demonstrating the accordance of the different options available to him.

Table 1: Accordance assessment of NZ ETS settings *Option 1 - Extend status quo unit limits and price control settings to 2030* with emissions reduction targets.

Accordance assessment	NZ ETS settings Option 1 Extend status quo unit limits and price control settings to 2030	NZ ETS settings Option 2 Updated methodology and price control settings extended to 2030	NZ ETS settings Option 3 Commission recommended volumes and price control settings extended to 2030
Emissions budget 2	Modelling shows the **NZ ETS settings under Option 1 are highly likely to deliver the NZ ETS's share towards the achievement of EB2 and therefore strictly accord with EB2.** NZ ETS sector emissions are projected to remain within their assumed share of EB2 based on ERP2 projections. Modelling based on the NZ ETS settings under Option 1 project total emissions of 303.3Mt CO_2-e, compared with 303.1 Mt CO_2-e projected in ERP2 (both below the 305Mt CO_2-e budget). The risk posed by the surplus to NZ ETS emissions in EB2 is mitigated by reducing the central surplus estimate to zero by 2030. Government decisions to tighten NZ ETS settings have already helped bring down the estimate surplus. The NZ ETS settings under Option 1 are likely to reduce the surplus to zero earlier than other options. Other risks to achievement of EB2 (noting that these may also go the in the other direction) include: • future inventory changes may increase emissions relative to the fixed emissions budgets; and • that proposed or existing Government policies are not as effective as expected, or other Government policies may result in increased NZ ETS emissions. The Government would have options to meet a potential shortfall in EB2 as it could introduce additional emissions reduction policies to further ensure achievement of the budget and is actively managing progress through its adaptive management approach. However, there are limitations to this approach as additional policies take time to decide and implement. The price control settings support strict accordance with EB2. The auction floor price provides a safety valve against oversupply where there is a risk that more of the stockpile comes to market. This is because it prevents further units from being auctioned if the price is below the floor price. The floor price has been assessed by the Commission and officials as being aligned with the minimum prices needed to support achievement of EB2, specifically the costs of the additional gross emissions reductions needed to meet EB2. We consider the cost containment trigger prices to be well above the price needed to support achievement of EB2 given the level of gross emissions reductions that are economic at prices below the $200 trigger price. We also consider the cost containment reserve unlikely to be released given projected emissions prices.	The accordance assessment for EB2 under Option 2 is similar to Option 1. Compared with Option 1, it is expected that Option 2 will deliver less emissions reduction during the EB2 period (303.5Mt CO_2-e compared with 303.3Mt CO_2-e). Though there is a relatively small difference, it reduces the buffer between projected emissions and EB2, increasing the risk of not achieving EB2. This is somewhat mitigated by the Government's adaptive management approach. There is also a greater chance of surplus stockpile or higher stockpile liquidity enduring beyond 2030. This means that the NZ ETS may be less able to constrain emissions compared to Option 1, with a higher risk to achieving EB2. However, overall, we still assess that **NZ ETS settings under option 2 are highly likely to deliver the NZ ETS's share towards the achievement of EB2 and therefore strictly accords.** Price control settings are the same as Option 1.	The accordance assessment for EB2 under Option 3 is similar to Option 2 (and Option 1). Compared Option 1, it is expected that Option 3 will deliver similar levels of emissions reduction during the EB2 period (303.7Mt CO_2-e compared with 303.3Mt CO_2-e). Though there is a relatively small difference, it reduces the buffer between projected emissions and EB2, increasing the risk of not achieving EB2. This is somewhat mitigated by the Government's adaptive management approach. There is also a greater chance of surplus stockpile or higher stockpile liquidity enduring beyond 2030. This means that the NZ ETS may be less able to constrain emissions compared to Option 1, with a higher risk to achieving EB2. However, overall, we still assess that **NZ ETS settings under option 2 are highly likely to deliver the NZ ETS's share towards the achievement of EB2 and therefore strictly accords.** Price control settings are the same as Option 1.
Emissions budget 3	Modelling based on the NZ ETS settings under Option 1 exceed the level of the third emissions budget (EB3) by approximately 9Mt CO_2-e, projecting total emissions of 249Mt CO_2-e, compared with the 240Mt CO_2-e budget. This is the same gap as projected in ERP2. For this reason, **we have assessed that NZ ETS settings under option 1 do not strictly accord with EB3.** **However, we have assessed that NZ ETS settings under option 1 do have a good probability of delivering the NZ ETS's share towards the achievement of EB3 and therefore accord – with a justified discrepancy from strict accordance**. In considering accordance, it is not required for 2025 NZ ETS settings decisions to completely account for the current 9Mt CO_2-e gap. The third emissions budget starts in 2031 and is beyond the timeframe of the current 2026-2030 settings period. However, 2025 settings decisions should position the NZ ETS such that there is a good probability of meeting EB3 through future NZ ETS settings decisions and through ERP3 policies. Our reasoning is as follows: • A major part of positioning the NZ ETS well for meeting EB3 is addressing the risk posed by the stockpile. Surplus stockpile units pose the largest risk towards the achievement of EB3 because	The accordance assessment for EB3 under Option 2 is similar to Option 1. Compared to Option 1, it is expected that Option 2 will deliver similar emissions reduction during the EB3 period (249Mt CO_2-e). There is a greater chance of surplus stockpile or higher stockpile liquidity enduring into the EB3 period. This means that the NZ ETS may be less able to constrain emissions compared to Option 1. This increases the challenge of meeting EB3 and places a greater reliance on actions outside the NZ ETS (such as ERP3). However, overall, we still assess that **NZ ETS settings under Option 2 as according with Emissions budget 3, but not strictly according**	The accordance assessment for EB3 under Option 3 is similar to Options 1 and 2. Compared to Options 1 and 2, Option 3 is expected to deliver less emissions reduction during the EB3 period (250Mt CO_2-e), however the difference is relatively small. There is also an even greater chance of surplus stockpile or higher stockpile liquidity enduring into the EB3 period. This means that the NZ ETS may be less able to constrain emissions compared to Option 1 and 2. This increases the challenge of meeting EB3 and places a greater reliance on actions outside the NZ ETS (such as ERP3). However, overall, we still assess that **NZ ETS settings under Option 3 as according with Emissions budget 3, but not strictly according**

Accordance assessment	NZ ETS settings Option 1 Extend status quo unit limits and price control settings to 2030	NZ ETS settings Option 2 Updated methodology and price control settings extended to 2030	NZ ETS settings Option 3 Commission recommended volumes and price control settings extended to 2030
	emitters can use these stockpiled units to meet their NZ ETS obligations instead of reducing their emissions in line with what's needed to achieve EB3. Other stockpile units might also be used in this way, particularly if price expectations are flat to falling. NZ ETS settings under Option 1 are the most likely to ensure that the surplus stockpile is eliminated by 2030 before the start of the EB3 period and make the largest contribution to managing the stockpile down more generally. • The Government has not yet made a final decision on the share of effort between NZ ETS and non-NZ ETS-covered sectors in addressing the existing 9Mt CO_2-e EB3 gap. This is a plausible gap to close over the next 10 years and with several opportunities open to the Government. • If NZ ETS-covered sectors close the EB3 gap, the seven-step methodology suggests 21 million NZUs could be auctioned during the EB3 period. The Government has choices in future ETS settings decisions to reduce the EB3 auction volumes to reduce the EB3 gap and support achieving EB3. However, the NZ ETS may be limited in its ability to drive achievement of EB3 on its own and without additional policy measures. • The Government is required through its development of ERP3 to determine policies and a pathway that will ensure the achievement of EB3. Additional policies and measures may also be developed as part of the implementation of ERP2. Other policies and measures expected through development of ERP3 will be required to ensure the achievement of EB3. • In addition, it should be acknowledged that at this time horizon (looking out to 2030 and beyond) the modelling projections are highly uncertain. The ability to meet EB3 could become easier or more challenging. This will be affected by Government choices and changing circumstances and trends over the coming years (such as afforestation rates and stockpile liquidity – explained in part 1). It would be premature to set NZ ETS settings that will have an overly disruptive impact, beyond what is needed for immediate emissions reduction targets, when it is not clear whether tighter settings will actually be needed, and there are numerous future opportunities to make adjustments, including next year's settings decisions. • Keeping price controls high ensures that auction volume will only be released at a price expected to be necessary to meet EB3. The Commission's analysis found that higher prices could potentially be needed to meet EB3, but that it would be premature to increase the price control settings now given it is uncertain that an increase will actually be needed. The Commission found that existing price controls were appropriate for the time being, and close monitoring of the situation will determine if changes could be needed in the future. We agree with the findings of the Commission. **Justification for deviation from strict accordance by reference to matters in s 30GC CCRA** The deviation from strict accordance is justified by: **main matter *section 30GC(5)(b)* - the proper functioning of the emissions trading scheme.** For NZ ETS settings to strictly accord with EB3 at this stage, auction volumes would need to be significantly reduced with little to no signalling to participants. This is likely to significantly disrupt the market and could make it difficult for some compliance participants to source units in the short term. This could cause issues of short-term NZU price volatility.	Price control settings and justifications for departing from strict accordance are the same as Option 1.	Price control settings and justifications for departing from strict accordance are the same as Option 1, with the exception of main matter section 30GC(5)(e) - the recommendations made by the Climate Change Commission under section 5ZOA. Option 3 exactly matches the recommendation made by the Commission whereas Options 1 and 2 include lower auction volumes.

Accordance assessment	NZ ETS settings Option 1 Extend status quo unit limits and price control settings to 2030	NZ ETS settings Option 2 Updated methodology and price control settings extended to 2030	NZ ETS settings Option 3 Commission recommended volumes and price control settings extended to 2030
	main matter *section 30GC(5)(d)* - the forecast availability and cost of ways to reduce greenhouse gas emissions that may be needed for New Zealand to meet its targets for the reduction of emissions. There remains a large uncertainty over the level of reductions that will be required by ETS-covered sectors to achieve EB3, as well as the costs of necessary reductions. NZ ETS settings under Option 1 are maintaining tight supply of NZUs and options remain open to further tighten NZ ETS settings in the future as the necessary level of reductions become clearer. **main matter *section 30GC(5)(e)* - the recommendations made by the Climate Change Commission under section 5ZOA.** The Commission assessed its recommended settings as according (though not strictly) with EB3, and the NZ ETS settings under Option 1 involve the same price controls, and lower auction volumes than the Commission's recommended settings, supporting the case for accordance **main matter *section 30GC(5)(f)* - any other matters that the Minister considers relevant.** It is relevant that the framework of the Climate Change Response Act does not require a plan be in place to meet the third emissions budget yet, and that policies will continue to evolve over time. This supports our assessment that it is acceptable to deviate from strict accordance until such a plan is in place.		
NDC1	We have assessed that **the NZ ETS settings under Option 1 do not strictly accord with NDC1 because there is currently a shortfall between the emissions reductions that can be achieved domestically and NDC1.** **However, we have assessed that NZ ETS settings under Option 1 do have a good probability of delivering the NZ ETS's share towards the achievement of NDC1 and therefore accord - with a justified discrepancy from strict accordance. This is because**: • We remain on track for achieving EB1 (this is unaffected by the 2025 NZ ETS settings decision, but EB1 reductions are contributing to NDC1) • Under Option 1, there is a high probability of achieving domestic emissions reductions required for EB2 • The Government remains committed to achieving NDC1. Over time the gap between our projected domestic emissions and NDC1 has reduced. We continue to prioritise domestic action to meet the NDC1 to reduce that gap even further, whilst creating options to access offshore emissions reductions purchasing in the future. This includes: • Agreeing to develop a climate change cooperation arrangement with the Philippines and the recently signed an arrangement with Vietnam. • Investing in capacity building and market development including through funding towards initiatives such as the Global Green Grown Institute's Readiness Fund and the Asia Development Bank's Climate Action Catalyst Fund. However, timelines for securing offshore mitigation have not been decided. **Justification for deviation from strict accordance by reference to matters in s 30GC CCRA**	The accordance assessment for NDC1 under Option 2 is similar to Option 1. Under Option 2 slightly lower levels of emissions reductions are expected, leaving a slightly larger gap between projected domestic emissions and NDC1. NZ ETS settings under Option 2 similarly can only accord with NDC1 by using offshore mitigation. Under Option 2, there is also a high probability of achieving domestic emissions reductions required for EB2. Overall, we still assess that **NZ ETS settings under Option 2 as according with NDC1, but not strictly according** Price control settings and justifications for departing from strict accordance are the same as Option 1.	The accordance assessment for NDC1 under Option 3 is similar to Option 1. Under Option 3 slightly lower levels of emissions reductions are expected, leaving a slightly larger gap between projected domestic emissions and NDC1. NZ ETS settings under Option 2 similarly can only accord with NDC1 by using offshore mitigation. Under Option 3, there is also a high probability of achieving domestic emissions reductions required for EB2. Overall, we still assess that **NZ ETS settings under Option 3 as according with NDC1, but not strictly according** Price control settings and justifications for departing from strict accordance are the same as Option 1.

Accordance assessment	NZ ETS settings Option 1 Extend status quo unit limits and price control settings to 2030	NZ ETS settings Option 2 Updated methodology and price control settings extended to 2030	NZ ETS settings Option 3 Commission recommended volumes and price control settings extended to 2030
	The deviation from strict accordance is justified by: **main matter *section 30GC(5)(b)* - the proper functioning of the emissions trading scheme.** For NZ ETS settings to strictly accord with NDC1, auction volumes would need to be significantly reduced with little to no signalling to participants. This is likely to significantly disrupt the market and could make it difficult for some compliance participants to source units in the short term. The level of emissions reductions required to meet NDC1 exceed the remaining auction volumes for the 2026-2030 period, meaning the NZ ETS could not deliver sufficient emissions reductions alone to meet NDC1, even if no further units were auctioned over the next five years. **main matter *section 30GC(5)(d)* - the forecast availability and cost of ways to reduce greenhouse gas emissions that may be needed for New Zealand to meet its targets for the reduction of emissions.** NDC1 was set with the intent that it would be met, in part, through offshore mitigation. The costs of meeting NDC1 through the partial use of offshore mitigation are expected to be more affordable than through meeting the target through domestic reductions alone. 2025 NZ ETS settings that strictly accord with NDC1 would require no units to be auctioned, resulting in high prices and high price volatility. In its advice on NZ ETS unit limits and price control settings for 2026–2030, the Commission highlighted that meeting the first NDC with domestic action only would require a scale and pace of economic, social and technological change over the next five years that would be highly disruptive, with severe economic and social consequences.		
NDC2	Our NDC 2 target is strongly aligned with EB3, and the assessment of accordance with NDC2 largely matches that with EB3. **That is, we have assessed that the NZ ETS settings under Option 1 do not strictly accord with NDC2. However, we have assessed that the NZ ETS settings under Option 1 do have a good probability of delivering the NZ ETS's share towards the achievement of NDC2, and therefore accord - with a justified discrepancy from strict accordance.** For more details on our assessment, please see the EB3 accordance section. However, though EB3 and NDC2 targets require a similar level of emissions reduction, it should be noted that while EB3 is a cumulative budget across the 2031-2035 period, NDC2 is a single-year target for emissions in the year 2035. Under Option 1 and current policies, our modelling suggests New Zealand will exceed the 2035 target by about 4Mt CO_2-e. We consider that the rationale and approaches available for reducing this gap, as explained in the EB3 accordance section, also hold for a current gap of 4Mt CO_2-e. **Justification for deviation from strict accordance** See EB3 accordance section for justification for deviation from strict accordance.	The accordance assessment for NDC2 under Option 2 is similar to Option 1. Compared Option 1, it is expected that Option 2 will deliver similar emissions reduction with modelling suggesting we will exceed the 2035 target by about 5Mt CO_2-e. There is a greater chance of surplus stockpile or higher stockpile liquidity enduring into the EB3 period if current surplus estimates are inaccurate. This means that the NZ ETS may be less able to constrain emissions compared to Option 1, and a greater reliance on actions outside the NZ ETS (such as ERP3) will be required. However, overall, we still assess that **NZ ETS settings under Option 2 as according with NDC2, but not strictly according** Price control settings and justifications for departing from strict accordance are the same as Option 1.	The accordance assessment for NDC2 under Option 3 is similar to Option 2 (and Option 1). Compared Options 1 and 2, Option 3 is expected to deliver less emissions reduction with modelling suggesting we will exceed the 2035 target by about 5Mt CO_2-e. There is also an even greater chance of surplus stockpile or higher stockpile liquidity enduring into the EB3 period if current surplus estimates are inaccurate. This means that the NZ ETS may be less able to constrain emissions compared to Option 1 and 2, and a greater reliance on actions outside the NZ ETS (such as ERP3) will be required. However, overall, we still assess that **NZ ETS settings under Option 3 as according with NDC2, but not strictly according** Price control settings and justifications for departing from strict accordance are the same as Option 1.
2050 target	**We assess that NZ ETS settings under Option 1 are highly likely to deliver the NZ ETS's share towards the achievement of the 2050 target and therefore strictly accords**.	The accordance assessment for the 2050 target under Option 2 is similar to Option 1.	The accordance assessment for the 2050 target under Option 3 is similar to Option 1.

Accordance assessment	NZ ETS settings Option 1 Extend status quo unit limits and price control settings to 2030	NZ ETS settings Option 2 Updated methodology and price control settings extended to 2030	NZ ETS settings Option 3 Commission recommended volumes and price control settings extended to 2030
	Emission budgets are intended to be 'stepping stones' towards the 2050 target, and the agreed settings will contribute to the achievement of emission budgets over time. Additionally, emissions projections set out in ERP2 meet the 2050 target, and the NZ ETS settings under Option 1 deliver emissions reductions in line with those projections, strengthening the case for accordance. We note it is challenging to estimate the impacts of the NZ ETS settings under Option 1 over 2026-2030 20+ years in the future. Additionally, the NZ ETS contribution to the long-lived gases 2050 target is complicated by several factors. This includes a significant amount of emissions outside the NZ ETS, the continuation of some industrial allocation past 2050 and the ongoing entitlements and surrenders for NZ ETS forestry. These are challenges beyond the scope and design of the NZ ETS, and we do not see that these challenges prevent the NZ ETS settings under Option 1 from strictly according with the 2050 target.	It is expected that Option 2 will deliver less emissions reduction during the EB2 period compared with Option 1 (304Mt CO_2-e compared with 303Mt CO_2-e). However, it is still expected to deliver emissions reductions in line with ERP2 projections However, overall, we still assess that **NZ ETS settings under Option 2 are highly likely to deliver the NZ ETS's share towards the achievement of the 2050 target and therefore strictly accords.**	It is expected that Option 3 will deliver less emissions reduction during the EB2 period compared with Option 1 (304Mt CO_2-e compared with 303Mt CO_2-e). However, it is still expected to deliver emissions reductions in line with ERP2 projections However, overall, we still assess that **NZ ETS settings under Option 3 are highly likely to deliver the NZ ETS's share towards the achievement of the 2050 target and therefore strictly accords.**

Part 3: Mandatory matters – in general terms

30. There are several matters listed in section 30GC of the Act that must be considered when assessing accordance with emissions goals. These matters are detailed in Part 3 below, which provides interpretations and detail for each matter. They also inform the overall assessment made in Part 2.

31. Section 30GC(2) and (3) of the Climate Change Response Act 2002 (the **Act**) states that:

(2) The Minister must be satisfied that the limits and price control settings are in accordance with—

(a) the emissions budget, and the nationally determined contribution for New Zealand under the Paris Agreement, that applies to—

(i) the period for which the limits or price control settings are being prescribed; or

(ii) any period after that, if a budget or contribution exists for that period; and

(b) the 2050 target.

(3) However, they need not strictly accord with the budgets or contributions as long as the Minister is satisfied that the discrepancy is justified, after considering the other matters under this section.

32. The "other matters" in s 30GC of the Act comprise the "main matters" and the "additional matters". The "main matters" listed in s 30GC(5) are of general application and are used for assessing accordance against emissions goals in Part 2 and/or justifying deviation from strict accordance with the emissions budgets and NDC. The "additional matters" in s 30GC(6) are relevant only to the price control settings.[3]

30GC(5) – the Main matters (relevant to unit limits and price control settings)

30GC(5)(a): The projected trends for New Zealand's greenhouse gas emissions in the 5 years after the current year, including:

(i) the anticipated volumes of greenhouse gas emissions to which the emissions trading scheme applies (meaning emissions for which participants are required to submit returns or surrender units under this Act); and

(ii) the anticipated volumes of greenhouse gas emissions to which the emissions trading scheme does not apply.

33. The projected emissions trends for New Zealand's greenhouse gas emissions for the next five years after the current year, as well as for 2025, are as follows:[4]

[3] Price control settings operate at the Government's emission unit auctions and prevent the sale of emission units below a specified minimum price and allow the sale of reserve amounts of emission units at other specified (trigger) prices. The price control settings are comprised of the reserve amount of NZUs for each trigger price, the trigger prices, and the minimum price below which units must not be sold by auction.

[4] These figures are the central 'with additional measures' or WAM scenarios from projections released in December 2024.

	2025	2026	2027	2028	2029	2030
Total net emissions (Mt CO_2e)	69.0	65.9	63.7	60.4	57.9	55.2

34. ERP2 sets out the Government's proposal to allocate a share of the emissions budget between sectors in and outside the NZ ETS. The share allocated to NZ ETS covered sectors is also sometimes referred to as the NZ ETS cap. ERP2 proposed a provisional NZ ETS cap for EB2 of 91Mt CO_2-e and committed to consulting on this number through NZ ETS settings this year. The NZ ETS cap was subsequently refined to 89.4Mt CO_2-e for consultation. The allocated volume of emissions budgets to sectors in and outside the NZ ETS scheme is as follows:

	Year (million NZUs)					
	2026	**2027**	**2028**	**2029**	**2030**	**Total**
Share of emissions budget allocated to non-NZ ETS sectors	42.7	42.9	42.8	42.8	42.6	213.7
Share of emissions budget allocated to NZ ETS sectors	23.2	20.8	17.6	15.1	12.6	89.4

35. The established seven step methodology is used to calculate how many New Zealand Units (NZU) could be made available for auction, which is detailed further in the Regulatory Impact Statement. The projections inform the calculations and underpin the modelling, which are both key components of the accordance assessment.

30GC(5)(b): The proper functioning of the emissions trading scheme

36. There are several aspects of 'proper functioning', which are considered below. Deviation from strict accordance can be justified by consideration of the proper functioning of the NZ ETS. When considering proper function of the NZ ETS, we have considered whether auction volumes would need to be significantly reduced with little to no signalling to participants in order to strictly accord with New Zealand's emissions reduction targets. Significantly reducing auction volumes in this way is likely to significantly disrupt the market and could make it difficult for some compliance participants to source units in the short term. This could cause issues of short-term NZU price volatility.

Regulatory predictability

37. The NZ ETS provides a price signal by setting a cap on emissions and letting trading of NZUs occur. A stable emissions price, with regulatory certainty, provides a signal to invest in abatement and removals and to change actions towards less emission intensive activities.

38. The NZ ETS should therefore operate in a transparent and durable manner that allows participants to form expectations about future market conditions. This is assisted by the Act restricting the ability of the Minister to amend settings for the next two years.[5] This builds confidence in the NZ ETS market and encourages investment in cost-effective opportunities for

[5] However, on 13 July 2023, the High Court ordered the Minister to remake the 2022 NZ ETS settings decisions. This enabled (and required) reconsideration of settings for 2023, 2024 and 2025.

domestic emissions abatement. The first two years can be amended in specific circumstances, including if the CCR units are released.

Participants' ability to manage obligations

39. NZ ETS unit settings should allow the NZ ETS to function as intended. This includes auctions that operate as designed every year[6], and NZ ETS participants being able to attain and surrender NZUs to meet NZ ETS obligations.

40. An important part of managing obligations and NZ ETS costs for participants is their ability to bank NZUs (stockpile) in their accounts in the NZ ETS Register. A large quantity of NZUs has accumulated in private accounts, with the current quantity of privately held NZUs at 133 million units.[7] There is uncertainty in the size of the surplus stockpile. In their 2025 advice, the Commission estimated the surplus stockpile as between 28.4 – 67.7 million NZUs, while an updated Ministry for the Environment estimate puts it at between 28.7 – 78.0 million NZUs.

41. The stockpile is reduced when NZUs are surrendered to match reported emissions by participants.[8] It is added to through auctions and receipt of allocations and entitlements. The stockpile represents future rights to emit.

42. The Government has previously prescribed unit limits that 'draw down' the liquid component of the stockpile through reduced auction volumes to 2030. A quicker draw down of the surplus stockpile (than to 2030) would significantly reduce auction volumes in the near term, which could risk impacts to the functioning of the market through damaging liquidity, which would impact prices and the ability of participants to comply with surrender obligations. It would also have fiscal impacts through lowered auction volumes.

Role of price controls

43. The Cost Containment Reserve (CCR) functions both as a market 'shock absorber', reducing the risk of unacceptable emissions costs by increasing supply, and as a guide to maximum NZU prices for participants.

44. The CCR volume can be sold to auction participants if trigger prices are hit in auctions. Those prices are intended to be well outside the NZU prices necessary to achieve emission budgets.

45. Should the CCR volume be released, the risk to emission budgets is maintained for longer because that surplus remains available.

46. The other prescribed auction price control is the auction reserve price (ARP). The ARP is the price below which the Government will not sell units at auction. Its purpose is to act as a safety valve that helps guard against NZU prices dropping below what is needed for meeting emissions budgets.

47. As required by the Act, the Commission considered a range of matters when it first made its ARP recommendations and subsequently each year in reconsidering the settings.[9] The Commission wrote that the two most critical issues for ARP settings were the minimum emissions price levels consistent with meeting emissions budgets, and when it would be

[6] At least, until auctions are no longer required because of the reduced ETS cap

[7] Number of NZUs held as of 30 June 2025, Privately held units | EPA

[8] Or cancelled, but very little of this occurs. See the Environmental Protection Authority webpage on unit cancellations.

[9] Climate Change Commission's advice on ETS settings for 2023-2027

appropriate for the Government to withhold units and reduce unit supply below the planned auction volume.

48. The Commission's 2022 recommendations on the value of the ARP were determined through economic modelling, which took into account:

- The Government's decisions about setting emissions budgets. These were based on emissions pathways and judgements about acceptable costs for meeting budgets that reflected both reducing gross emissions and using forests to absorb carbon dioxide.
- Consistency with the Government's ERP1, which recognised the need, and stated intention, to reduce gross emissions.
- That gross emissions reductions are needed to meet the first and second emissions budgets. It is not possible to achieve these budgets solely by using forests to compensate for gross emissions, due to the time lag between planting and forests starting to sequester carbon.
- The Commission judged that due to NDC1, the ARP should be at levels that help the Government avoid selling NZUs at prices lower than the likely cost of offshore mitigation.
- NDC1 requires significant further abatement beyond emissions budgets, to be met by purchasing offshore mitigation.
- If domestic reductions are easier than expected, overachieving emissions budgets is in the national interest – each tonne reduced at home means one less tonne to buy overseas.
- Conversely, if the Government sold NZUs for less than what will be needed to be pay for offshore mitigation, the fiscal and economic costs of meeting NDC1 would increase.

49. In 2025, the Commission did not recommend any changes to the ARP. It stated that to meet EB2, actions must now focus on reducing gross emissions. Therefore, the ARP levels for 2026–2030 need to reflect the cost of gross reductions, rather than of forestry offsets due to the four-year lag after planting before a new forest starts sequestering carbon. There is a range of evidence pointing to prices around or above the current ARP levels ($68 this year) being needed to support gross reductions.[10] The Government's second emissions reduction plan modelling also supports the current ARP. This modelled meeting the second emissions budget with a price path above the ARP levels, with an NZU price in 2030 of around $96.

50. Other issues to consider in relation to the ARP would be the effect that changes to ARP levels could have on sentiment and market confidence.

51. The NZ ETS settings have been assessed based on the descriptions above and support proper functioning of the scheme.

30GC(5)(c): International climate change obligations and instruments or contracts that New Zealand has with other jurisdictions to access emissions reductions in their carbon markets

52. New Zealand's Nationally Determined Contributions under the Paris Agreement outlines the contribution New Zealand will make towards delivering on the goals of the Paris Agreement. New Zealand's first Nationally Determined Contribution (NDC1) was updated on 31 October 2021. The new NDC sets a headline target of a 50 per cent reduction of net emissions below

[10] A recent example is a 2024 EECA study that examined costs to decarbonise process heat in the South Island. This found that 75% of the abatement would require an emissions price greater than $75 to be economic.

gross 2005 level by 2030. New Zealand's second Nationally Determined Contribution (NDC2) was submitted in January 2025 and sets a target of a 51-55 per cent reduction of net emissions below gross 2005 level by 2035.

53. NDCs are economy-wide, covering all sectors and all greenhouse gases. NDCs under the Paris Agreement are international targets that can be met through a combination of domestic action and additional international cooperation. The Government's priority is domestic climate action to help meet New Zealand's climate change targets. New Zealand's submission of its first NDC states, "*New Zealand intends to use international market mechanisms, cooperative approaches and carbon markets that enable trading and use of a wide variety of units/emission reductions/mitigation outcomes that meet reasonable standards and guidelines*". This was affirmed when the Government provided its updated NDC1 to the United Nations on 4 November 2021.[11]

54. New Zealand has no current instruments or binding agreements with other jurisdictions to access emissions reductions through carbon markets. The Government is exploring all options for access to offshore mitigation in the future. This includes:

- Agreeing to develop a climate change cooperation arrangement with the Philippines and a recently signed arrangement with Vietnam.
- Investing in capacity building and market development including through funding towards initiatives such as the Global Green Grown Institute's Readiness Fund and the Asia Development Bank's Climate Action Catalyst Fund.

55. Assessment of accordance with both NDC1 and NDC2 is a key component of Part 2.

30GC(5)(d): The forecast availability and cost of ways to reduce greenhouse gas emissions that may be needed for New Zealand to meet its targets for the reduction of emissions

Emissions budgets

56. ERP1 and ERP2 contain more detailed information on the policies and actions for reducing emissions and meeting targets.

57. For ERP2, an economy wide model was used to test the sufficiency of proposed policies and actions. The modelling assumes a price path in which prices rise to $94 (in 2025 dollar terms) in 2030 and then fall towards the long-run supply costs of NZUs from forestry, which may be no more than $50 per tonne.[12] NZU prices have declined from around $65 in January 2025 to around $55 as of July 31, 2025.

58. ERP2 contains an assessment of New Zealand's progress on meeting the first three emissions budgets. It states projections show that we are expected to meet EB1 and EB2. It also projects net emissions of 249.2 Mt CO2-e during the EB3 period (2031–35), which is 9.2 Mt CO2-e above the 240 Mt CO2-e EB3 limit. It notes that achieving the third emissions budget (EB3) is the task of the third emissions reduction plan, due by 2030.

59. The assessment of NZ ETS settings against emission targets includes the expected impacts of proposed ERP2 policies. The impacts from policies discontinued from ERP1 are also included;

[11] The submission is found here

[12] This is the NZU price at which landowners are assumed to be willing to change from sheep and beef farming to forestry.

that is, if removing a policy will result in increased emissions, those numbers are used in the modelling.

60. Projections are significantly impacted by inventory methodological change. For example, the accordance assessment for ETS settings in 2023 noted that projections indicated a wide buffer for the achievement of EB3. Inventory methodological change this year has reversed that situation.

61. In its 2022 advice on settings, the Commission modelled the range of NZU prices it considered would be necessary to achieve the abatement and removals for meeting emission budgets using different scenarios.[13] Figure 5 on page 11 of the modelling report illustrates the output. The Commission identified that the range of NZU prices needed under those scenarios in 2030 is from $70 to $260.

62. As part of the Commission's 2025 advice on the settings, Concept Consulting carried out modelling to generate shadow emissions prices needed to meet EB3. Under a range of scenarios, the Concept Consulting modelling suggests an NZU price range of around $190 to $350 in 2035 (in 2024 prices).[14] A key insight from the Concept Consulting modelling was that high fossil gas prices were a key factor that could significantly reduce the emissions price needed to meet the third emissions budget as low emissions alternatives would be relatively more affordable.

NDCs

63. As noted above, the NZ ETS settings are insufficient to achieve NDC1. The Treasury and Ministry for the Environment's *Climate Economic and Fiscal Forecast* report, published in April 2023, noted that although they cover the same period, emissions budgets 1 and 2 are set at a different level to NDC1, and offshore mitigation will be needed to meet NDC1.[15] The report describes a wide range of potential prices and material uncertainty but gave an example range of $41 to $227 per tonne of carbon dioxide equivalent (tCO2e).

64. In addition, the Commission has considered the impacts of substantially tighter NZ ETS settings that would further support meeting the NDC through domestic efforts only. This would require a scale and pace of economic, social and technological change over the next five years that would be highly disruptive.[16] It discussed the following impacts in more detail in its 2022 advice:

    - Requirements for large scale cuts to economic output across Aotearoa New Zealand, which would have significant flow-on effects to jobs, broader society, and the economy.
    - Potential for public support for the transition to be undermined and reductions to Aotearoa New Zealand's resilience and ability to put in place solutions to make continual and lasting emissions reductions. Environmentally and socially sustainable jobs, a productive economy and the wellbeing of the people who live here are vital for future generations and sustainable prosperity over the long term.

[13] Technical Annex 2 to the Commission's 2022 advice

[14] NZETS2025-Technical-annex-3-Assessment-of-accordance.pdf

[15] Climate Economic and Fiscal Forecast Report 2022

[16] Climate Change Commission's advice on ETS settings for 2026-2030

- From an intergenerational equity perspective, excessively fast cuts to emissions would have a legacy impact on the quality of life for younger generations as families are left without employment or essential services.
- This pace of change would also disproportionately affect Iwi/Māori in terms of the Māori economy, given its large agricultural base, and Māori workforce who are disproportionately represented in agricultural and manufacturing industries.[17]

65. The target level for NDC2 is closely aligned with EB3. See discussion of EB3.

2050 target

66. NZ ETS settings must accord with emission budgets which are stepping stones towards achieving the 2050 target. There are two risks to achieving the target.

67. There is a risk that from the mid-2030s onwards, the NZ ETS may not encourage enough reductions or removals to achieve and sustain net zero for subsequent years. This is because a significant amount (about 7.5Mt per annum or 20 per cent) of long-lived emissions (e.g., agricultural nitrous oxide) will remain outside the NZ ETS. Secondly, under current settings, some industrial allocation recipients will continue receiving some NZUs for free beyond 2050.[18]

68. The Commission noted in its assessment of accordance that these risks "*cannot be addressed or corrected for by amending the NZ ETS unit limit and price control settings for the 2026-2030 period. Therefore, we do not consider that these future challenges or policy gaps undermine the recommended settings' accordance with the 2050 target*".[19] The Government agrees with this view.

69. ERP2 projections included achieving the net zero component of the 2050 target.

70. The forecast availability and cost of ways to reduce greenhouse gases justifies the divergence of the recommended settings from strict accordance with the NDC, as described in Part 2.

30GC(5)(e): The recommendations made by the Climate Change Commission under section 5ZOA

71. The Commission's *Advice on NZ ETS unit limits and price control settings for 2026-2030* was tabled in the House and made public on 23 April 2025.[20]

72. Specific recommendations on NZ ETS settings were:

- Additional auction volume could be offered in 2028-2030, subject to adequate price guardrails. This was partly due to the number of surplus units in the market having reduced more quickly than previously forecast.
- That no changes be made to the first two years of unit limit settings. Changes to the 2026 and 2027 are not justified.
- To maintain the current price control settings, adjusted for inflation and extended to 2030.

[17] Climate Change Commission's advice on ETS settings for 2023-2027

[18] New-Zealands-second-emissions-reduction-plan-Discussion-document.pdf

[19] See pages 15 of NZETS2025-Technical-annex-3-Assessment-of-accordance.pdf

[20] The Commission's 2025 advice

73. The Commission's 2025 advice and underpinning analysis were considered in the development of the recommended NZ ETS settings.

30GC(5)(f): Any other matters that the Minister considers relevant.

74. Under section 5X(4) of the Climate Change Response Act, the Minister of Climate Change is required to ensure that emissions budgets are met. 9(2)(h) [redacted]

75. The Government is required through the development of ERP3to determine policies and a pathway that will ensure the achievement of EB3. Although the NZ ETS will play a key role, other policies and measures expected through development of ERP3 will be required to ensure the achievement of EB3. Additional policies and measures may also be developed as part of the implementation of ERP2.

30GC(6) – Additional matters (relevant to price control settings only)

30GC(6)(a): The impact of emissions prices on households and the economy

76. Price controls are not intended to be major drivers of NZU price movement on the NZ ETS secondary market. The price of NZUs in the market is set through supply and demand expectations, so NZUs supplied by Government influence the NZU price but do not solely determine it. NZ ETS settings provide guidelines for NZU prices, while leaving room for the market to discover appropriate NZU prices for the target level of emissions reductions.

77. NZU prices currently have a modest impact on households and on inflation. At a price of $78-$103 per NZU, costs resulting from the NZ ETS are equivalent to about 0.5-0.6% of household gross income on average, about $580 - $770 per household. An increase of $10 per NZU increases consumer inflation by 0.14% as measured by the Consumer Price Index, largely due to higher fuel and electricity prices.

78. In 2024, Treasury analysis found that 72–84 per cent of low-income households receive some form of indexed payment, which compensates for 40–80 per cent of increasing costs from emissions pricing.[21] The Commission recommends that the overall impacts on households and the economy are better managed through separate measures that directly target households than through NZ ETS settings.[22]

79. The impact of emissions prices on households and the economy informed the recommended price control settings.

30GC(6)(b): The level and trajectory of international emissions prices (including price controls in linked markets)

80. There is a wide variation in the level and trajectory of international emission prices. Appendix 2 of the Commission's 2022 advice provided an extensive summary of emission prices in other countries. The Commission noted in its 2025 advice that its recommended price settings are still within range of forecast international emissions prices and comparable to the efforts of developed country peers, rather than falling behind or overtaking them. We agree with the Commission's advice and have considered this when assessing the recommended price control settings.

[21] The Treasury.2024. *Household cost-of-living impacts from the Emissions Trading Scheme and using transfers to mitigate regressive outcomes (AN 24/02)*. The Treasury: Wellington.

[22] For example, see p30 of the Commission's 2023 advice

30GC(6)(c): Inflation

81. The proposed price control settings have been adjusted for inflation. Inflationary impacts of emissions pricing are addressed in the impacts on households and the economy above.

Appendix Three: Matters the Minister must have regard to when making NZ ETS Regulations

Policy amendment	**Set of ETS regulations and applicable regulation**	**CCRA empowering provision**	**Pre-requisites for empowering provision**	**Analysis**
Manage ETS rollover auction volumes within a calendar year	Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020	30GA(2)(d) (specify the format of an auction)	30H, which refers to ss 3A(b)(iii) and 3B(1)(c) (see also s 30GA)	Under sections 3A and 3B of the CCRA, you must consult, or be satisfied that the chief executive has consulted, representatives of iwi and Māori likely to have an interest in the regulations, and persons that appear likely to be substantially affected by the regulations. Officials carried out public consultation that included a discussion document, opportunity to provide feedback online, two webinars and targeted engagement with two pan Māori groups – 9(2)(b)(ii) [redacted] Officials did not receive specific feedback on any regulatory updates. One submission was received by a Māori representative group who stated that they were supportive of the regulatory updates as proposed in the consultation document.
Correct error to ensure waste participants use time series data	Climate Change (Unique Emissions Factors) Regulations 2009 Reg 23C	164(1)(c)(iii) (how the unique emissions factor is to be calculated)	166, which refers to ss 3A(b)(xiv) and 3B(1)(m)	

Ministry for the Environment
Manatū Mō Te Taiao

Regulatory Impact Statement: 2025 update to New Zealand Emissions Trading Scheme limits and price control settings for units

Decision sought	*Cabinet approval for the 2025 annual update to New Zealand Emissions Trading Scheme limits and price control settings for units*
Agency responsible	*Ministry for the Environment*
Proposing Ministers	*Hon Simon Watts, Minister of Climate Change*
Date finalised	*05 August 2025*

The Minister of Climate Change proposes to amend the unit limits and price control settings in the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 as part of the annual review of New Zealand Emissions Trading Scheme (NZ ETS) settings required under the Climate Change Response Act 2002.

Additionally, the Minister of Climate Change proposes to amend the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 to change how unsold auction units roll over into future auctions within the same calendar year.

Summary: Problem definition and options

What is the policy problem?

The NZ ETS is the Government's key tool to help New Zealand meet its emissions reduction targets. Under the NZ ETS emitters are required to surrender one 'emissions unit' (NZU or unit) to the Government for each tonne of emissions they are responsible for.

The Government mainly introduces NZUs into the market through quarterly auctions. 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. Both unit limits and price control settings form a package of 'NZ ETS settings' and the next four years of NZ ETS settings are required to be reviewed and updated every year to ensure accordance with emissions budgets and targets. A fifth year is also required to be added to the regulations (2030 in this review).

This annual process ensures NZ ETS settings remain in accordance with emissions budgets, the Nationally Determined Contributions under the Paris Agreement (NDC), and the 2050 target (target), and additionally provides the Government the opportunity to address any issues that arise for a particular year.

Unit limits include:

- a limit on the units available by auction: base auction volumes + volume available within the cost containment reserve
- a limit on approved overseas units
- an overall limit on units: which consists of units available by auction and by other means, as well as approved overseas units.

The price control settings for units are:

- auction price floor – the price below which the Government will not sell units at auction (price floor)
- cost containment reserve (CCR) trigger price(s) – the price, or prices, at which additional units will be released if an auction's interim clearing price reaches or exceeds this level (trigger prices)
- CCR volume(s) – the number of units that will be released if the trigger price is reached.

A large quantity of NZUs are banked in private accounts. Some of the banked NZUs are held to meet future surrender liabilities, or for other reasons. Some of these NZUs are held for investment purposes and can be more readily sold when market price expectations change. The stockpile of these 'surplus' units represents a risk to meeting emissions reduction targets: emitters can choose to surrender the surplus units instead of reducing emissions, which reduces the Government's ability to ensure New Zealand achieves a particular emissions budget. Other stockpile units might also be used in this way, particularly if price expectations are flat to falling. Last year, unit volumes were set with the aim of reducing the surplus stockpile down to zero by 2030.

Key issues for the 2025 NZ ETS settings update are outlined below:

1. How does the Government best support New Zealand's achievement of emissions reduction targets and, in particular position New Zealand better for achieving EB3?
2. How do we address changing methodologies for estimating the surplus stockpile and consider market pricing signals?
3. Which option will best reduce the risk of not achieving emissions reduction targets, while also ensuring that businesses can efficiently manage surrender obligations?

The above issues relate to the final option package and are discussed further on pages 25-26 of this RIS.

What is the policy objective?

The primary policy objectives are as follows:

1. Accordance with emissions reductions targets:
    a. 2050 target, which is net zero emissions of all greenhouse gas emissions other than biogenic methane by 2050 and 24 to 47 per cent reduction below

2017 biogenic methane emissions by 2050, including 10 per cent reduction below 2017 biogenic methane emissions by 2030.
   b. emissions budgets, which are stepping stones along the path to the 2050 target
   c. NDC1 and NDC2.
2. Ensure proper functioning of NZ ETS
   a. Transparent and durable decision making
   b. NZ ETS participants can attain and surrender NZUs to meet NZ ETS obligations.
3. Price controls that.
   a. Support NZU prices to be consistent with international trajectory of emissions prices
   b. Manage overall cost to economy and households

What policy options have been considered, including any alternatives to regulation?
When assessing NZ ETS settings against the accordance requirements, options need be considered as packages, composed of choices for unit limits and price control settings to understand their combined impact on emissions. All packages considered should meet the accordance requirements.

We have considered three options for unit limits, option one which extends status quo limits (16.9 million units across 2026-2030), option two that reflects a similar analysis as that taken by the Commission, but with updated forecasts for industrial allocation and a refined, larger estimate of the stockpile surplus (26.9 million units across 2026-2030), and option three that represents the Climate Change Commission's (the Commission) recommended unit limits (30.5 million units across 2026-2030).

The Minister recommends extending status quo limits.

Status quo price control settings are considered to be fit for purpose, and we recommend they are extended to 2030. No price control options, beyond the status quo, are considered.

What consultation has been undertaken?
Consultation was in the form of a public discussion document, online webinars and some targeted engagement with Māori stakeholders. In total, 68 unique submissions were received from experts, NGOs, businesses, and individuals.

Most submissions (87%) supported maintaining status quo unit limits because they support a faster draw down of the surplus stockpile, better support achieving emissions reduction targets and provide greater predictability of unit supply. Of submissions that referred to price controls, most (80%) expressed a preference for maintaining the current price auction price floor.

Is the preferred option in the Cabinet paper the same as preferred option in the RIS?
Yes.

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)

Costs presented are relative to Options Two and Three because the Minister's preferred approach extends the status quo for a further year. The majority of impacts stem from the higher NZU price expected under the Minister's preferred option, which have flow on impacts to almost all parts of the economy. The Minister's recommended option is expected to result in NZU prices that are approximately $5 higher by 2030 compared with Option Two.

- **Government**: Compared with Options Two and Three, *assuming auctions clear*, cash receipts from NZU auctions over 2026-2030 could be $0.8 - $1 billion lower (based on central estimates from projections). However, there is a higher probability that auctions do not clear under Options Two and Three because of the higher unit volumes, which would reduce cash receipts under those options.
- **Emitting firms subject to NZ ETS obligations:** Higher costs for firms to meet surrender obligations, depending on the extent to which firms have invested in transitioning to lower emissions alternatives, hedged their forward obligations, and how these costs can be passed on to households.
- **Firms that receive industrial allocation:** As above for the residual surrender these firms face after industrial allocation is accounted for.
- **Landowners**: Increase in land use for exotic carbon forestry has potential for unintended impacts on environment, rural communities, and regional economies.
- **Households, including Māori households and whānau:** Our modelling estimates that Option One could result in NZU prices around $5 and $9 higher in 2030 than Option Two and Three respectively, resulting in $40 and $60 higher NZ ETS cost to households annually by 2030. It should also be noted that in general, rising prices have a disproportionate impact on low income or single adult households.
- **Wider economy**: Relatively higher NZU prices are likely to marginally increase inflationary pressures but are unlikely to influence trajectory of monetary policy.

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 Minister's preferred approach (Option One) best supports achievement of EB2 and positions New Zealand better for achieving EB3. It will result 10.0 million fewer units being available for auction over the next five years compared with the closest option. Modelling shows that these fewer units are expected to drive more emissions reduction through the EB2 and EB3 periods through increased NZU prices.

Option One will also reduce the surplus stockpile faster than Options Two and Three, reducing the risk the surplus stockpile poses to achieving our emissions reduction targets.

Option One is most consistent with market pricing signals, which suggest there remains a strong supply of NZUs. Option One supports market confidence by maintaining more consistent volumes across the settings period and signalling support for stability of supply

Below are the benefits to various stakeholder groups. Benefits presented are relative to Options Two and Three because the Minister's preferred approach continues the status quo and extends it a further year. The majority of impacts stem from higher NZU price expected under the Minister's preferred option, which have flow on impacts to almost all parts of the economy. The Minister's recommended option is expected to result in NZU prices that are approximately $5 higher by 2030 compared with Option Two.

- **Government**: Tighter unit settings strengthen the likelihood of meeting emissions reduction targets by increasing the NZU price and eliminating the surplus stockpile faster than other options. Increased chance of auctions clearing.
- **Emitting firms subject to NZ ETS obligations:** Increased certainty on the direction of NZU prices for investment decisions.
- **Firms that receive industrial allocation:** Higher prices nominally increase value of units provided to firms by industrial allocation.
- **Other NZ ETS participants, including Māori businesses that rely on NZU earnings**: Higher prices would increase financial value of stockpiled units.
- **Landowners**: Higher prices would lead to higher returns for foresters and increase in value of land suitable for forestry. Additionally, forestry plays a large role in the Māori economy, boosting Māori businesses' asset base.

Balance of benefits and costs (Core information)

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

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?
Updates to NZ ETS unit settings will be made under the existing regulatory framework. Schedule 3 of the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 will be updated to reflect the new settings.

The amendment regulations will be published in the New Zealand Gazette in September 2025, to take effect from 1 January 2026. 2026 auctions will be conducted according to these settings.

Limitations and Constraints on Analysis

NZ ETS settings are made using the most accurate and up-to-date information available, and tested with different modelling and methodological approaches, however there are always unknown factors and uncertainties involved.
One key uncertainty is around the estimated size of the surplus stockpile, which is a point-in-time estimate that can change significantly from year to year.
There is also inherent uncertainty in emissions projections, which are used to determine appropriate NZ ETS caps, auction volumes and price controls. This uncertainty increases as we project emissions further into the future.

Summary: Regulatory Update – Auction Rollover Volumes

Problem definition and options

The number of NZUs set for auction in a year are evenly distributed into quarterly auctions. For auctions to clear, there must be no bids below the confidential reserve price (CRP) *or* enough bids above the CRP to sell all the units available for auction.

Following each auction, any unsold units are rolled over to the next auction held in the same calendar year. This ensures participants still have the opportunity to access the full allocation of auction units set by the annual NZ ETS cap.

Currently, when the number of NZUs available for auction increases due to additional rollover units, there is a greater risk successive auctions will fail to clear because of bids below the CRP. The risk increases as the units accumulate across the auction year. This can prevent NZ ETS participants from purchasing units even when they are bidding above the CRP. This is inconsistent with the policy objective of the auction mechanism.

We have considered how auction rollover volumes could better support participants to engage in NZ ETS auctions and have access to the units they require to meet their emissions obligations. We have primarily considered three options:

- Option One: Status quo
- Option Two: Sell unsold units if there is enough demand - unsold units are rolled over but only made available if the originally allocated number of units clears the auction
- Option Three: Spread unsold auction volumes across remaining auctions for the year – unsold units are rolled over but spread evenly across the remaining auctions for the year, rather than all into the next auction.

We consulted on the above options through a public discussion document, online webinars and some targeted engagement with Māori stakeholders. Option Two received the most support and was the preferred option by 8 of 18 submitters.

Costs and Benefits of Minister's preferred option

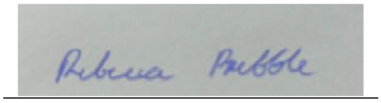
Option Two best addresses the underlying issue. It maintains the ability for participants to access units at auctions later in the year if there is sufficient demand, while eliminating the increased risk of later auctions not clearing because of the additional volume.

There is a small administrative cost to the government to implement this change. But this is outweighed by the improved ability for participants to access units when there is sufficient demand.

Implementation is considered straightforward. Following implementation officials will monitor impacts on auction clearance rates, NZUs issued, and Crown cash receipts.

I have read the Regulatory Impact Statement 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(s) signature:



Becky Prebble
Chief Advisor – Climate Change
Mitigation and Resource Efficiency
05 August 2025

Quality Assurance Statement	***[Note this isn't included in the four-page limit]***
Reviewing Agency: Ministry for the Environment	**QA rating:** Meets

Panel Comment:

A Quality Assurance Panel with members from the Ministry for the Environment has assessed the Regulatory Impact Statement.

Using the assessment criteria (complete, convincing, consulted, clear & concise) for all relevant sections of the document, the panel considers that it meets the Quality Assurance criteria for the purpose of informing Cabinet decisions.

The policy problem, assessment of options, and preferred approach are laid out comprehensively and convincingly. The wider context, including the role of the Climate Change Commission and the requirement for NZ ETS settings to accord with emissions reductions targets, is provided in sufficient detail and logically follows through to the analysis.

While acknowledging the complexity of the subject matter, the Panel finds that the RIS could benefit from greater clarity and conciseness in certain areas. Given that this is an annual regulatory process, future work should focus on striking an appropriate balance between robust analysis and clear, effective communication to decision-makers. Improving clarity and conciseness may also encourage broader public engagement during consultation, enhancing the overall quality of this annual process.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

Overview of NZ ETS

1. The NZ ETS is the Government's key tool to help New Zealand meet its:
    - Nationally Determined Contributions (NDCs)
    - 2050 target: net zero greenhouse gas emissions (except biogenic methane) and a 24 to 47 per cent reduction in biogenic methane, including 10 per cent reduction below 2017 biogenic methane emissions by 2030
    - emissions budgets: a set of descending interim targets to reach the 2050 target.
2. The NZ ETS supports emissions reductions by:
    - requiring emitters to measure and report on their emissions
    - pricing emissions and removals
    - requiring businesses to surrender one 'emissions unit' (unit) to the Government for each tonne of emissions they are responsible for under the NZ ETS
    - limiting the number of units supplied into the scheme through auctioning and industrial allocation.

These collectively incentivise investment in decarbonisation or in removals.

3. The Government sets and reduces the number of units supplied into the scheme over time, apart from units supplied for removal activities (primarily forestry). This limits the total volume of net emissions that can be emitted by participants in the scheme, in line with New Zealand's emissions reduction targets.
4. Businesses that participate in the NZ ETS can buy and sell units from each other. The unit price reflects supply and demand in the scheme. This price signal encourages businesses to make economically efficient choices about how to reduce emissions and increase removals.

Annual process for unit limits and price control settings

5. The Climate Change Response Act 2002 (the Act) requires NZ ETS unit limits and price control settings (NZ ETS settings) for the next five years to be made through an annual update process to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 (the Regulations).
6. NZ ETS settings are updated annually to ensure they remain in accordance with emissions budgets and targets, and NZ ETS settings are put in place to cover the next five years.

The Climate Change Commission has provided advice on NZ ETS unit settings

7. The Climate Change Commission (Commission) is legally required to give annual advice on NZ ETS unit settings. The Minister of Climate Change (Minister) must consider the Commission's advice when recommending updates to settings. If there are any differences between the recommendations of the Commission and those made by the Minister, the Minister must table a report in Parliament to explain the reasons for differences.
8. The Commission's advice on settings was published in April 2025. The Commission's main recommendations this year are:
    - 13.6 million more units could be auctioned across 2026–30 than the current settings allow
    - to make no changes to the unit limits for 2026–27, with higher auction volumes distributed evenly across 2028–30

- keep the auction price floor and CCR settings at current levels, adjusted only for inflation.

What is the policy problem or opportunity?

9. NZ ETS unit limits and price control settings need to be updated annually and should continue to assist New Zealand in meeting its emissions budgets and climate change targets. They also need to be extended to cover an additional year to meet the requirement that there must always be 5 years of settings in place.
10. The Government must set NZ ETS settings that accord with emissions reduction targets, while balancing the impacts of emissions pricing on businesses and New Zealanders more generally. It must also support a transparent, durable and proper functioning ETS market. These objectives are described more in the section below.

What objectives are sought in relation to the policy problem?

11. The objective sought are:
    a. Accordance with emissions reduction targets
    b. Proper functioning of the NZ ETS
    c. Price control settings that support NZU prices consistent with the level and trajectory of international emissions prices
    d. Price control settings that manage overall costs to the economy and households

Accordance with emissions reduction targets

12. The primary objective is prescribed by the Act, which requires that unit settings must accord with New Zealand's:
    - 2050 target, which is:
        a. net zero emissions of all greenhouse gas emissions other than biogenic methane by 2050
        b. 24 to 47 per cent reduction below 2017 biogenic methane emissions by 2050, including 10 per cent reduction below 2017 biogenic methane emissions by 2030.
    - emissions budgets, which are stepping stones along the path to the 2050 target
    - NDCs, specifically
        a. NDC1, which sets a target of a 50 per cent reduction of net emissions below the gross 2005 level by 2030
        b. NDC2, which sets a target of a 51-55 per cent reduction of net emissions below the gross 2005 level by 2030.
13. NZ ETS settings must **strictly accord** with New Zealand's 2050 target, meaning there is a **very high** probability that settings constrain emissions to levels necessary to meet the target.
14. For emissions budgets and NDCs, the settings do not have to strictly accord if the discrepancy is justified after considering matters prescribed in the CCRA. Even if deviating from strict accordance, the settings must still **accord**, meaning there is a **good** probability that settings constrain emissions to the levels necessary to meet the targets.
15. We refer to this as the 'accordance test' in this RIS.

Surplus stockpile drawdown

16. A large quantity of units are banked in private accounts. These provide liquidity to the market and help to reduce price volatility. However, the current number of banked units presents a risk to achieving emissions budgets.

17. Some of the banked NZUs are held to meet future surrender liabilities, or for other reasons. Some NZUs are held for investment purposes and can be more readily sold when market price expectations change – these are considered 'surplus'. Emitters can surrender these surplus units instead of reducing emissions. Other stockpile units might also be used in this way, particularly if price expectations are flat to falling. This poses a risk to the Government's continuing duty to ensure it meets emissions budgets.
18. A key part of this year's decision is to reduce this risk by managing the surplus down to zero by 2030. The Government set out this objective through the 2023 NZ ETS settings process and reaffirmed the objective through the 2024 NZ ETS settings process. Our advice has been developed on the basis that the Government remains committed to this objective.
19. There is inherent uncertainty about the size of the surplus, but options with more accurate estimates or approaches that reduce the surplus sooner will better support this objective.

Accordance with NDC1

20. NZ ETS settings decisions are required to accord with NDC1. However, NZ ETS settings are unable to strictly accord with NDC1 because the gap between the NDC and domestic emissions budgets is larger than the forecast volume of auctioned units. Put simply, even if no units were auctioned between now and 2030, it still wouldn't be enough to close the gap.
21. In the absence of being able to strictly accord, NZ ETS settings must still accord with the NDC and the deviation from strict accordance must be justified with reference to matters in s 30GC of the CCRA. The NZ ETS settings options outlined in this RIS are underpinned by the core assumption that the Government intends to meet NDC1 and settings must deliver the NZ ETS's share of achievement of NDC1.
22. NDC2 is set at approximately the same level as EB3. Therefore, the accordance of options will approximate the accordance with EB3.
23. Assessment of the accordance of 2025 ETS settings options with the NDCs, emissions budgets and 2050 target is substantially addressed in the accordance assessment.

Proper functioning of the NZ ETS

24. There are two major concepts that support the proper functioning of the NZ ETS and are essential for the NZ ETS to play its role in meeting emissions reduction targets: Transparent and durable decision making, and NZ ETS participants' ability to attain and surrender NZUs to meet NZ ETS obligations.

Transparent and durable decision making

25. Government decisions on NZ ETS setting that are transparent and durable provide market participants with the stability and confidence necessary to support investment decisions. This includes providing predictability to participants by taking a consistent approach to incorporating new information and clearly explaining the Government's reasoning behind decisions.

NZ ETS participants' ability to attain and surrender NZUs to meet NZ ETS obligations.

26. The settings should avoid creating unexpected NZU supply shortages such that participants are unable to attain and surrender the NZUs necessary to meet their NZ ETS obligations, which would result in further price volatility and uncertainty in future market dynamics.

Price control objectives

27. There are also two objectives that specifically apply to price control settings, discussed further in **Table 1**. Price control settings should:
    a. support NZU prices consistent with the level and trajectory of international emissions prices

b. manage overall costs to the economy and households.

What consultation has been undertaken?

28. Consultation on NZ ETS settings ran from 28 May to 29 June 2025. Consultation was in the form of a public discussion document, online webinars and some targeted engagement with Māori stakeholders. In total, 68 unique submissions were received from experts, NGOs, businesses, and individuals.
29. Most submissions (87%) generally supported maintaining status quo unit limits because it supports a faster draw down of the surplus stockpile, better supports achieving emissions reduction targets and provides greater predictability of unit supply.
30. Only a few submissions (6%) supported the option to increase unit limits. These submissions referred to the higher unit price path under the status quo and suggested that increasing unit limits would better reflect the current state of the market, support market stability and allow for the lowest cost path to our 2030 targets.
31. Of the submissions that referred to price controls, most (87%) expressed a preference for maintaining the current price auction price floor.

Section 2: Assessing options to address the policy problem

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

32. The criteria used to assess the options are described in table 1 below. They broadly align with the factors in section 30GC of the Act (see **Appendix One**) and with the objectives described above.
33. The first two criteria apply to both unit limit and price control settings. The third and fourth criteria apply to price control settings only.

Table 1: Criteria for options analysis of unit limits and price control settings

Criteria	Description
Likelihood of incentivising net emissions reductions	The NZ ETS must accord with New Zealand's emissions budgets, NDCs and the 2050 target, which all require a mix of gross emissions reductions and removals. Settings should provide a price signal to incentivise emissions reductions and removals. Because the stockpile could impede the achievement of emissions reductions and increase the risk of not meeting budgets, options that risk continuing the stockpile beyond the intended drawdown date will rate negatively for this criterion.

Proper functioning of the NZ ETS	The NZ ETS should operate in a transparent and durable manner so that participants can form expectations about supply and demand. This supports investment in reducing emissions. The legislative restrictions on how settings are updated allow for changes in response to new information, while maintaining regulatory predictability especially in the shorter run. Options that undermine this regulatory predictability will rate negatively for this criterion. Settings decisions should result in predictable levels of supply for participants, avoiding fluctuations of supply that undermine participants confidence in future NZU availability. Decisions should avoid creating unnecessary and unexpected shortages of supply of NZUs such that participants are unable to attain and surrender the NZUs necessary to meet their NZ ETS obligations. This can result in price volatility that is disruptive to participants and is disconnected from cost of reducing net emissions
Support for NZU prices consistent with the level and trajectory of international emissions prices	There are two reasons for considering the level and trajectory of international emissions prices. • International emissions prices provide a way of comparing New Zealand's contribution with that of other countries in the global effort towards addressing climate change, notwithstanding fundamental differences between individual emissions pricing schemes. • Offshore mitigation could be needed to meet emissions reduction targets in addition to reducing emissions domestically.
Management of overall costs to the economy and households	Settings influence, and can help manage, the costs of the NZ ETS on the economy, households, sectors and regions.

34. Assessment of each option against the criteria is given a rating outlined in the key below:

Key for assessing options against the status quo

++	much better than the status quo
+	better than the status quo
0	about the same as the status quo
–	worse than the status quo
– –	much worse than the status quo

What scope will options be considered within?

35. When assessing NZ ETS settings against the accordance requirements, options need be considered as packages, composed of choices for unit limits and price control settings to understand their combined impact on emissions. All packages considered should meet the accordance requirements.
36. None of the options presented include changes to price control settings, beyond adjustment for inflation. The rationale for this is explained in the price control settings section below (paragraphs 82-93).

Auction volume options

Context

37. The limits for units that are prescribed in regulations are:
    a. a limit on the units available by auction: base auction volumes + volume available within the CCR
    b. a limit on approved overseas units
    c. an overall limit on units: which consists of units available by auction and by other means, as well as approved overseas units.

Developing and assessing options

38. We used two major approaches together to inform our judgements on appropriate options for unit settings that would meet the accordance tests and goals of the New Zealand Emissions Trading Scheme (NZ ETS):
    a. Seven steps methodology
    b. NZ ETS market model
39. The implications of recent secondary market and auction outcomes also inform the development and assessment of the options.

Seven steps methodology

40. Developed in 2020, the seven steps methodology is an approach for calculating maximum annual auction volumes. The Government and the Commission have used this approach every year since then.
41. The appropriate auction volumes are determined using seven calculations.
    i. Align with emissions reduction targets.
    ii. Allocate the emissions budgets to NZ ETS and non-NZ ETS sectors.
    iii. Make technical adjustments.
    iv. Account for industrial allocation volumes.
    v. Set the reduction volume to address the New Zealand Unit (NZU or unit) surplus.
    vi. Set the approved overseas unit limit.
    vii. Calculate the base auction volumes.
42. Working through these seven steps provides an estimate of the maximum number of units that could be auctioned while meeting our emissions reduction targets, given current circumstances and our best assumptions for other sources of units. Different assumptions and choices can result in different estimates for auction volumes. One limitation is that the seven steps methodology treats the surplus stockpile in binary terms. Units are either surplus or they are not. By contrast, the NZ ETS Market Model allows for a spectrum of liquidity across the stockpile.
43. Appendix 2 shows the seven steps, and the underpinning methodology and assumptions.

NZ ETS market model

44. The NZ ETS market model estimates supply and demand for NZUs under different conditions and can generate price projections based on supply and demand.
45. The ETS market model allows for a more realistic approximation of the real-world situation. It determines demand for NZUs in terms of price-responsiveness and allows for more of a spectrum of liquidity across units in the stockpile. This means that if the marginal price of reducing emissions is lower than the expected value of holding the most liquid unit in the stockpile, emitters will choose to reduce emissions rather than purchase a surplus unit for surrender. The practical consequence of this is that the model can show units remaining in the stockpile beyond 2030 without meaning that net emissions necessarily exceed emission budgets. It also means that in scenarios when the model projects non-surplus units come to market, emissions budgets can be exceeded even if the surplus stockpile is eliminated.
46. As with any model there are limitations in the modelling and it is unlikely that things will play out precisely as the model suggests. The model was not designed to estimate total net emissions; its focus is on net emissions covered by the NZ ETS. However, the projections from the model can be combined with other information to estimate total net emissions. This can help with assessing whether a given combination of unit and price control settings are in accordance with emissions budgets.
47. More details on the NZ ETS market model can be found in Appendix Three
48. Using both models together can help overcome the shortcomings of each approach. It also provides a more robust overall assessment of the merits and trade-offs of each option considered here.

Market signals

49. The signals provided by the secondary market are a further source of information to be reflected in the assessment of unit and price control settings. This has particular relevance to the assessment of the stockpile and the risk it poses to budgets, and considerations with respect to proper functioning of the ETS.
50. Following a period of stability after the 2024 settings decisions were announced, secondary market spot prices declined from around $65 in January 2025 to below $50 in late April. Across June and July, prices were tightly range bound around the $57-58 mark, about 15% below the floor price of $68. Forward and futures price curves are sitting below future auction price floor levels, although these instruments are not traded in large volumes. No bids were made at either the March or June auctions.
51. Market commentary has been mixed on the possible cause of the decline in prices. Some has focused on short-term factors that could reverse, such as selling by smaller foresters to meet cashflow needs, and weakening global and domestic economic sentiment.
52. Other commentators have noted that current price dynamics could represent a more fundamental re-pricing of the cost of reducing net emissions. This means that emissions budgets could be achievable at a lower market price than previously anticipated. Afforestation has been considerably higher over the past few years than was anticipated when auctions were introduced. In addition, a growing share of forestry has switched into the permanent forest category, which frees up NZUs previously held against future harvest liabilities.
53. To the extent a repricing is taking place, current price levels would indicate that the market has enough supply that additional units from auction are not needed.

Auction volume options

54. Three options for auction volumes are being presented.

Auction volume Option One – Status quo volumes extended to 2030

55. Option One includes total auction volumes of 16.9 million units across the settings period.
56. In Option One, auction volumes are unchanged from 2024 settings which apply to 2025-29 and would be extended to 2030. To make the 2030 auction volume internally consistent with settings already in regulation, it has been calculated based on the same information used to determine 2024 settings, including industrial allocation forecasts and surplus drawdown volumes as estimated at the time.[1]

Auction volume Option Two – Updated methodology

57. Option Two includes total auction volumes of 26.9 million units across the settings period.
58. This option uses the updated information for each step as available to the Commission but with different assumptions leading to a higher surplus stockpile estimate and more recent forecasts for industrial allocation, described below. The seven-step methodology as applied to Option Two is described in more detail in Appendix Two.

Updated surplus stockpile assumption - Introducing an overlap between holding and hedging volumes

59. A key change in the surplus estimate methodology this year has been the introduction of the concept of "holding" volumes. These refer to units that are being held to cover emissions that have already occurred but haven't yet been surrendered to fulfil the current compliance cycle. Holding volumes are subtracted from the total stockpile to calculate the estimated surplus stockpile.
60. The Commission's advice treated holding volumes and hedging volumes (units held in anticipation of future emissions) as entirely separate and additional to each other. This methodological change, amounting to -34.2 million units, was a significant driver in reducing the estimated surplus stockpile, thereby supporting its recommendation for higher future auction volumes. However, the Commission also acknowledged in its advice that its estimate of holding volume may partially overlap with what was previously attributed to hedging volume, and suggested the Government tests its assumptions during consultation.[2] If an overlap in hedging and holding volumes exists, it would result in higher estimates of the surplus stockpile because fewer units are being subtracted from the overall stockpile of units.
61. The evidence we have been able to gather indicates that at least some emitters, do not hold distinct (or additional) holding and hedging volumes. Instead, many use units held for upcoming compliance to hedge price (if at all).
62. However, it has been challenging to quantify this overlap. The NZU holders survey, submissions on the ETS Settings discussion document and desktop research based on firms' financial reports have provided limited insight on the specific level of overlap.
63. In absence of robust quantitative evidence, there is value in taking a conservative estimate (i.e., assuming a greater overlap between hedging and holding stockpiles), as underestimating the overlap risks underestimating the size of the surplus stockpile. This could mean the surplus stockpile is not fully drawn down as intended, increasing the challenge in achieving New Zealand's emissions reduction targets.
64. Given the holding volume estimate is based on emissions that have actually occurred, it is more appropriate to retain this estimate based on the best available data (either emissions projections for that year or actual net surrender data once available – see next section).

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[1] Additional details can be found in the Regulatory Impact Statement: 2024 update to New Zealand Emissions Trading Scheme limits and price control settings for units

[2] He Pou a Rangi | Climate Change Commission. *NZ ETS unit limits and price control settings for 2026–2030*. P44

Therefore, an adjustment to the overlap between hedging and holding should be applied to the hedging volume estimate via changes to the future hedging assumptions.

65. The hedging volume estimate is taken as at 2030. It is based on projected sectoral emissions net of industrial allocation and assumptions about the extent to which different sectors future emissions are hedged. Previously, all sectors were assumed to be fully hedged for the first year, except liquid fossil fuel (27%). This is effectively equivalent to the new holding category.
66. Given this, retaining the previous hedging assumptions represents no overlap between hedging and holding volumes. This approach is used for the lower bound surplus estimate. Setting the first-year hedging assumption to zero represents the maximum possible overlap with holding volume. This approach is used for the upper bound surplus estimate.
67. In the absence of strong evidence to a specific value, the central assumptions have been set at the midpoint of these two extremes i.e. assumed 13% year 1 hedging for liquid fossil fuels and 50% for all other sectors. This increases the surplus central estimate by 5.4 million units compared with the Commission's estimate, with a corresponding reduction in auction volumes.

Adjusting surplus estimates based on 2024 net surrenders information.

68. Data on 2024 surrender compliance volumes published by the Environmental Protection Authority has allowed the Ministry for the Environment to refine the estimate of holding volumes. These figures indicate net surrenders of 34.0 million for the period 1 July 2024 to 30 June 2025, 0.2 million units lower than provisional estimates of the holding volume. This increases the surplus estimate by 0.2 million units compared with the Commission's estimate, with a corresponding reduction in auction volumes.

Updating industrial allocation forecasts for recent data and to align with 2025 projections.

69. Industrial allocation forecasts have been updated to incorporate 2024 actual allocations. Aggregate industrial allocation was very close to the level forecast by the Commission but with some differences at the sectoral level.
70. In addition, future output adjustment assumptions have been updated to align information available as of mid-July 2025. The most material change is bringing forward the assumption of when Methanex will close by one year to the end of 2027 and assuming lower production levels prior to reflect ongoing winter closures to release gas for electricity generation.
71. Together, these changes result in industrial allocation forecasts 2.1 million units lower than the Commission forecast for the settings period. Changes in forecast industrial allocation for 2025-2027 are addressed as part of the discrepancy adjustment step (5b). Changes to 2028-2030 are addressed as part of step 4.

Auction volume Option Three – Commission recommended volumes

72. Option Three includes total auction volumes of 30.5 million units across the settings period.
73. The Commission determined its recommended auction volumes based on the seven-step methodology explained above and in Appendix Two.

Additional option considered

74. In addition to the above, we also considered but ultimately did not proceed with an additional unit settings option.
75. Options Two and Three are based on the assumption that unit limits can increase based on any 2024 auction volumes that went unsold. When setting unit limits, all upcoming auctions are assumed to clear. When auctions do not fully clear in a calendar year, this means less supply has entered the market than expected, which reduces future estimates of the size of

the surplus. A smaller estimated surplus means more units can be made available for future auctions while remaining aligned with the NZ ETS cap.

76. The additional option was to use the same methodology as Option Two, with an additional adjustment to ensure that settings do not increase as a result of 2024 auction volumes that went unsold.
77. However, further work to determine the appropriate approach towards unsold auction volumes is ongoing and progressing separately to these settings decisions. This option was therefore not progressed further at this time.
78. It is important to take the additional time necessary to address this issue, as it could also impact on future NZ ETS settings decisions. Decisions are expected to be made to inform advice from the Commission on 2026 NZ ETS settings decision.

Consultation feedback on auction volume options

79. Most submitters (86%) supported Option One. Key rationales were that it supports a faster draw down of the surplus stockpile, better supports achieving emissions reduction targets and provides greater predictability of unit supply.
80. Only four submitters supported Option Three, the Commission's option to increase auction volumes. Key rationales were to allow the lowest cost path to achieving emissions reduction targets and to reduce the risk of price volatility and higher price path under Option One. One of the submissions in favour of increasing unit limits, however, did acknowledge that an increase of 13.6 million units may be too much, given indications of the market being well-supplied and that maintaining the status quo or reducing the size of the increase may be better for consistency.
81. Option Two wasn't presented through consultation and is an intermediate option between Option One and Option Three. However, the submissions still favour Option One and the key rationale highlighted in support for Option One align better with Option One than Option Two.

Price control settings

Context

82. Auction price controls provide the Government with tools to manage the supply of units. Auction price controls include the:
    a. auction price floor (price floor) – the price below which the Government will not sell units at auction (the price control). It stays at a prescribed value for each auction in a year.
    b. cost containment reserve (CCR) trigger price(s) – the price or prices at which additional units will be released if an auction's interim clearing price reaches or exceeds this level (the trigger price).
    c. CCR volume(s) – the number of units that will be released if the trigger price is reached.
83. The price floor minimises the risks of the unit price at auction being inconsistent with the prices necessary to meet emissions budgets and targets. The price floor is the lower price control setting of the auction price corridor; however, it is not a 'hard' price floor as the secondary market price can fall below it (as is currently the case).
84. The CCR helps manage the risk of extremely high prices in the NZ ETS from shocks and unforeseen events. It functions by releasing reserve volume into an auction where prescribed prices have been met. The volume of the CCR needs to be large enough to enable it to perform its function of mitigating the risk of auction prices that are too high. The

trigger prices for the CCR must be high enough that the CCR is only released at a price that does not risk the achievement of emissions reduction targets.

Auction price floor and CCR trigger prices

85. Analysis suggests that the current price floor remains fit for purpose. The Commission has highlighted evidence suggesting that prices at or above the current auction price floor are needed to support emissions reductions necessary for meeting EB2 and EB3.
86. Current secondary market prices are below the current auction price floor, which could be a signal that the market is currently oversupplied. The auction price floor helps limit supply until the oversupply is addressed.
87. Internal modelling suggests that pricing is likely to return to above the auction floor price for all options. Maintaining the auction price floor will also support the Government's key objectives of supporting confidence in the NZ ETS and encouraging investment in decarbonisation activities.
88. For the CCR trigger prices, the Commission highlighted a risk that trigger prices may be too low to encourage the high NZU prices needed to meet EB3 through additional gross emissions (if afforestation follows the trajectory projected in ERP2). However, additional afforestation in the next few years could help meet EB3 at a relatively lower price. It advised maintaining current CCR trigger prices (adjusted for inflation) until it is clearer whether current trigger prices are too low to allow the NZU prices needed to meet EB3. We agree with the Commission's findings.
89. The only option we are presenting is to adjust price control settings for inflation and extend them to 2030. This would apply for all auction volume options.

Cost containment volumes

90. The CCR volumes need to be large enough for the CCR to bring down the auction price when it gets too high. Where prices are high, there is a risk that the cost will be passed on to consumers, potentially resulting in pressure on household budgets.
91. As with last year, there is no indication that changes to CCR volumes are necessary. We consider the current volumes to be sufficient for the CCR to perform its role without risking accordance with emissions budgets if the CCR is triggered. This aligns with the Commission's recommendations.
92. The only option we are presenting is to extend CCR volumes to 2030 in line with 2022 advice on CCR volumes. This would apply for all auction volume options.

Table 2: Proposed price control settings for the next five years, 2026–30

	2026	2027	2028	2029	2030 (new)
Auction price floor	$71	$75	$78	$82	$87
Cost containment reserve (CCR) tier 1	$203	$213	$224	$236	$248
CCR tier 2	$254	$267	$280	$295	$309
Tier 1 volume (million NZUs)	2.3	2.1	1.9	1.7	1.4
Tier 2 volume (million NZUs)	4.2	3.8	3.4	3.0	2.5
Total CCR volume (million NZUs)	6.5	5.9	5.3	4.7	3.9

Consultation feedback on price control settings

93. Many submitters did not express views on the price control settings. Of those that did, most (80%) supported maintaining current price control settings. A few submissions suggested

increasing the auction price floor and only one submission supported reducing or removing price control settings.

What options are being considered?

94. It's important that we consider options as combined packages of auction volumes and price control settings to assess their overall impacts and accordance with emissions reduction targets. As noted above, we are not presenting options that change price controls because current price controls are considered fit for purpose.

Option One – Status quo unit settings and price controls extended to 2030

95. In Option One, auction volumes are unchanged from 2024 settings which apply to 2025-29, and would be extended to 2030. To make the 2030 auction volume internally consistent with settings already in regulation, it has been calculated based on the same information used to determine 2024 settings, including industrial allocation forecasts and surplus drawdown volumes as estimated at the time.
96. Option One includes total auction volumes of 16.9 million units across the settings period.
97. Under Option One, price control settings will be adjusted for inflation and extended to 2030. CCR volumes will also be extended to 2030.

Option Two – Updated methodology and price controls extended to 2030

98. Option Two determines auction volumes based on the seven-step methodology explained above and in Appendix Two.
99. Option Two includes total auction volumes of 26.9 million units across the settings period.
100. This option uses the updated information for each step compared to the Commission's recommended volumes. We also make different assumptions on a key variable within the stockpile estimate (see paras 59 to 67 above) leading to a higher surplus stockpile estimate and more recent forecasts for industrial allocation.
101. Under Option Two, price control settings will be adjusted for inflation and extended to 2030. CCR volumes will also be extended to 2030.

Option Three – Commission recommended volumes and price controls extended to 2030

102. The Commission determined its recommended auction volumes based on the seven-step methodology explained above and in Appendix Two.
103. Option Three includes total auction volumes of 30.5 million units across the settings period.
104. Under Option Three, price control settings will be adjusted for inflation and extended to 2030. CCR volumes will also be extended to 2030.

How do the options compare?

105. Table 3 below compares the estimated impacts for the options on accordance, net emissions, and household and fiscal implications.

106. One critical judgement is the short-term outlook for the market and auctions. For each option, we have modelled two scenarios. One scenario assumes secondary prices in 2025 above the floor price and therefore that auctions will clear (including the unsold volumes from earlier in 2025). The other scenario uses the year-to-date secondary market price ($59 for the first half of 2025) and therefore assumes that auctions do not clear in 2025.

107. Which of the two scenarios is more likely to occur depends on the unit and price control settings adopted. If option one is adopted, secondary market prices are more likely to increase in the short term (all else equal) than under the other two options, making the 2025 auctions more likely to clear. Conversely, adopting option two or three is more likely to result in downward pressure on prices and auctions clearing in 2025 less likely.

108. In officials' judgement, it therefore is most appropriate to compare the status quo option and markets clear scenario against the non-clearance scenarios for the other two options. However, given the degree of uncertainty both sets of scenarios have been presented for all three options.

Table 3: Estimated impact for NZ ETS settings options 2026-2030

Option	Summary of accordance	Summary of modelling and net emissions impacts[3]	Summary of price impacts (household and fiscal implications)[4]
Option One	**Meets accordance test.** • Modelling indicates this option meets EB2. • It does not meet EB3 but positions us better than Options 2 or 3. • It has the highest chance of eliminating the stockpile risk to budget accordance, with	**Estimate of total net emissions (Mt CO_2-e)** **EB2 (305)**: 303.1 (290.5-307.4) **EB3 (240)**: 249.2 (232.1-258.8)	• Modelling projects NZU prices to rise to between $87 and $103 by 2030. • This would result in additional household expenditure caused by emissions pricing between $650 to $770 per household (or between 0.5% and 0.6% of household gross income) in 2030. • If prices increase sufficiently for auctions to clear in 2025, NZ ETS cash proceeds are projected at about $1.4 billion for 2026-2030 (range $1.3-

[3] Modelled impacts are derived from the ETS market model using ERP2 projections and information that informed unit settings options. They are not the official emissions projections which will be presented to Cabinet later this year. Ranges in the central estimates represent different judgements regarding the short-term price outlook and auction clearance. Bracketed ranges represent the modelled uncertainty bands using different price responsiveness assumptions. Central total net emissions estimates for EB3 have been calculated by taking the ERP2 projection for this period and adding the modelled difference in emissions impacts from different price pathways. See Appendix Three for more details on the modelling approach and key assumptions.

[4] Modelled ranges for price and fiscal impacts are dependent on the level of stockpile liquidity and assumptions about market activity in 2025, including whether prices rise above the auction floor price by the end of the year. Price and household impacts are expressed in 2025-dollar terms. Lower end of cash receipts estimate assumes auctions clearing at the floor price. Central and upper estimates are based on auctions clearing at the modelled central and upper price projections.

<table>
<tr><th>Option</th><th>Summary of accordance</th><th>Summary of modelling and net emissions impacts[3]</th><th>Summary of price impacts (household and fiscal implications)[4]</th></tr>
<tr><td></td><td>the total stockpile projected at 60-71M units in 2030 and the surplus eliminated.</td><td></td><td>2.3 billion). This outcome is more likely under option one than the other options.
• If prices remain near their current levels in the short term, NZ ETS cash proceeds are estimated at $1.0 billion ($0.9-1.3 billion) and no auctions are projected to clear in 2026.</td></tr>
<tr><td>Option Two</td><td>Meets accordance test, with more risk than Option One

• Modelling indicates this option meets EB2.
• It does not meet EB3 and has a higher chance of retaining surplus stockpile into the EB3 period, with a higher risk to budget accordance.
• The total stockpile is projected at 65-81M units in 2030. If auctions clear in the short term, a small amount of surplus units (6M) are projected to remain in 2030.</td><td><table><tr><th colspan="2">Estimate of total net emissions (Mt CO_2-e)</th></tr><tr><td>EB2 (305)</td><td>303.5
(290.5-307.4)</td></tr><tr><td>EB3 (240)</td><td>249.8
(232.1-258.8)</td></tr></table></td><td>• Modelling projects NZU prices to rise to between $82 and $91 by 2030.
• This would result in additional household expenditure caused by emissions pricing between $610 to $680 per household (between 0.5% and 0.6% of household gross income) in 2030.
• If prices increase sufficiently for auctions to clear in 2025, NZ ETS cash proceeds are projected at about $2.2 billion for 2026-2030 (range $2.1-4.1 billion). However, there is a lower probability that auctions clear under Option 2 because of the higher unit volumes.
• If prices remain near their current levels in the short term, NZ ETS cash proceeds are estimated at $1.6 billion ($1.4-2.3 billion) and no auctions are projected to clear in 2026 or 2027.</td></tr>
<tr><td>Option Three</td><td>Meets accordance test, with more risk than Options One or Two

• Modelling indicates this option meets EB2.
• It does not meet EB3 and has the highest chance of retaining surplus stockpile into the EB3 period, and highest risk to budget accordance.
• The total stockpile is projected at 69-84M units in 2030. If auctions clear in the short term, a small amount of surplus units (9M) are projected to remain in 2030.</td><td><table><tr><th colspan="2">Estimate of total net emissions (Mt CO_2-e)</th></tr><tr><td>EB2 (305)</td><td>303.7
(293.2-308.0)</td></tr><tr><td>EB3 (240)</td><td>249.9
(236.1-259.3)</td></tr></table></td><td>• Modelling projects NZU prices to rise to between $78 and $86 by 2030. The upper end of the range also assumes that unsold auction volumes are not displaced to later in the settings period; altering this judgement would reduce the upper end of the range.
• This would result in additional household expenditure caused by emissions pricing between $580 to $650 per household (about 0.5% of household gross income) in 2030.
• If prices increase sufficiently for auctions to clear in 2025, NZ ETS cash proceeds are projected at about $2.4 billion for 2026-2030 (range $2.4-4.8 billion). However, there is a lower probability that auctions clear under Option 3 because of the higher unit volumes.
• If prices remain near their current levels in the short term, NZ ETS cash proceeds are estimated at $1.8 billion ($1.7-2.8 billion) and no auctions are projected to clear in 2026 or 2027.</td></tr>
</table>

109. Table 4 evaluates each option against the criteria outlined in table 1 above

Table 4: Assessment of NZ ETS settings options 2026-2030

	Option One – Status Quo unit settings and price controls extended to 2030*	Option Two – Updated methodology and price controls extended to 2030	Option Three – Commission recommended volumes and price controls extended to 2030
Likelihood of incentivising (net) emissions reductions	0 Compared with Option Two, Option One is expected to incentivise greater levels of emissions reductions and removals and reduce the stockpile faster. It is assessed as according with all emissions budgets, NDCs and the 2050 target. It is more likely to align with emissions reduction targets, including the challenging EB3.	– Option Two is expected to incentivise lower emissions reductions and removals than Option One, but still enough to achieve EB2. It is assessed as according with all emissions budgets, NDCs and the 2050 target. Given the uncertainty in the estimated surplus, this option also comes with higher risk that the surplus will persist into the EB3 period. The price floor mitigates this risk somewhat. It only allows supply to enter at a price expected to incentivise decarbonisation. Flat distribution of volumes and keeping 2026–27 volumes unchanged further mitigate the surplus risk. Option Two has a lower risk compared with Option Three because of its more conservative surplus stockpile estimate.	– Option Three is expected to incentivise lower emissions reductions and removals than Options One and Two, but still enough to achieve EB2. It is assessed as according with all emissions budgets, NDCs and the 2050 target. Given the uncertainty in the estimated surplus, this option also comes with the highest risk that the surplus will persist into the EB3 period. The price floor mitigates this risk somewhat. It only allows supply to enter at a price expected to incentivise decarbonisation. Flat distribution of volumes and keeping 2026–27 volumes unchanged further mitigate the surplus risk.
Proper functioning of the NZ ETS	0 Option One is formed on a different basis to the other options. It uses values created in 2024 (and only updated this year very slightly), derived from that year's seven steps approach. Unlike the other options, it does not use updated estimates of industrial allocation, or the surplus stockpile, nor	0 Option Two adheres to the seven steps approach that has been consistently applied to determine unit settings in previous years (though with different underlying assumptions). It specifically explains the cause of any changes in unit settings in a way that can be predictably applied to future settings decisions,	0 Option Three adheres to the broad seven steps approach that has been consistently applied to determine unit settings (though with different underlying assumptions). It specifically explains the cause of any changes in unit settings in a way that can be predictably

	Option One – Status Quo unit settings and price controls extended to 2030*	Option Two – Updated methodology and price controls extended to 2030	Option Three – Commission recommended volumes and price controls extended to 2030
	account for other changes since 2024, though it does account for market pricing signals unlike Options Two and Three. To the extent that this is a departure from previous years, using it creates a new question about how unit volumes will be estimated in the future. Option One has a higher risk than Option Two of constraining unit supply such that the draw down in the stockpile exceeds the estimated surplus. This may impede the ability of participants to efficiently manage their current and future surrender obligations and generate greater price volatility, with negative flow-on impacts on emissions reduction investments. However, this risk is expected to be manageable through future settings decisions as additional volumes can be released through future NZ ETS settings decisions. The option avoids a significant deviation in auction volumes based on uncertain surplus stockpile estimates. Option One takes a more conservative approach to estimates of the surplus and reflects recent market signals. Better alignment with EB3 also means it is less likely that volumes will need to be reduced again in the future. This supports greater stability for the market.	allowing participants to predict the impacts of future changes in data or methodology. However, the changes in methodology, particularly around the surplus stockpile estimate, were significant and may not have been expected by the market. Less risk of overly constraining unit supply compared with Option One, with correspondingly lower risk of excessive price volatility. However, incorporating changes in the surplus stockpile estimate and the reduced likelihood of aligning with EB3 make it more likely for future fluctuations in auction volumes. This reduces stability and predictability for the market. These impacts are less pronounced compared with Option Three because of the more conservative surplus stockpile assumption.	applied to future settings decisions, allowing participants to predict the impacts of future changes in data or methodology. However, the changes in methodology, particularly around the surplus stockpile estimate, were significant and may not have been expected by the market. Even less risk of overly constraining unit supply compared with Options One and Two, with correspondingly lower risk of excessive price volatility. However, fully incorporating changes in the surplus stockpile estimate and the reduced likelihood of aligning with EB3 make it most likely for future fluctuations in auction volumes. This reduces stability and predictability for the market.

	Option One – Status Quo unit settings and price controls extended to 2030*	Option Two – Updated methodology and price controls extended to 2030	Option Three – Commission recommended volumes and price controls extended to 2030
**Support for NZU prices consistent with the level and trajectory of international emissions prices ** **	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers
**Management of overall costs to the economy and households ** **	0 Extending existing price control settings is expected to have a modest impact on households and inflation.	0 Extending existing price control settings is expected to have a modest impact on households and inflation.	0 Extending existing price control settings is expected to have a modest impact on households and inflation.
Overall assessment	0	–	–

* Option One is used as the counterfactual because the CCRA requires settings to be extended every year. This option therefore is the closest possible option to the status quo.

**These assessment criteria only apply to price controls. Because price controls are identical for all options, they are evaluated as the same

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

110. Option One – Status quo settings is most likely to address the policy problem and offer the highest net benefits. Under Option One the recommended unit limits for 2026-2030 would be as outlined below:

Table 5: Proposed unit limits for the next five years, 2026–30

Unit limits (millions)	2026	2027	2028	2029	2030
Base auction volumes	5.2	4.3	3.3	2.4	1.7
Total CCR volumes	6.5	5.9	5.3	4.7	3.9
NZUs available by auction	11.7	10.2	8.6	7.1	5.6
Industrial allocation	4.6	4.4	4.1	4.0	4.0
Approved overseas units	0	0	0	0	0
Overall limit on units	16.3	14.6	12.7	11.1	9.6

Option One best supports achievement of EB2 and positions New Zealand better for achieving EB3

111. Maintaining status quo volumes will better position New Zealand to achieve EB2 and EB3 compared with options that increase auction volumes (Options Two and Three).

112. Option One (16.9 million units) will result in 10.0 million fewer units being available for auction over the next five years compared with Option Two (26.9 million units), and 13.6 million fewer units compared with Option Three (30.5 million units). Modelling shows that these fewer units are expected to drive more emissions reduction through the EB2 and EB3 periods through increased NZU prices. Higher prices are projected to lead to net emissions of around 303Mt CO_2-e in EB2[5], similar to the level projected in ERP2 and within the 305Mt CO_2-e limit. Options with higher unit supply are projected to result in slightly higher net emissions (304Mt CO_2-e) and less reduction in the stockpile. Appendix Three includes the findings from the Ministry for the Environment modelling in more detail.

113. The major driver for increasing auction volumes under Options Two and Three is lower estimates of the surplus stockpile. There are still considerable uncertainties around surplus estimates and if the surplus continues into the EB3 period, it will make it more challenging for New Zealand to meet its emissions target. Given this, there is a benefit to being more conservative in our estimates. Maintaining status quo volumes takes a more conservative approach and means we can be much more confident that the surplus stockpile, a key risk for achieving EB3, will be eliminated by 2030, and sooner than under the other options

114. Maintaining status quo volumes also puts us in a better position to respond in future ETS settings decisions to policy underway where decisions are yet to be taken. For example, between April and May 2025, the Ministry for Primary Industries consulted on proposed changes to default carbon table for exotic forests in the NZ ETS. If these proposed changes are agreed by Cabinet, then foresters using default carbon tables for exotic forests will be allocated increased levels of NZUs. This would mean that auction volumes will need to be decreased by around 7.5 million NZUs over the EB3 period. This would lessen the ability to further adjust volumes during the EB3 period and supports the decision to maintain status quo volumes.

[5] These projected emissions estimates are based on ERP2 projections and other information that informed the unit settings options. The 2025 official projections are currently being prepared and will be available later in 2025.

115. While all options meet the accordance requirements, Option One provides greater confidence in meeting emissions reduction goals and accordance requirements for current and future NZ ETS settings decisions.

Option One is most consistent with market pricing signals and most likely to support market confidence

116. Recent market signals, including prices significantly below the auction floor, and unsold 2024 auction volumes further suggest that there remains strong supply of NZUs in the market. This supports taking a more conservative estimate of the surplus stockpile, and not increasing auction volumes compared with the status quo.
117. The seven steps methodology used by both Options Two and Three involve significant changes in methodology, including changes that have lowered the estimate of the surplus stockpile. These methodological changes are conceptually valid and likely to improve the accuracy of the surplus estimate. However, lower surplus stockpile estimate runs counter to recent market signals and substantial uncertainty remains about the true size of the surplus stockpile.
118. The lower revised estimate of the surplus stockpile under the seven steps methodology in part reflects that auction volume that went unsold in 2024 did not enter the surplus stockpile, as was estimated in 2024 NZ ETS settings decisions. This issue has been highlighted by submitters and market participants as leading to uncertainty. Some said auctions not fully clearing is sign that the market is sufficiently supplied and so these unit should not be 'reintroduced' in later years.
119. Market participants value stable and predictable unit volumes. The status quo option will maintain more consistent volumes across the settings period and signal support for stability of supply.

Option One best balances the risk of not achieving emissions reduction targets with the risk of undersupply

120. Compared with Options Two or Three, Option One could lead to tighter supply in 2028-30, potentially resulting in price volatility. Price volatility also leads to investment uncertainty which can discourage emissions reduction investments. Tighter supply could also make it difficult for some compliance participants to source units. However, recent low secondary market prices suggest there is still strong supply, and the risk of tight supply leading to price volatility is relatively low and likely outweighed by the increased risk of not achieving emissions reductions targets under Options Two or Three.
121. Maintaining status quo auction volumes now under Option One does not preclude increasing auction volumes (if further information suggests increased supply may be needed) in future ETS settings decisions.
122. The status quo is expected to result in higher peak NZU prices compared with Option Two, with flow on impacts on cost of living. Our modelling estimates that Option One could result in a peak NZU price about $5-12 higher (in 2025-dollar terms) than Option Two, resulting in up to $40-80 higher peak annual NZ ETS cost to households by 2030. This would have a negligible impact on annual inflation of about 0.01-0.03% per annum. Per table three above, the lower range of these impacts assumes that prices increase in the short term sufficiently to clear 2025 auctions, while the upper range assumes that prices remain around their current levels in the near term and therefore auctions do not clear.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

123. Yes.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

124. Costs and benefits presented are relative to Options Two and Three. We have presented impacts on groups of stakeholders, the wider economy and the Government. The majority of the impacts stem from the higher NZU prices expected under Option One, which have flow on impacts to almost all parts of the economy. The Minister's recommended option is expected to result in NZU prices that are approximately $5 higher by 2030 compared with Option Two.

Table 6: Marginal costs and benefits of Option One, compared with Options Two and Three

Affected groups	Benefits	Costs	Overall impact assessment
Emitting firms subject to NZ ETS obligations	Increased certainty on the direction of NZU prices for investment decisions.	Higher costs for firms to meet surrender obligations. This may be mitigated by the extent to which: • firms invest in transitioning to lower-emissions alternatives • firms have hedged their forward obligations • these additional costs can be passed on to households (see 'Households' row below).	The short-term (approx. next 1-2 years), response to relatively higher NZU prices is likely to be fairly inelastic and result in limited additional emission reductions relative to the status quo. Over longer timeframes (approx. next five years), relatively higher NZ ETS prices would increase the incentive for firms to invest in emissions reduction actions.
Firms that receive industrial allocation of NZUs (additional to firm impacts above)	Relatively higher prices nominally increase the value of units provided to firms by industrial allocation.	As above for the residual surrender obligations these firms face after industrial allocation is accounted for.	The overall impact will be dependent on the level of residual surrender obligations for each firm.
Other NZ ETS participants, including Māori businesses that	Relatively higher prices would increase the financial value of stockpiled units, both those held for hedging		The higher price increase expected under Option One means a larger increase in the value of stockpiled units.

Affected groups	Benefits	Costs	Overall impact assessment
rely on NZU earnings	purposes and the liquid stockpile.		
Landowners (e.g., foresters and farmers), including Māori	Higher NZU prices can lead to greater returns for foresters that participate in the NZ ETS. Higher returns on forestry land also increases the option value of farming and other land that is suitable for forestry use (regardless of whether this option is exercised).	Higher carbon prices could lead to increased levels of existing exotic forests being managed for carbon, rather than production[6]. This has the potential for unintended impacts on the environment, rural communities, and regional economies. Increased cost to landowners of deforestation due to increased price.	In the short-to-medium term, extending status quo unit limit settings is likely to marginally increase the rate of afforestation and farm conversions, subject to existing capacity constraints (e.g., labour, seedling supplies) and relevant policy decisions (such as restrictions on converting productive farmland). Increased afforestation now may lead to greater downward pressure on prices in the 2030s when these forestry units enter the market in material volumes.
Households, including Māori households and whānau		Our modelling estimates that Option One could result in NZU prices around $5-12 and $9-17 higher in 2030 than Option Two and Three respectively, resulting in $40-80 and $60-120 higher NZ ETS cost to households annually by 2030.The variation depends on how much the stockpile decreases and whether the remaining auctions in 2025 clear. The mitigating factors will be the extent to which businesses pass on additional costs, and the extent to which households are able to change their consumption patterns in	A $10 increase in NZU prices is estimated to increase annual household expenditure on emissions costs by about $84 (in 2025 dollars) for the average household ($1.61 per week).[7] For lower income households, the increase is estimated at $44–52 per annum, while for higher income households it is estimated at $120–147. Rising prices have a disproportionate impact. Low-income households, and single-adult households such as sole-parent families, bear the largest relative impacts and may be less able to change

[6] Based on research and analysis completed by the University of Canterbury School of Forestry in 2021 - Afforestation Economic Modelling

[7] This assumes 100 per cent and instantaneous pass through of NZ ETS costs to households and does not account for behaviour change. Therefore, this is an upper bound estimate of the impact.

Affected groups	Benefits	Costs	Overall impact assessment
		response. Most of the impact on households is via fuel and electricity prices. Households may also be affected via the labour market. Businesses may adjust the type or number of jobs they offer in response to cost changes.	consumption pattern where this involves high upfront costs. The impacts on lower-income households are partly offset by the indexing of some existing income support payments to the consumers price index (CPI). This means that, as the cost of goods and services increases because of efforts to reduce emissions, some benefits will increase as well. Recent Treasury analysis found that around 80 per cent of household equivalised disposable income decile 1–4 households received CPI-indexed payments, and these payments compensate for around 50 per cent of increasing costs from emissions pricing.[8]
Wider economy	Higher prices in the medium term may incentivise firms to invest in emissions reduction technologies or changes to processes.	Relatively higher prices for household items cause a marginal reduction in disposable income for low-income households, which may impact the wider economy through reduced spending. Forestry plays a large role in the wider Māori economy. The expected increase in value of NZUs under Option One impacts on businesses' asset base and capacity as an employer. Relatively higher NZ ETS prices are likely to marginally increase inflationary pressures.	A $10 increase in NZU prices is estimated to contribute to a 0.14% increase in inflation as measured by the Consumer Price Index, largely due to higher fuel and electricity prices. Investment in emissions reductions technologies and processes may be productivity enhancing. However, these investments may be at the expense of other productivity enhancing investments firms could make (the opportunity cost). The net impact on productivity and economic capacity is difficult to determine but is likely to be quite small from this change alone.

[8] The Treasury. Internal analysis – Treasury Analytical Reports 365 and 367

Affected groups	Benefits	Costs	Overall impact assessment
		However, we judge this highly unlikely to influence the trajectory of monetary policy.	
Government	Tighter unit settings strengthen the likelihood of meeting emissions reduction targets as well as the domestic contribution towards NDCs. Increased chance of auctions clearing, possibly increasing cash receipts, particularly in the short term.	Under the status quo option and assuming auctions clear, cash receipts from NZU auctions over 2026-2030 are up to $1 billion lower than the Commission's recommended option (based on central estimates from projections). However, there is a higher probability that auctions do not clear under Options Two and Three because of the higher unit volumes.	Option One positions New Zealand best for achieving its emissions reduction targets. The exact impact on auction clearance and cash receipts is difficult to evaluate. If prices increase such that all auctions clear, then the Government will face reduced cash receipts under Option One, however Option One will be more effective at increasing the market price and clearing auctions by signalling constrained supply through to 2030.

Section 3: Delivering an option

How will the proposal be implemented?

125. Updates to NZ ETS unit settings will be made under the existing regulatory framework. Schedule 3 of the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 will be updated to reflect the new settings.
126. The amendment regulations will be published in the New Zealand Gazette in September 2025, to take effect from 1 January 2026.

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

127. Agencies will closely monitor the impacts of NZ ETS unit settings. The Ministry for the Environment 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.
128. Agencies will continue to update and refine emissions projections that will be used for future emissions budgets and informing unit limit and price control 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.
129. The legislated coordinated decision-making process in the Act includes provision to review the NZ ETS settings under certain circumstances. The Government is obliged to review the settings if the price controls are used, such as if the CCR is triggered.
130. The Commission will continue to have a role monitoring and reviewing unit limits and price controls settings. Under section 5ZOA of the Act, the Commission must recommend to the Minister limits and price control settings, including any desirable emissions price path, each time regulation updates are required.

Section 4: Regulatory Update – Auction Rollover Volumes

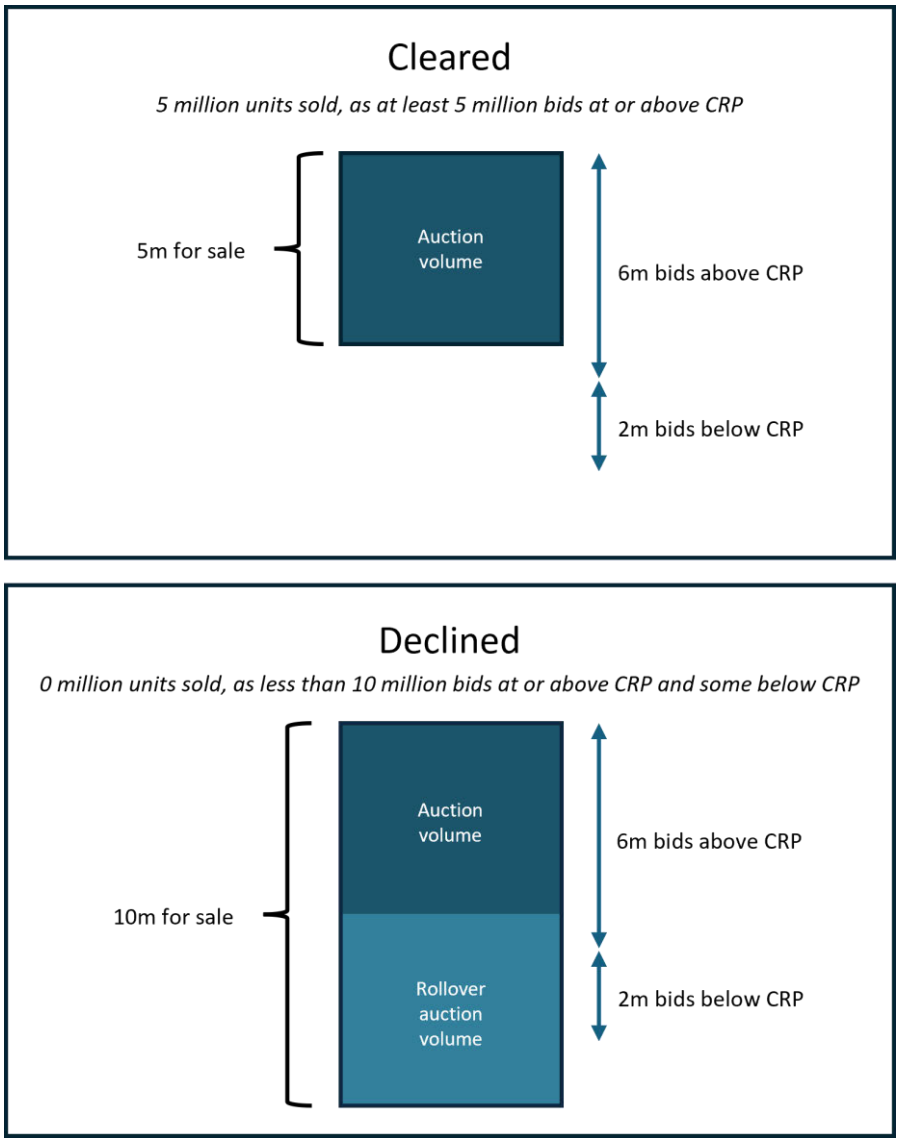
Context

131. Currently, the number of NZUs set for auction in a year are evenly distributed into quarterly auctions. Bidders submit bids for a specific volume of units at a specific price. The auction clearing price is determined by ranking all bids from highest to lowest price. Units are allocated to bids until there are no more bids or all of the units available at auctions are allocated. The bid price of the lowest-rank bid that receives units becomes the clearing price. All bidders at or above the lowest-rank bid will then pay the same clearing price for all the NZUs they bid for.
132. For auctions to clear, there must be no bids below the confidential reserve price (CRP) *or* enough bids above the CRP to sell all the units available for auction.
133. Following each auction, any unsold units are rolled over to the next auction held in the same calendar year. Units are rolled over within the year (instead of being discarded or cancelled after an uncleared or partially cleared auction), to ensure participants can access the full allocation of auction units set by the annual NZ ETS cap.
134. At the end of the year any unsold units are cancelled and not carried over into the next calendar year

Policy problem

135. Currently, the way in which unsold units are rolled into the next auction impacts on the likelihood of auctions clearing. When the number of NZUs available for auction increases due to additional rollover units, there is a greater risk that any bids below the CRP will result in a failure for the bids above the CRP to clear, as illustrated in Figure 1 below. The risk increases as the units accumulate across the auction year.
136. This can prevent NZ ETS participants from purchasing units even when they are bidding above the CRP. This is inconsistent with the policy objective of the auction mechanism.
137. Figure 1 illustrates how the accumulation of unsold NZUs within a calendar year can affect auction outcomes. Both scenarios have identical bidding behaviour. However, the latter, which includes previous unsold NZUs, fails to clear due to bids below the confidential reserve price.

Figure 1: Example of impact of current auction rollover provisions for units within the same calendar year



138. There is an opportunity to adjust the unit rollover provisions to ensure participants can still access the full allocation of units set by the annual NZ ETS cap but avoid

circumstances where progressively large auction volumes constrict their ability to purchase.

Objective

139. To better support participants to engage in NZ ETS auctions and have access to the units they require to meet their emissions obligations.

Consultation

140. Consultation on NZ ETS regulations, including the proposed auction rollover changes ran from 28 May to 29 June 2025. Consultation was in the form of a public discussion document, online webinars and some targeted engagement with Māori stakeholders.
141. There were 18 responses to questions on the proposed auction rollover changes. Option 2, as outlined below, was the preferred option by 8 submitters, option 1, no change, was preferred by 5 and option 3 was preferred by 3.
142. Submitters who commented also offered alternative options. Five suggested that unsold NZUs should be cancelled after each auction because by not selling, the market is indicating that they are not required and by adding them back in, they are suppressing the NZU price. It was further suggested that bids below the auction floor should not result in a failed auction. Those above the floor should still clear.

Options for managing rollover auction volumes

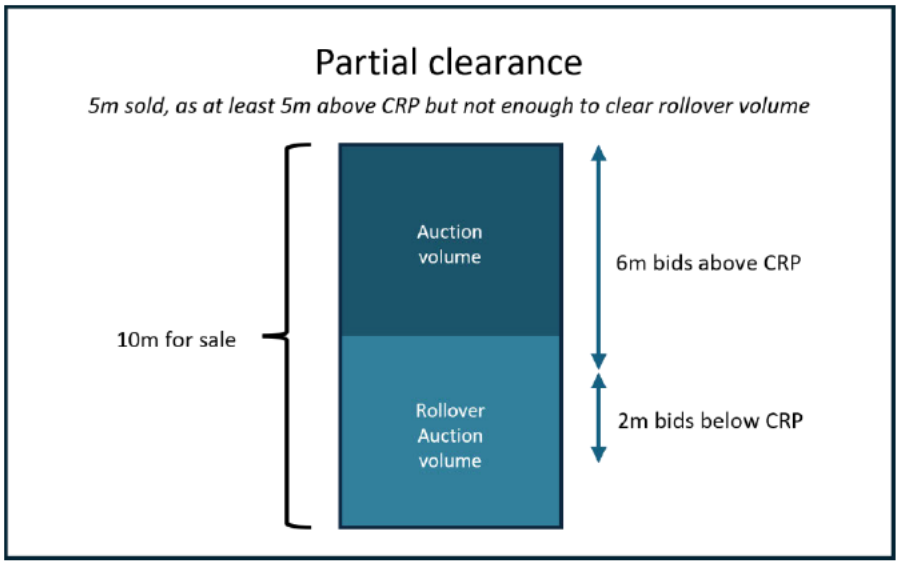
Option One: Status quo

143. Under the status quo, unsold NZUs will continue to roll over to the next auction. This may result in progressively larger auction volumes throughout the year and greater risk that bids below the CRP will cause auctions to decline.

Option Two: Sell unsold units if there is enough demand

144. Under Option Two, unsold units will be rolled over but only made available if the original number of units clears the auction.
145. This approach maintains market stability by preventing a buildup of unsold units that could distort auction outcomes while also ensuring the volume of units remains available to participants if there is demand.
146. At the end of the year, any unsold units will be cancelled as per current policy settings.
147. Figure 2 below highlights how Option Two would work, using the same scenario as in Figure 1. In it, 5 million units are sold, whereas the auction would fail to clear under the status quo.

Figure 2: Example of impact of auction rollover provisions under Option 2 for units within the same calendar year



Option Three: Spread unsold auction volumes across remaining auctions for the year

148. Under Option Three, the number of units to be rolled over will be spread evenly across the remaining auctions for the year. While unsold units will continue to be available, this option does not reduce the risk of auctions not clearing due to bids below the CRP.

Other options considered

149. We also considered holding two additional auctions per year, at regular intervals, so NZ ETS participants can access NZUs that were not sold in previous auctions or cancelling any unsold NZUs after an auction has failed to clear. However, we do not consider they are viable. Holding two additional auctions would be administratively complex, and cancelling rollover NZUs would remove the ability of NZ ETS participants to access these NZUs

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

150. The options will be compared against two key criteria:
    a. Proper functioning of NZ ETS auctions – Allows consistent auctioning of units when there is sufficient demand above the confidential reserve price.
    b. Efficiency – Minimises administrative and compliance costs and burdens for participants and the Government

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

Table 7: Assessment of options for managing rollover auction volumes

	Option One – Status quo	Option Two – *Sell unsold units if there is enough demand*	Option Three – Spread unsold auction volumes across remaining auctions for the year
Proper functioning of NZ ETS auctions	**0** There will continue to be a higher risk of auctions not clearing when rollover units increase the number of NZUs available for auction.	++ This will enable participants to access units when there is sufficient demand (at above the confidential reserve price), and therefore more closely reflects demand.	+ Compared with the status quo, Option Two may enable better access to units throughout the year, but an increased risk of auctions not clearing despite demand for units still applies. Particularly for the final auction of the year.

	Auction volumes are maintained throughout the year if they are required in later auctions.	Reduces the unintended consequences meaning auctions likely to function as intended. Auction volumes are maintained throughout the year if they are required in later auctions.	Auction volumes are maintained throughout the year if they are required in later auctions.
Efficiency	**0** No implementation costs with continuing status quo approach	**–** There is a small administrative cost to the Crown to implement this change, but it is relatively small. Participants may find accessing units in larger quantities via auction more convenient than the secondary market. Simple for NZX to implement. However, it is still a change to the status quo.	**–** Similar implementation costs as Option Two. Simple for NZX to implement. However, it is still a change to the status quo
Overall assessment		**++**	**0**

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

151. Option Two best addresses the underlying issue. It maintains the ability for participants to access units at auctions later in the year if there is sufficient demand, while eliminating the increased risk of later auctions not clearing because of the additional volume.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

152. Yes.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

153. There is a small administrative cost to government of changing the management of rollover units.
154. Enabling participants to better access units when there is sufficient demand is beneficial to participants who have more opportunity to secure NZUs and could result in cash receipts from clearing those auction units to the Crown.

How will the proposal be implemented?

155. Option Two will be implemented by the auction service platform provider and it is considered a simple change to put in place.

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

156. Officials will monitor the impacts from changing how we rollover auction volumes to understand how this impacts:

a. Auction clearance rates
b. NZUs issued
c. Crown cash receipts

Appendix One: Considerations for determining unit limits and price control settings

1. As described above, the Act requires that the limits and price control settings are in accordance with the NDC, the emissions budgets, and the 2050 target.
2. Section 30GC of the Act also provides relevant factors for determining settings. These relevant factors can also justify settings that do not strictly accord with these emissions targets.
3. The relevant factors are provided in Table 1 below. The table also explains how the factors have been considered in our analysis. Some of the relevant factors have been used to derive criteria to evaluate how these options compare with the status quo. These criteria are provided in Table 2.

Table 1: Mandatory considerations for determining unit limits and price control settings

Matters in section 30GC of the Climate Change Response Act 2002	Comments
The Minister must be satisfied that the limits and price control settings are in accordance with: **(a) the emissions budget and the nationally determined contribution** **(b) the 2050 target.**	The NZ ETS must accord with New Zealand's emissions budgets, the NDC, and 2050 target, which all require either gross emissions reductions or increased emissions removals. Accordingly, settings should support emissions reductions and removals. The NZ ETS supports gross emissions reductions by providing a price signal to incentivise the uptake of low-emissions technology, energy efficiency measures, and other emissions reductions opportunities. The NZ ETS drives emission removals by providing a price signal that rewards removal activities such as afforestation. Due to the risk the stockpile creates to the achievement of emissions budgets, options that risk continuation of the stockpile will rate negatively on this criterion.
Matters the Minister must consider	
Projected trends in greenhouse gas emissions, including both emissions covered by the NZ ETS and those that are not covered.	This is considered when determining the unit limits as an input to emissions inside and outside the NZ ETS.
The proper functioning of the NZ ETS.	The NZ ETS should operate in a transparent and durable manner that allows participants to form expectations about supply and demand to support investment in domestic emissions abatement. The restrictions on how settings are updated allow changes to be made in response to new information, while maintaining regulatory predictability. Options that undermine this

	standard approach rate negatively in this criterion. Settings decisions should result in predictable levels of supply for participants, avoiding fluctuations of supply that undermine participants confidence in future NZU availability. Decisions should avoid creating unnecessary and unexpected shortages of supply of NZUs such that participants are unable to attain and surrender the NZUs necessary to meet their NZ ETS obligations. This can result in price volatility that is disruptive to participants and is disconnected from cost of reducing net emissions
International climate change obligations and contracts New Zealand may have for accessing offshore mitigation from other carbon markets.	New Zealand has no current instruments or contracts with other jurisdictions to access emissions reductions in their carbon markets.
The forecast availability and costs of ways to reduce greenhouse gas emissions that may be needed for New Zealand to meet its emissions reduction targets.	This is derived from the policies and measures in the emissions reduction plan and is considered when the unit limits are calculated in step 1 and step 2.
The recommendations made by the Climate Change Commission (the Commission) under section 5ZOA of the Act.	The Commission's recommendations are included among the options considered for all NZ ETS unit settings decisions.
Any other matters that the Minister considers relevant	We note two additional matters the Minister may consider relevant when considering this advice. This is that that the framework of the Climate Change Response Act does not require a plan be in place to meet the third emissions budget yet, and that policies will continue to evolve over time, and that the Government remains committed to achieving NDC1.
Additional matters the Minister must consider in analysing price control settings	
The impact of emissions prices on households and the economy.	Settings manage the costs imposed by the NZ ETS on the economy, on households, and on different sectors and regions.
The level and trajectory of international emissions prices (including price controls in linked markets).	There are two reasons for considering the level and trajectory of international emissions prices. First, that international emissions prices provide a comparison of New Zealand's contribution to the global effort towards addressing climate change, notwithstanding fundamental differences exist between individual emission pricing schemes. Secondly, that offshore mitigation could be needed to meet emissions reduction

	targets in addition to reducing emissions domestically.
Relevant matters in section 30GC of the Climate Change Response Act 2002	**Criteria that reflect this matter**
Inflation.	All price control options have been adjusted for forecast inflation. Inflationary impacts of the NZU price are considered in the criterion 'the impact of emissions prices on households and the economy above'.

Table 2: Criteria for options analysis of limit and price control settings for units

Criteria	Description
Likelihood of incentivising (net) emissions reductions	The NZ ETS must accord with New Zealand's emissions budgets, NDCs and the 2050 target, which all require a mix of gross emissions reductions and removals. Settings should provide a price signal to incentivise emissions reductions and removals. Because the stockpile could impede the achievement of emissions reductions and increase the risk of not meeting budgets, options that risk continuing the stockpile beyond the intended drawdown date will rate negatively for this criterion.
Support the proper functioning of the NZ ETS	The NZ ETS should operate in a transparent and durable manner that allows participants to form expectations about supply and demand to support investment in domestic emissions abatement. The restrictions on how settings are updated allow changes to be made in response to new information, while maintaining regulatory predictability. Options that undermine this standard approach rate negatively in this criterion. Settings decisions should result in predictable levels of supply for participants, avoiding fluctuations of supply that undermine participants confidence in future NZU availability. Decisions should avoid creating unnecessary and unexpected shortages of supply of NZUs such that participants are unable to attain and surrender the NZUs necessary to meet their NZ ETS obligations. This can result in price volatility that is disruptive to participants and is disconnected from cost of reducing net emissions
Support for NZU prices consistent with the level and trajectory of international emissions prices **	There are two reasons for considering the level and trajectory of international emissions prices. • International emissions prices provide a way of comparing New Zealand's contribution with that

	of other countries in the global effort towards addressing climate change, notwithstanding fundamental differences between individual emissions pricing schemes. • Offshore mitigation could be needed to meet emissions reduction targets in addition to reducing emissions domestically.
Management of overall costs to the economy and households **	Settings influence, and can help manage, the costs of the NZ ETS on the economy, households, sectors and regions.

** these criteria are considered for price control settings only.

Appendix Two: Seven step methodology

The seven steps methodology calculates theoretical maximum auction volumes within the New Zealand Emissions Trading Scheme (NZ ETS) that accord with emissions targets.

The Climate Change Commission (the Commission) has published detailed technical materials about the seven steps methodology to support its recommended unit limits (Option Three). Its reports are as follows.

- ***Advice on NZ ETS unit limits and price control settings for 2026–2030:*** *Part 3: Te herenga utu – Unit limits*. This is a detailed discussion of the Commission's analysis using the seven steps, and its implications for this year's advice on New Zealand Unit (NZU or unit) limits.
- **Technical annex 1: Unit limit settings:** This gives further information on the data, methodology and assumptions the Commission used to reach its final recommendations for unit limit settings. The same analysis underpins this consultation document.
- **Supporting spreadsheet: 2025 NZ ETS settings advice:** This presents the data, analysis and calculations that informed the Commission's advice on unit limits.

For more details, please see the Commission's website[9]

This appendix does not attempt to duplicate this technical material. Instead, it gives a summary of the analysis and different assumptions relevant to policy decisions and explains the Ministry for the Environment's application of the methodology, resulting in Option 2.

Step 1: Align with emissions reduction targets

This first step sets out how units should align with Aotearoa New Zealand's climate change goals (including emissions budgets, the nationally determined contribution (NDC) and the 2050 target).

Adjustments from 2024 settings are required both to account for methodological changes made in the 2024 New Zealand's Greenhouse Gas Inventory (GHG inventory), and to align with the latest emissions projections as outlined in ERP2.

Methodological changes to the GHG inventory are refinements to how emissions are calculated, to reflect better data and information. They are not actions that have reduced emissions. Aligning with these changes keeps the NZ ETS in line with our international reporting and actual emissions levels.

Additionally, last year's second emissions reduction plan (ERP2) includes new emissions projections. These incorporate ERP2 policy decisions to show expected emissions over the second emissions budget (EB2) and third emissions budget (EB3) periods. This update adjusts unit limits in line with the Government plan for achieving EB2.

Table A2.1 shows the projected unit limits following this step.

[9] Climate Change Commission. *NZ ETS unit limits and price control settings for 2026–2030*. Retrieved 18 May 2025

Table A2.1: Update for step 1 in the seven steps methodology, 2026–30

	Year (million NZUs)				
	2026	2026	2028	2029	2030
Align with emissions budget	65.9	63.7	60.4	57.9	55.2

Step 2: Allocate the budgets to NZ ETS and non-NZ ETS sectors

This step allocates emissions budgets between emissions and removals that the NZ ETS covers, and those that it does not. It recognises that non-NZ ETS emissions and removals will account for a portion of the emissions budget.

For previous settings decisions, the budgets were allocated to NZ ETS and non-NZ ETS sectors based on sector sub-targets. However, we can now base allocations on projections in ERP2 to reflect the Government's plan for achieving EB2.

This approach means that if non-NZ ETS emissions (mainly from agriculture) are different from projections, the level of reductions required by NZ ETS sectors does not change. For example, if non-NZ ETS emissions increase compared with projections, further reductions would not be expected from NZ ETS sectors to 'make up' for that increase. Conversely, if emissions from non-NZ ETS sectors decrease, NZ ETS sectors retain the same level of effort as before. This increases predictability and certainty for NZ ETS participants, which is particularly important for making long-term investment decisions on reducing and removing emissions.

The following sources of emissions and removals are currently outside the NZ ETS[10]

- Agriculture. Biogenic methane (CH_4), nitrous oxide (N_2O) and carbon dioxide (CO_2) from fertiliser use are outside the NZ ETS.
- Waste. All waste emissions except CH_4 from municipal landfills are outside the NZ ETS.
- Synthetic greenhouse gases. Some sources of emissions associated with certain goods and vehicles are priced through the Synthetic Greenhouse Gas Levy, instead of facing NZ ETS unit emissions surrender obligations. Some additional, very small sources (such as medical uses) are not covered by either pricing mechanism.
- Industrial processes and product use. Several small emissions sources in the industrial processes and product use category of the GHG inventory are outside the NZ ETS, including:
  - non-energy products from fuels and solvent use
  - N_2O from medical applications
  - other uses of carbonate.
- Forestry. Sources of removals outside the NZ ETS comprise the subset of post-1989 forest land that is not registered in the NZ ETS. The Commission has assumed that all currently registered forest land will remain registered, and that all eligible post-1989 forests planted from 2019 will register or have already done so. This equates to allocating 100 per cent of

[10] For more information, see: Climate Change Commission. 2025. *Advice on NZ ETS Unit Limits and Price Control Settings for 2026–2030: Technical Annex 1: Unit limit settings*. Wellington: Climate Change Commission, from step 2

post-1989 forestry (both CO_2 removals from forest growth, and emissions from deforestation) to the NZ ETS sectors.

ERP2 sets out the Government's proposal to allocate the volume between sectors in and outside the NZ ETS. The plan proposes apportioning 89.4 megatonnes carbon dioxide equivalent (Mt CO_2e) to the NZ ETS scheme for the EB2 period (2026–30).

Table A2.2 shows the updated allocated volume of emissions budgets to sectors in and outside the NZ ETS scheme.

Table A2.2: Update for step 2 in the seven steps methodology, 2026–30

	Year (million NZUs)					
	2026	2027	2028	2029	2030	Total
Share of net emissions budget allocated to non-NZ ETS sectors	42.7	42.9	42.8	42.8	42.6	213.7
Share of net emissions budget allocated to NZ ETS sectors	23.2	20.8	17.6	15.1	12.6	89.4

Note: Totals may not add due to rounding

An NZ ETS cap for the third emissions budget EB3 will be needed to inform NZ ETS settings updates from next year onwards as these settings cover part of EB3. ERP2's 'new measures projections' estimate net emissions of 249.2 Mt CO2e in EB3. The EB3 limit is 240 Mt CO2e. This means additional abatement of 9.2 Mt CO2e is required across 2031–35 to meet EB3.

We propose that for the provisional NZ ETS cap for EB3 we assume additional 9.2 Mt CO2-e emissions reductions necessary to achieve EB3 will come from NZ ETS covered sectors. This results in a provisional EB3 cap of 40.7 Mt CO2-e.

This provisional cap is expected to change over time, and for a final cap to be confirmed as part of developing the third emissions reduction plan.

Step 3: Make technical adjustments

Emissions reported into the NZ ETS for the sectors it covers are intended to align with emissions reported in the GHG inventory, as New Zealand uses inventory data to report progress towards emissions reduction targets. Any accounting misalignment could mean too many, or too few, emissions units are supplied into the market, risking over- or under-achieving those targets.

The 2024 settings included a technical adjustment to account for an observed discrepancy between the GHG inventory and the NZ ETS of about 3 per cent in the total liquid fossil fuels and stationary energy emissions.

On further investigation, the Commission has determined that this discrepancy no longer exists, and it is no longer necessary to carry this adjustment through to future years. This is reflected in this year's technical adjustment. We agree with the Commission's view.

This adjustment increases the volume of units available over the NZ ETS settings period by 3.4 million.

The Commission has also identified a discrepancy between waste emissions in the GHG inventory and NZ ETS reported emissions. This issue is believed to be connected to an error in the calculation of the unique emissions factors (UEFs) used for several waste disposal

facilities. We expect it to be resolved before it impacts on any of the years covered by this settings decision, so no technical adjustment is required.

Table A2.3 outlines the update for this step[11]

Table A2.3: Update for step 3 in the seven steps methodology, 2026–30

	Year (million NZUs)				
	2026	2027	2028	2029	2030
Technical adjustment	0	0	0	0	0

Step 4: Account for industrial allocation volumes

The Government allocates units to businesses undertaking industrial activities that are prescribed as 'emissions-intensive' and 'trade-exposed'. To ensure alignment with emissions budgets, these units reduce the number of units that the Government can sell at auction.

The Commission forecast industrial allocation volumes for the coming five years at 23.2 million units. This was based on the existing allocative baselines and production levels of businesses in eligible activities known to the Commission at the time of its advice.

The Ministry for the Environment has revised the Commissions forecast with more recent data (2024 actual industrial allocations) and to align production level assumptions with those used in the forthcoming 2025 emissions projections. The most material of these is bringing forward the date at which Methanex trains are expected to close by one year to the end of 2027.

The revised industrial allocation forecast is 21.1 million units over the period 2026–30, which is about 25 per cent of the total emissions volume allocated to NZ ETS sectors. This is 6.5 million units lower over the next five years than forecast in 2024 settings. Table A2.4 outlines the update for this step.

Table A2.4: Update for step 4 in the seven steps methodology, 2026–30

	Year (million NZUs)				
	2026	2027	2028	2029	2030
Industrial allocation	–4.6	–4.4	–4.1	–4.0	–4.0

Step 5a: Set the reduction volume to address the unit surplus

This step calculates the reduction of surplus units. A large quantity of units is banked in private accounts. These units provide liquidity to the market and help to reduce price volatility. However, the current number of banked units presents risks to achieving the budgets.

Some of these banked NZUs are held to meet future surrender liabilities or for other reasons. Others are estimated to be held for investment purposes and will more readily be sold when

[11] For more information, see: Climate Change Commission. 2025. *Advice on NZ ETS Unit Limits and Price Control Settings for 2026–2030: Technical Annex 1: Unit limit settings*. Wellington: Climate Change Commission.

market price expectations change. The latter are considered ‘surplus’ to the needs of emitters. Emitters’ use of these surplus NZUs to meet increased NZ ETS obligations potentially causes challenges in meeting the budgets. To reduce this risk, the surplus must be managed.

Units move from the Crown **into** participants’ accounts as the units are:

- sold by auction
- transferred for industrial allocation
- transferred for removal activities such as forestry.

Units move **out of** accounts as they are surrendered to the Crown by participants to meet their obligations.

The methodology used to calculate auction volumes includes a surplus reduction step. This step involves setting an auction limit to reduce the risk of emissions being allowed to exceed emissions budgets. With this limit, participants must use some NZUs from the surplus to meet their surrender obligations.

In 2024, the Government made adjustments to units available for auction, to reduce the surplus to zero by 2030. This year’s settings remain in line with this goal.

Changes to estimating the surplus volume

In 2024, the Ministry for the Environment commissioned Ernst & Young (EY) to assess the surplus calculation methodology and analysis of the NZ ETS stockpile. The purpose was to support the continuous improvement of our understanding of the stockpile. EY found the surplus estimate methodology was robust and fit for purpose but recommended some improvements for future estimates. [12] The changes to the methodology in this year’s estimate were driven by EY’s recommendations, and additional analysis by the Commission. [13]

The substantive changes include:

- Include units held by emitters for emissions that have already occurred “holding volume”
- Include post-1989 forestry units relating to the fourth mandatory emissions return period (MERP4) that may become surplus in EB2
- Change the date when the hedge estimate is made; and
- Make adjustments to emitter hedge assumptions to account for the new “holding volume” step.

Include units held for emissions that have already occurred

This year, the Commission has included a new category of non-surplus units, referred to as ‘holding volume’. These are units that are held for surrender for emissions that have already occurred. This differs from the existing ‘hedging volume’, which estimates units held in anticipation of future emissions. This inclusion was recommended by EY.

We have considered EY’s recommendation and the Commission’s approach and agree additional units should be removed for the holding volume when calculating the surplus.

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[12] Ernst & Young. 2024. *New Zealand’s Emissions Trading Scheme (ETS) NZU Surplus Advice: Final report*.Prepared for the Ministry for the Environment by EY.

[13] For a detailed discussion of these changes, see: Climate Change Commission. 2025.*Advice on NZ ETS Unit Limits and Price Control Settings for 2026–2030: Technical Annex 1: Unit limit settings*. Wellington: Climate Change Commission, from p16

Like the Commission's approach, our estimate assumes the holding volume will increase over the year, as emitters accumulate units for their obligations. This volume will continue to rise until the annual surrenders are due at the end of May, before falling to a minimum and then growing again. We have been able to use actual surrender data for the 2024 compliance year as the holding volume estimate, which was very close the projected level the Commission used (0.2 million units lower).

Including this 'holding volume' reduces the size of the central surplus estimate by 34.0 million units.

Include forestry units for MERP4 (2023–25) that may become surplus in EB2

An emitter can use forestry units in a different budget period from that in which the removal those units represent took place. Such use would allow for higher net emissions in the budget period, putting meeting the budget at risk. These units can contribute to the surplus.

To quantify and manage this risk for EB2, the Commission has included an estimate of these units in this year's surplus estimate. We agree with the Commission and have included these units when estimating the total unit surplus to be reduced by 2030.

Including these surplus post-1989 forestry units increases the size of our central surplus estimate by 10 million units.

Change the date when the hedge estimate is made

This year, the Commission has estimated the hedging volume for the target year of reducing the surplus (i.e., 2030). This differs from previous years, when estimates were taken for the number of units held for hedging in the current year (i.e., 2025). We agree with this approach.

This is based on the goal of reducing the stockpile, so that the surplus is zero in 2030. Thus, taking the hedging estimate at 2030 takes into account that, as emissions reduce, the units needed for hedging volume will also reduce.

The hedging category reflects that emitters need to hold a certain number of units to manage their obligations. However, as emitters decarbonise, some of these units will no longer be needed and will become surplus over time.

Make adjustments to emitter hedge assumptions to account for the new "holding volume" step

The Commission's advice treated holding volumes and hedging volumes (units held in anticipation of future emissions) as entirely separate and additional. However, the Commission also acknowledged in its advice that it it's possible that holding volume may partially overlap with what was previously attributed to hedging volume, and suggested the Government tests its assumptions during consultation. If an overlap in hedging and holding volumes exists, it would result in higher estimates of the surplus.

The evidence we have been able to gather indicates that at least some emitters, do not hold distinct (or additional) holding and hedging volumes. Instead, many use units held for upcoming compliance to hedge price (if at all).

However, it has been challenging to quantify this overlap. The NZU holders survey, submissions on the ETS Settings discussion document and desktop research based on firms' financial reports have provided limited insight on the specific level of overlap.

In absence of robust quantitative evidence, there is value in taking a conservative estimate (ie, assuming a greater overlap), as underestimating the overlap risks underestimating the size of the surplus.

Given the holding volume estimate is based on emissions that have actually occurred, it is more appropriate to retain this estimate based on the best available data. Therefore, the adjustment should be applied to the hedging volume estimate via changes to the future hedging assumptions.

The hedging volume estimate is taken as at 2030. It is based on projected sectoral emissions net of industrial allocation and assumptions about the extent to which different sectors future emissions are hedged. Previously, all sectors were assumed to be fully hedged for the first year, except liquid fossil fuel (27%). This is effectively equivalent to the new holding category.

Given this, setting the first-year hedging assumption to zero represents the maximum possible overlap with holding volume, while retaining the previous hedging assumptions represents no overlap. In the absence of strong evidence either way, the central assumptions have been set at the midpoint of these two extremes i.e. assumed 13% year 1 hedging for liquid fossil fuels and 50% for all other sectors.

This increases the surplus estimate by 5.4 million units compared with the Commission's estimate, with a corresponding reduction in auction volumes.

Updated surplus estimate

Applying the updated methodology results in a central estimate of the surplus of 55.8 million units, within a range of 28.7 – 78.0 million units. This is set out in table A2.5.

Table A2.6 shows how the surplus reduction is allocated over 2026-30.

Table A2.5: Surplus estimate (thousands of units)

	Year (million NZUs)			
	Low	Central	High	Difference to Commission (central)
Units in registry as of Dec 2024	150,389			0
P90 held long-term to 2030	9,067	5,556	3,370	0
Held for harvest liabilities	63,464	53,098	43,653	0
Units required for hedging in 2030	21,501	11,968	3,226	-5,398
Holding units for 2024 emissions	34,005	34,005	34,005	-232
Additional MERP 4 surplus units	6,301	10,027	11,846	0
Total surplus estimate (thousand units)	28,653	55,790	77,981	5,631

Table A2.6: Surplus reduction, 2026–30

	Year (million NZUs)				
	2026	2027	2028	2029	2030
Surplus reduction	11.5	10.5	7.4	7.2	6.8

Step 5b: Adjust for discrepancies

This step makes adjustments to address changes to unit limits that cannot be made in the year when the change occurs. These adjustments are needed due to limitations on changes to existing limit settings. This year we propose applying a discrepancy adjustment to 2028–30 to account for changes across 2025–27.

This discrepancy adjustment would account for the volume changes that otherwise would have been implemented for the first two years of the settings period (i.e., 2026 and 2027). This is because we do not propose changing volumes for those years. The discrepancy adjustment would also account for differences between current regulations and updated estimates of unit requirements in 2025, which also cannot be changed.

The discrepancy adjustment for 2025–27 represents a 5.6 million increase in possible auction volume across the settings period. This reflects the differences in the NZ ETS emissions cap, industrial free allocation forecasts and removal of the technical adjustment. This volume would be proportionally allocated across auction volumes for 2028–30. Table A2.7 outlines the update for step 5b.

Table A2.7: Update for step 5b in the seven steps methodology, 2026–30

	Year (million NZUs)				
	2026	2027	2028	2029	2030
Discrepancy adjustment	0.3	0.3	–1.9	–1.9	–1.8

Note: Adjustments for 2026 and 2027 are already incorporated into regulations, and as such are also fixed.

Step 6: Set the approved overseas unit limit

There are currently no overseas units approved for use in the NZ ETS. Therefore, the approved overseas unit limit is zero.

Step 7: Calculate the base auction volumes

Table A2.8 sets out the calculation of the annual auction volumes, using the above updates. This is the unit volume setting referred to as option two in this paper. It incorporates the Commission's recommendation to make no changes to settings for 2026 and 2027, and to distribute volumes evenly across 2028–30, instead of taking the default approach of declining in line with the emissions cap.

Table A2.8: Calculation of the base auction volume, 2026–30

	Year (million NZUs)				
	No Changes		Updated recommendations		
Step	2026	2027	2028	2029	2030
Step 1: Align with emissions reduction targets	65.7	63.4	60.4	57.9	55.2
Step 2a: Allocate to non-NZ ETS sectors	42.3	41.9	42.8	42.7	42.6
Step 2b: Allocate to NZ ETS sectors	23.4	21.4	17.6	15.1	12.6
Step 3: Make technical adjustments	0.7	0.7	0.0	0.0	0.0
Step 4: Account for industrial allocation volumes	5.7	5.7	4.1	4.0	4.0
Step 5a: Set the reduction volume to address the unit surplus	11.5	10.5	7.4	7.2	6.8
Step 5b: Adjust for discrepancies	0.3	0.3	-1.9	-1.9	-1.8
Step 6: Set the approved overseas unit limit	0	0	0	0	0
Step 7: Calculate the base auction volumes – flat distribution*	**5.2**	**4.3**	**5.8**	**5.8**	**5.8**

Table A2.8 excludes adjustments for:

- abatement that was not expected when budgets were set (Step 1)
- the possibility that the non-NZ ETS share of the budget will be exceeded.

Both adjustments would reduce auction volume.

Appendix Three: Modelling of ETS settings unit and price control settings options

The NZ ETS unit and price control settings options were modelled using the ETS Market Model.

Model description

The NZ ETS Market Model estimates supply and demand for NZUs in the ETS under different conditions and can generate price and stockpile projections based on supply and demand.[14]

The model can be operated in two main ways. The most relevant approach to supporting ETS settings advice is to set government supply (unit settings and industrial allocation) exogenously and then allow the model to endogenously estimate an internally consistent mix of other supply sources, demand, and price that meets a given objective, in this case minimising differences between supply and demand over time. Alternatively, prices and/or other supply sources can also be set exogenously, and the model will estimate the implications on key factors such as the stockpile.

Key modelling assumptions

For final policy decisions, most of the key underlying data and important assumptions remain unchanged from that documented in the consultation technical annex.[15] The section below sets out where new data is available and summarises key assumptions.

The following data has been updated in the model:

- Industrial allocation has been updated to align with latest historical data and with output adjustments aligned to 2025 projections. See appendix two, step 4.
- The revised surplus stockpile estimate is used. See appendix two, step 5.
- Afforestation and forestry unit flow data have been aligned with the Ministry for Primary Industries (MPI) projections.
- Non-ETS sector emissions (an exogenous input to the model) have been aligned with ERP2 projections.

The following are key assumptions used in the model:

- Auction supply is based on the options set out in this RIS and include the "for visibility" estimates from 2031-35. The latter are the same across the options.
- Afforestation and forestry unit supply use the MPI central projections in most scenarios. This means afforestation is not responsive to price in most scenarios. However, prices are generally projected to be around or above the estimated breakeven levels for forestry. Finally, these afforestation projections are consistent with the policy to constrain conversion of farmland to exotic afforestation registered in the ETS (see below for further detail).
- The surplus / other stockpile split is set for 2024 per the revised surplus estimate noted earlier in this paper. The model draws down the surplus first. The other stockpile can

[14] Review of the New Zealand Emissions Trading Scheme: Summary of modelling | Ministry for the Environment

[15] Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2025 Technical annex to the consultation document | Ministry for the Environment

also be made available to meet NZU demand. For this analysis a transfer rate of 11% was used in most scenarios, and other rates tested through sensitivity analysis.

- The aggregate NZU demand response to price is unchanged from earlier iterations. Baseline demand is based on the ERP2 "zero price" run from ENZ. To test sensitivity and to construct error ranges, particularly for total net emissions projections, we used the standard errors of the coefficients. This includes applying +/- one standard error for smaller changes in responsiveness, or using the 95 per cent confidence intervals (ie, +/- 1.96 standard error) for larger changes.

Afforestation and NZ ETS settings

The Government has introduced the Climate Change Response (Emissions Trading Scheme – Forestry Conversion) Amendment Bill. The amendment Bill places restrictions on exotic forestry registering in the ETS on LUC classes 1 - 6. The amendment Bill is currently before Select Committee.

Officials estimate that, under current NZ ETS settings and NZU prices, annual exotic afforestation is likely to be around 27,000 ha per year once the policy is in place. However, modelled NZU prices under the recommend NZ ETS settings are expected to significantly increase the incentive for exotic afforestation. These higher NZU prices could result in increased rates of exotic afforestation than modelled on land which the new ETS restrictions do not apply (LUC classes 7 and 8, on Māori-owned land, and on-farm integrated planting enabled through limits, allowances and exemptions).

NZU prices above $50 are also likely to increase the incentive for permanent exotic forests over production forests.

Methodology for estimating total net emissions

Delays to the development of the 2025 official emissions projections mean that the estimates used to support ETS settings decisions are derived from the ETS market model.

The market model was not designed to estimate total net emissions – its focus is on net emissions covered by the scheme. However, the projections can be combined with other information to make a high-level projection of total net emissions. This can help with assessing whether a given combination of unit and price control settings accords with emissions budgets. Two additional sources of information/assumptions are needed:

1. **An estimate of emissions outside the NZ ETS (mostly agriculture)**
   ERP2 projections are primarily used to estimate non-ETS sector emissions. These projections also capture estimates of the impact on removals of afforestation on Crown-owned land policy.

2. **A conversion of 'low-risk' forestry NZUs to total 'target' accounting removals**
   Not all emissions removals are within the scheme, and the accounting treatment for some forestry units differs between the NZ ETS and 'target' accounting used for emissions budgets. This means the market model projections of 'low-risk' forestry NZUs usually underestimate removals that contribute towards the budgets. To adjust for this, an estimate of total removals is made by scaling up projected low-risk forestry units. The scaling factor has been set by comparing MPI's low-risk forestry removals projections with total removals projections (which are calculated with consistent information).

Net emissions are calculated as the total demand for NZUs (i.e., gross emissions in NZ ETS sectors) plus non-ETS sector emissions less total removals. These point estimates are subject to a high degree of uncertainty.

A further adjustment has been made to the estimate of EB3 total net emissions. This is because the market model is slightly overstating gross ETS sector emissions through this period (by ~4Mt CO_2-e, or 2%) when compared to more robust emissions projections developed for ERP2. To account for this, the EB3 emissions projections in this RIS is based on the ERP2 estimate for EB3 (249.2Mt CO_2-e) and adjusted by the difference in ETS sector gross emissions as implied by the model's market price assumptions.

Modelling results

Central scenarios with rising then falling price

Central modelling scenarios are based around a common core assumption about market dynamics. That assumption is that ETS prices will need to be sufficiently high over EB2 and into EB3 to release auction volume and to induce enough stockpile drawdown to meet compliance demand while forestry supply is relatively low. Over the medium to long term, ETS prices are expected to then converge towards the long run marginal cost of the dominant source of long run supply, forestry units. This assumption also underpinned ERP2. The inflexion point has been exogenously set at 2030.

Beyond this core view of the price outlook, there are two other key judgements that need to be made. The first judgement regards the short-term outlook, specifically what to use as the near-term price and whether this means auctions clear in 2025 and subsequent years. This has been modelled using two different approaches – either leaving the model to determine the 2025 price endogenously or imposing the 2025 price based on the year-to-date average (about $59/NZU for the first half of 2025).

The second key judgement relates to the responsiveness of afforestation to prices and the extent to which the restrictions on converting productive farmland to exotic forestry registered in the ETS act to constrain this response. Our central judgement is that the policy does act as a constraint and therefore afforestation and related forestry unit flows are exogenously set based on MPI projections. Alternative scenarios, using the "Manley" model to approximate the afforestation response endogenously, are explored further below.

Central scenarios with rising then falling price and exogenous afforestation

Supply of low-risk forestry units (light green area) is projected to steadily increase over time to be the dominant source of supply. In the nearer term, the surplus stockpile (teal area) is steadily drawn down and eliminated in 2030. Expected falling real price over time leads to steady drawdown of the other stockpile (dark blue area).

The steady drawdown of the stockpile of units can be seen in the lower right hand side chart. The bulk of the adjustment happens in EB2 as the surplus is run down. Although the stockpile reduces in absolute terms, it remains fairly stable in relative terms at about 2-3 times the volume of compliance demand.

Figure A over page presents a suite of charts to illustrate the projected sources of ETS supply, compliance demand, price, and stockpile for option one and assuming that the 2025 auctions clear. This scenario helps explain the broad direction of travel across all the options considered before delving into the differences between the options.

The top left chart illustrates the mix of supply sources (areas in the chart) projected to meet compliance demand adjusted for price impacts (blue dashed line). Government supply from industrial allocation and auctions trends steadily lower over time. In terms of the latter, the price is projected to remain above the auction floor price until 2032, after which auctions cease. The chart on the lower left shows the projected price in nominal terms; nominal prices are broadly flat post 2030 but are declining in real terms.

Supply of low-risk forestry units (light green area) is projected to steadily increase over time to be the dominant source of supply. In the nearer term, the surplus stockpile (teal area) is steadily drawn down and eliminated in 2030. Expected falling real price over time leads to steady drawdown of the other stockpile (dark blue area).

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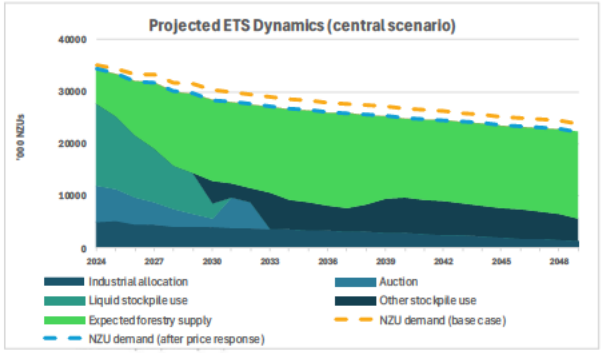
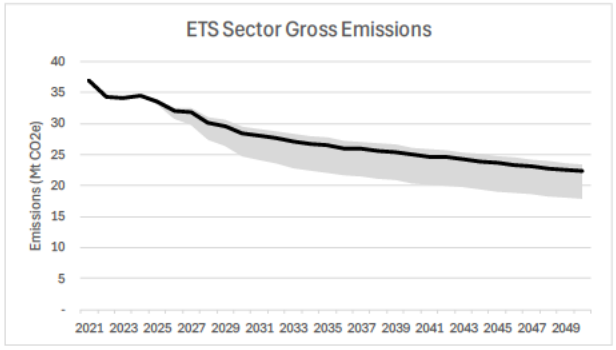
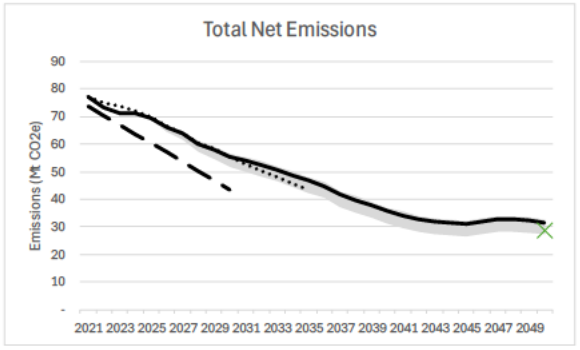
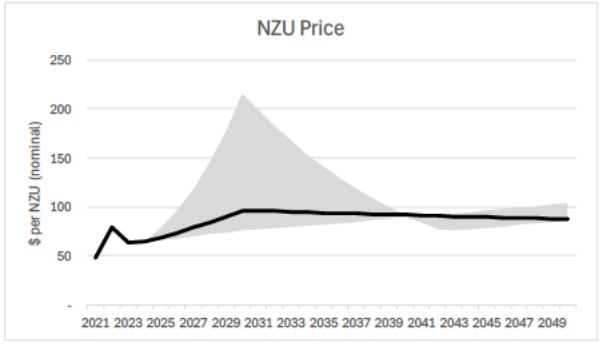
Figure A: Projected ETS Dynamics under Option 1 and assuming 2025 auctions clear

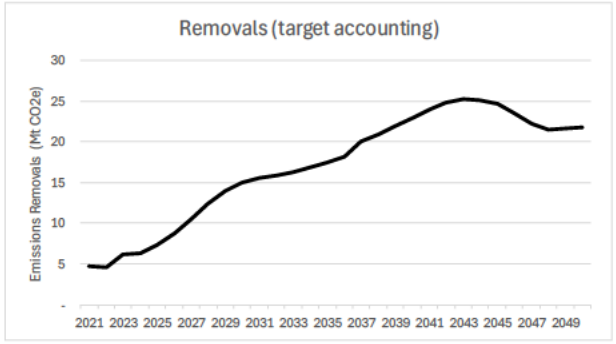


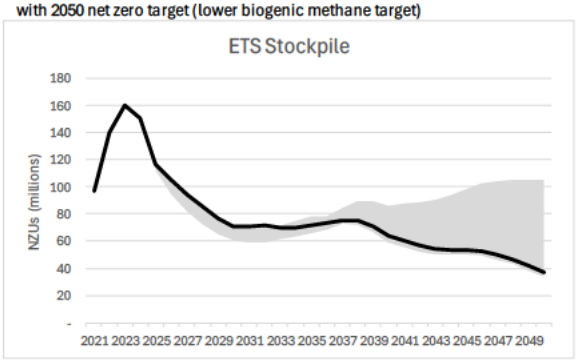




Note: Dotted line is consistent with emission budgets, dashed with NDC, cross with 2050 net zero target (lower biogenic methane target)



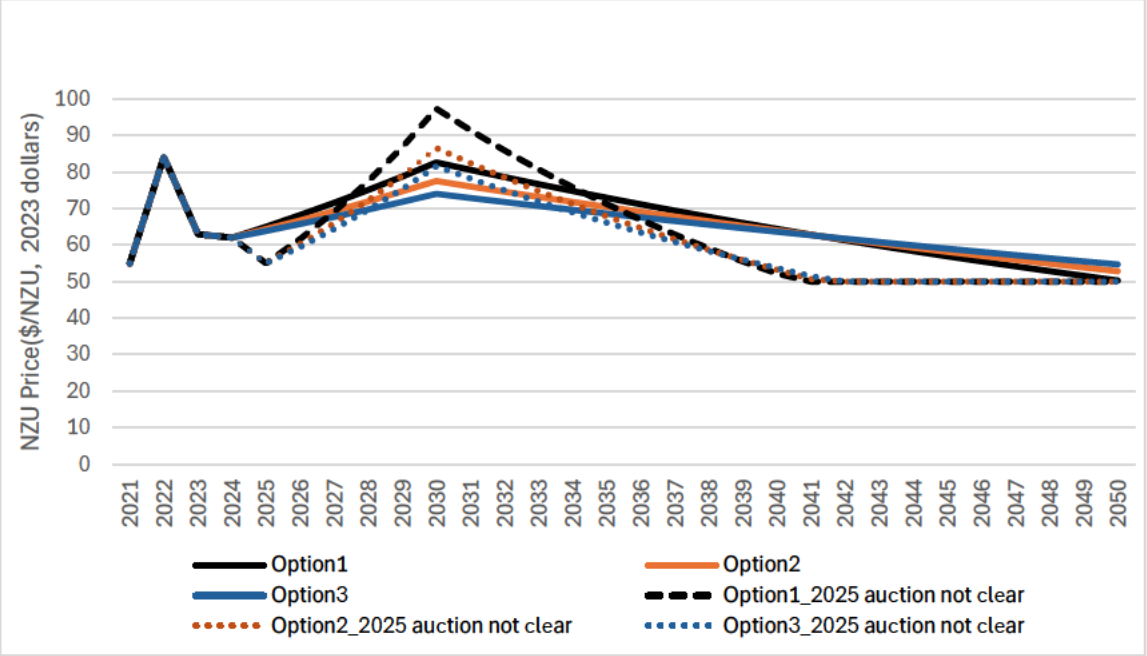




Note: grey areas represent uncertainty bands. These have been modelled by using the 95 percent confidence interval of the coefficients in the aggregate demand response to price.

The main difference under options two and three if 2025 auctions are assumed to clear is that additional auctioned units later in EB2 displace some of the surplus drawdown that was otherwise expected to occur. With higher government supply and slightly slower stockpile drawdown, the projected price pathway is slightly lower than under option one (Figure B). The lower price pathway also means that auctions cease in 2032 and 2031 under option two and three respectively, slightly earlier than option one (2033).

Figure B: Projected Price Pathways for Central Scenarios



The differences between the options are somewhat more pronounced under the assumption that 2025 prices remain around their current levels and that auctions do not clear in the short term as a result.

Under these circumstances, the projected price remains below the auction floor price for both 2025 and 2026 for Option One. This reduces the surplus more rapidly than anticipated and is projected to lead to a stronger price response in the shorter term and auctioning for slightly longer in the medium term (auctions ceasing in 2034 versus 2033).

Options Two and Three follow a similar pattern, however the availability of higher auction volumes late in EB2 dampen the price response compared with option one. For Options Two and Three, projected prices remain below the auction floor price for 2025-27. Similar to Option One, the point at which auctions are projected to cease shifts out slightly.

Overall net emissions outcomes are projected to be quite similar across all six of the scenarios referenced above, noting the limitations of the market model in this respect. This is a function of two factors. Firstly, non-ETS emissions and removals are exogenous and the same in all these scenarios. Secondly and relatedly, this means that only ETS sector gross emissions are responding to different price signals and the price pathways between the different options are relatively similar, leading to relatively small differences in emissions outcomes as well.

While variations in net emissions outcomes are relatively small, the risk posed by the stockpile is quite different. Option One reduces the estimated overall stockpile of units in 2030 relative to the other two options, reducing the risk posed by these units to achieving EB3.

Central scenarios with rising then falling price and endogenous afforestation

Our central modelling assumption is that the policy to restrict exotic afforestation registering in the ETS will act to constrain overall afforestation. However, if the price incentive is sufficiently strong, afforestation on land not covered by the new restrictions could accelerate. This is discussed further in the section on **Error! Reference source not found.**.

To test the implications of this, the different unit and price control settings options were also modelled using an endogenous afforestation response. Under this approach, afforestation was projected to average around 33,500-33,800 ha per annum over EB2 and EB3, very similar to the upper end of Ministry for Primary Industries projections for that period (33,450 ha per annum). For reference, Ministry for Primary Industries central projections sit at 27,300 ha per annum over the medium term. Note, all of these afforestation rates include very small amounts of native afforestation (~100-150 ha per annum).

Because of the lag from afforestation occurring to sequestration, the projected supply and demand dynamics are largely the same in EB2 as in the central scenarios discussed in the previous section (Figure D). Government supply provides a material but declining source of supply, while forestry unit supply steadily increases. The surplus stockpile is drawdown by 2030 under option one but persists into the early part of EB3 under options two and three.

Projected differences are more material post 2030. Increased afforestation and therefore low-risk forestry unit supply displaces some of the other stockpile drawdown projected in the other scenarios. This reduces the overall price pathway for option one and, to a lesser extent, option two. Option three prices are largely unchanged compared to the exogenous afforestation scenario, sitting just above the auction price floor through EB2. Under all three options, the total stockpile of units initially declines through EB2 and into EB3 before steadily increasing again over the latter years of the projection.

Total net emissions are largely the same for EB2 as the central scenarios, and within the budget. However, more rapid afforestation over EB2 leads to increased removals from EB3 onwards. For EB3, this increase is estimated at around 9 Mt CO_2-e, which would largely close the gap to achieving EB3. However, the model may be slightly overstating the additional removals, as the difference in MPI central and upper removals projections (which use very similar afforestation projections) is closer to 7.5 Mt CO_2-e. Nonetheless, a reasonable conclusion is that faster afforestation over EB2 would contribute to closing at least some of the gap in EB3.

Robustness checks

This section tests the impacts of using a different core assumption about the overall profile of ETS prices. The main insight is that the modelling shows EB2 being achieved under these different conditions but that EB3 remains challenging.

Higher scenarios with constantly rising prices

A further alternative is that ETS prices continue to rise over the medium to long term. This may be feasible if the policy restricting exotic forestry registering in the scheme acts as an enduring and binding cap on afforestation, preventing additional afforestation from curbing prices over the longer term.

Under these conditions, the projected price increases at a steady rate of 3% per annum in real terms for all three options (Figure E). Units are auctioned throughout EB3. Even though price levels are not materially different over EB2 and EB3 to those in the rising then falling price

scenarios, the expectation of higher and rising future prices drives slightly faster gross emissions reductions. This largely materialises in EB3 where gross ETS sector emissions are about 2Mt CO_2-e lower than under the option one rising then falling price scenario. However, total net emissions in EB3 continue to exceed the budget.

Lower scenarios with flat to falling prices

An alternative to the central scenario is to assume that prices will converge directly to the long run marginal cost of forestry from today's price levels. This is a plausible outcome if expected industrial allocation, forestry supply, and stockpile use are sufficient to meet compliance demand on their own i.e. without auction volume. Lower than expected compliance demand could also drive this outcome.

To test what this outcome could look like, the base model is modified in two key aspects. Firstly, baseline demand is reduced by 1.5M units per annum from 2025 onwards to reflect compliance demand being lower than expected. Note this is quite a significant change in outlook and a strong assumption that such a level shift would persist indefinitely. Secondly, the higher stockpile liquidity assumption (14%) is used.

Error! Reference source not found. shows the sources of supply to meet this adjusted compliance demand. The price has been assumed to gradually fall to $50 in real terms and then remain flat, consistent with a level sufficient to incentivise afforestation at around 27,500 ha per annum. The stockpile trends steadily lower over time in absolute terms but remains fairly steady as a ratio of two times compliance demand. The level shift down in compliance demand makes projected net emissions lower, well within the EB2 budget (about 298Mt CO_2-e) but still exceeding EB3 by around 4Mt CO_2-e.

Figure C: Projected ETS dynamics with lower compliance demand and flat ETS price.

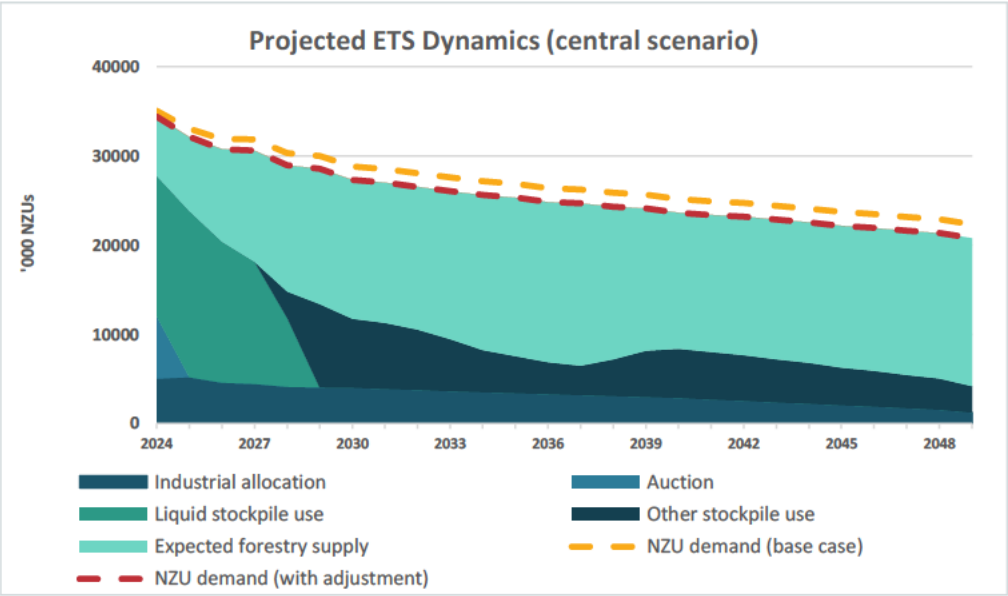
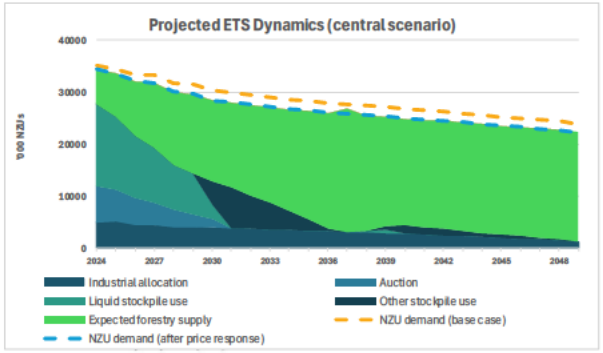
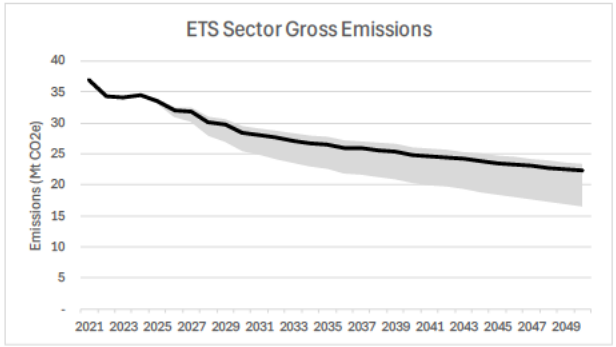
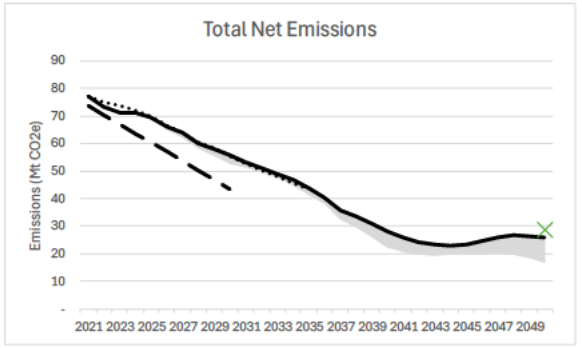


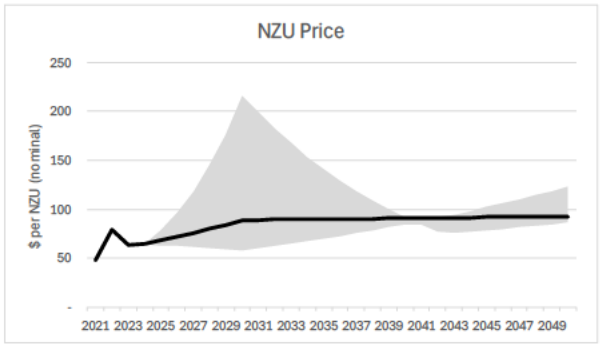
Figure D: Projected ETS Dynamics under Option 1, assuming 2025 auctions clear and with endogenous afforestation response

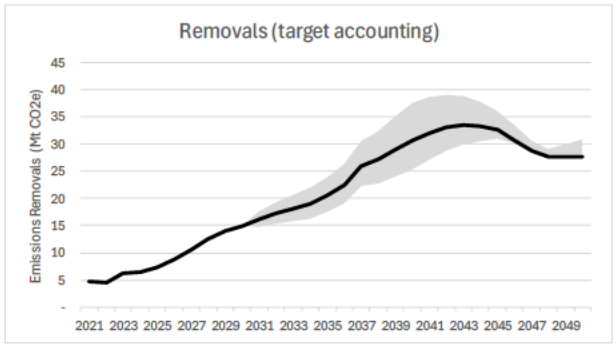


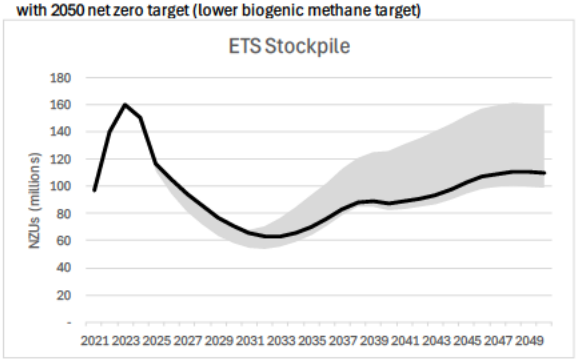




Note: Dotted line is consistent with emission budgets, dashed with NDC, cross with 2050 net zero target (lower biogenic methane target)

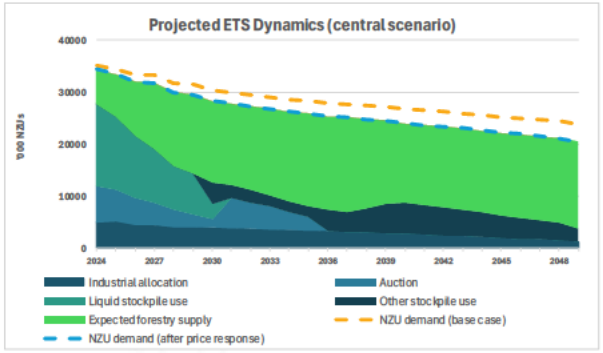


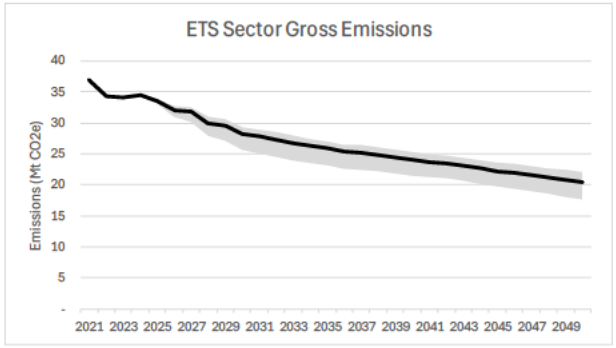


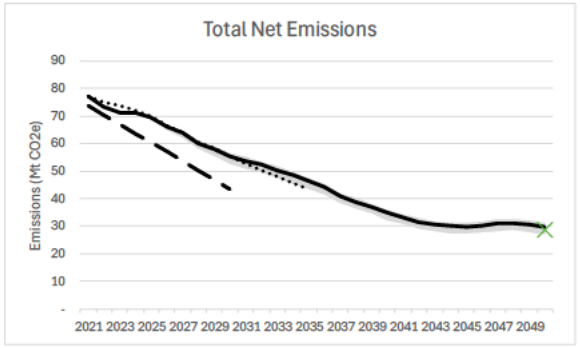


Note: grey areas represent uncertainty bands. These have been modelled by using the 95 percent confidence interval of the coefficients in the aggregate demand response to price.

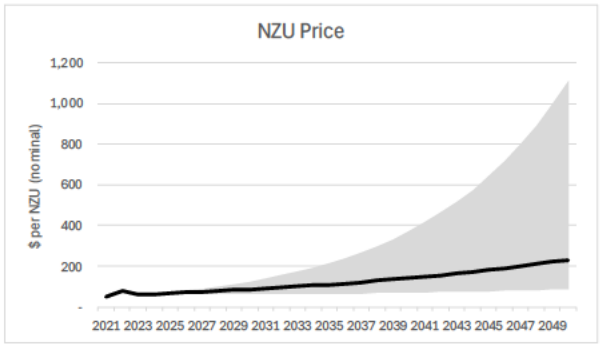
Figure E: Projected ETS Dynamics under Option 1, assuming 2025 auctions clear, exogenous afforestation response, and constantly rising price

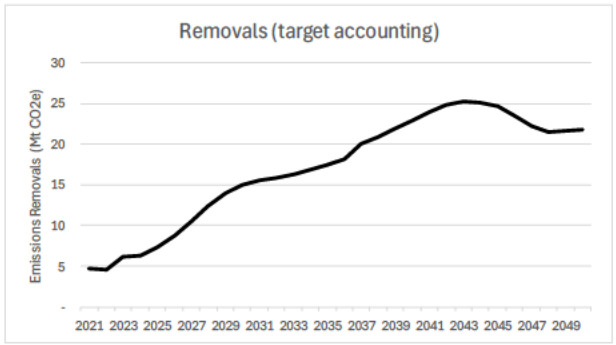


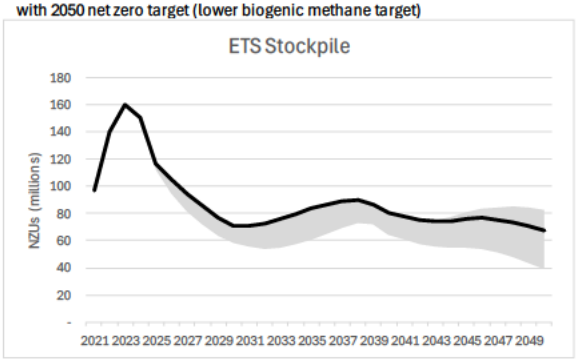




Note: Dotted line is consistent with emission budgets, dashed with NDC, cross with 2050 net zero target (lower biogenic methane target)







Note: grey areas represent uncertainty bands. These have been modelled by using the 95 percent confidence interval of the coefficients in the aggregate demand response to price.

ECO-25-MIN-0120

Cabinet Economic Policy Committee

Minute of Decision

New Zealand Emissions Trading Scheme Unit Limits and Price Control Settings for 2026-2030

Portfolio **Climate Change**

On 13 August 2025, the Cabinet Economic Policy Committee:

1 **noted** that the Minister of Climate Change (the Minister) is required by the Climate Change Response Act 2002 to update limit and price settings for New Zealand Units (NZUs) under the New Zealand Emissions Trading Scheme (NZ ETS) so that they continue to cover five calendar years at all times;

2 **noted** that the accordance requirements mean that the unit limits and price control settings must be considered as a package and in the context of other climate change policies because their effect on unit supply (and ultimately emissions) are interdependent;

3 **noted** that the Minister has considered consultation feedback in formulating the options presented below;

4 **agreed** to maintain the current price control settings, including the cost containment reserve volumes (CCR), with minor changes made to reflect Treasury Budget 2025 inflation forecasts, and extend the price control settings to 2030, as outlined below:

	Adjusted for new inflation forecasts				**New**
	2026	**2027**	**2028**	**2029**	**2030**
Auction price floor	$71	$75	$78	$82	$87
CCR Tier 1	$203	$213	$224	$236	$248
CCR Tier 2	$254	$267	$280	$295	$309
CCR Tier 1 volume (millions)	2.3	2.1	1.9	1.7	1.4
CCR Tier 2 volume (millions)	4.2	3.8	3.4	3.0	2.5
Total CCR volumes (millions)	6.5	5.9	5.3	4.7	3.9

5 **agreed** to update limits for units for 2026-2030 as outlined below:

Unit limits (millions)	2026	2027	2028	2029	2030
Base auction volumes	5.2	4.3	3.3	2.4	1.7
Total CCR volumes	6.5	5.9	5.3	4.7	3.9
NZUs available by auction	11.7	10.2	8.6	7.1	5.6
Industrial allocation (not subject to NZ ETS settings decision)	4.6	4.4	4.1	4.0	4.0
Approved overseas units	0	0	0	0	0
Overall limit on units	16.3	14.6	12.7	11.1	9.6

6 **agreed** to change the approach for units unsold at auction such that unsold units are rolled over to future auctions within the calendar year, but only made available if the volumes originally allocated to those future auctions clear at auction;

7 **agreed** to amend the Climate Change (Unique Emissions Factors) Regulations 2009 to fix cross referencing errors in regulation 23C, so that waste participants use compositional time series data when modelling emissions for landfills with gas capture systems;

8 **invited** the Minister to issue drafting instructions to the Parliamentary Counsel Office to amend the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 and the Climate Change (Unique Emissions Factors) Regulations 2009 to give effect to the above decisions;

9 **authorised** the Minister to further clarify and develop policy matters relating to the above amendments, in a manner consistent with Cabinet's decisions;

10 **agreed** to formalise the NZ ETS cap for the second emissions budget at 89.4Mt CO_2-e over 2026-2030;

11 **agreed** to set a provisional NZ ETS cap for the third emissions budget at 40.7Mt CO_2-e over 2031-2035.

Rachel Clarke
Committee Secretary

Present:
Rt Hon Christopher Luxon
Hon David Seymour
Rt Hon Winston Peters
Hon Chris Bishop (Chair)
Hon Brooke van Velden
Hon Shane Jones
Hon Erica Stanford
Hon Paul Goldsmith
Hon Dr Shane Reti
Hon Todd McClay
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon James Meager
Hon Scott Simpson

Officials present from:
Office of the Prime Minister
Office of Hon Erica Stanford
Office of Hon Simon Watts
Ministry for the Environment
Crown Law
Officials Committee for ECO