

Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024

Consultation document



Ministry for the
Environment
Manatū Mō Te Taiao



Te Kāwanatanga o Aotearoa
New Zealand Government

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Executive summary

Climate change action is one of nine key priority government targets to be delivered by 2030. The climate change target includes our domestic emissions reduction targets and our global commitments to reduce emissions under the Paris Agreement.

Aotearoa New Zealand's domestic targets set a 'cap' of total net emissions of no more than 290 megatonnes from 2022 to 2025, and 305 megatonnes from 2026 to 2030. These volumes align with the first and second emissions budgets set under the Climate Change Response Act 2002 (the Act).

The New Zealand Emissions Trading Scheme

The New Zealand Emissions Trading Scheme (NZ ETS) is a 'cap-and-trade' scheme and is the Government's key tool to address climate change. The scheme supports New Zealand to meet its emissions reduction goals by putting a price on greenhouse gas emissions.

Emitters must surrender a New Zealand Unit (NZU) for every tonne of climate pollution they emit. Businesses can purchase NZUs through government auctions held four times per year. They can obtain NZUs through industrial allocation, and trade NZUs through the secondary market.

Auction settings are reviewed every year to ensure the NZ ETS is working as well as it can to support climate change targets, and to provide certainty for the next five years. These climate change targets are emissions budgets, the Nationally Determined Contribution (NDC) under the Paris Agreement, and the 2050 target.

Unit limit settings help 'cap' the supply of units into the NZ ETS over time. By limiting the number of NZUs, the Government uses the NZ ETS to help keep emissions in line with New Zealand's greenhouse gas reduction targets.

The price control settings set a minimum and maximum price that NZUs can be sold at auction. These are set for the next five years, to help businesses plan.

As part of this annual settings process, the Government must consider the advice and recommendations of the Climate Change Commission. The Commission has identified new information since the last update to NZ ETS settings in 2023.

Unit limits

Auction volumes and unit limits are calculated through a series of steps. We are seeking feedback on options for each step. Key areas we are consulting on include ways to manage the impact of non-NZ ETS policies on the NZ ETS unit limits and how emissions budgets are allocated to NZ ETS and non-NZ ETS sectors.

The Commission has also re-estimated the number of NZU's in private accounts considered 'surplus', above what is considered needed to meet surrender obligations. The large size of the surplus poses a risk to the stability and efficiency of the NZ ETS market, because if the excess units come to market, there would be less incentive to reduce emissions. The Commission's new surplus estimate is approximately 68 million units, an increase of approximately 19 million units on the 2022 estimates.

To reduce this surplus the Commission has recommended the Government reduce the auction volumes for the years 2025 to 2029. The Act mandates that the first two years of settings (ie, 2025–26 for this year) can only be updated in specific circumstances. We seek your feedback on whether the thresholds have been met for this option to be considered. The consultation also includes options to keep the status quo surplus reductions, and another option to only adjust for the years 2027–29.

Auction price control settings

Price control settings at auctions set the ‘guardrails’ for high and low prices at auctions of NZUs. The auction floor price is a lower guardrail, ensuring the cost to emit greenhouse gases is not set too low. The higher guardrails are the cost containment reserve (CCR) trigger prices. When the CCR is triggered, more NZUs are released, reducing the risk of the NZU price rising too high.

There are two options for changes to price triggers.

1. The first option is to maintain the status quo with adjustment for inflation from 2027.
2. The second option is to lower trigger prices for both the auction price floor and the CCR.

Cost containment reserve volume

The cost containment reserve needs to be large enough to prevent auction prices going too high. Previously, the number of units in the reserve was aligned to the surplus – that is, if the trigger was reached, additional units would be sold, up to the level of the surplus.

There are two options related to the cost containment reserve (CCR):

1. maintain the current CCR volume and extend it to 2029, or
2. increase the CCR volume to reflect a reduction in surplus NZUs.

The first option keeps the status quo but does not consider new data showing the size of the surplus has increased. This means if the triggers are reached, only a limited number of units would be sold, and the surplus would still be reduced (if surplus reductions are made according to the newly estimated surplus increase).

The second option would be to increase the number of units on offer in the CCR. This would mean if the CCR is triggered, more units would be released. Rather than reducing the surplus, it would be maintained at the same level.

Consultation details

No preferred set of options is identified; however, this document notes how some options are in closer accordance with emissions budgets and targets than others.

The consultation will begin on 15 May 2024 and close on 14 June 2024. Following public consultation, and analysis from officials, NZ ETS regulations will be finalised by the end of September 2024. If changes are made to auction settings for 2024, they would not apply until the first NZ ETS auction of 2025.

Submissions and feedback are welcome from anyone with an interest in the NZ ETS.

Consultation on NZ ETS regulations

This consultation is released alongside a second consultation document on other routine regulatory updates to the NZ ETS. These are technical or operational matters, which are important to maintaining the efficiency and accuracy of the NZ ETS for specific sectors or groups of participants. You are welcome to submit your feedback on one or both consultations.

About this consultation

This consultation seeks your views on options for annual updates to New Zealand Emissions Trading Scheme (NZ ETS) unit limits and price control settings (NZ ETS settings) for 2025–29.

The NZ ETS is the key tool to help New Zealand meet its emissions budgets, the Nationally Determined Contribution (the NDC), and the 2050 target. Updating NZ ETS settings every year helps New Zealand stay on track to meet those emissions budgets and targets.

This is the fourth year that these settings will be updated since 2020. NZ ETS settings must be updated by the end of September each year, after consultation.

The Climate Change Response Act 2002 (the Act) establishes the process for updating NZ ETS settings. The Act requires that NZ ETS settings accord with New Zealand’s emissions budgets, NDCs, and the 2050 target. If settings are not in strict accordance with emissions budgets or NDCs, any departure must be justified with reference to the considerations listed in the Act (see the [Objectives – accordance test section](#)). Collectively, these are the ‘accordance test’.

The options presented in this consultation document have been assessed against the accordance test based on currently available evidence and information (see the [Accordance with emissions budgets section](#)). We are seeking your feedback on those options and asking if you have other options, with supporting evidence, that meet the accordance test.

We are also consulting on updates to other NZ ETS regulations to support the scheme to run efficiently and accurately. Those proposals are presented in their own [consultation document](#).

Scope of this consultation

This consultation focuses on options for NZ ETS unit limit and price control settings for 2025–29.

The consultation does not include:

- reassessment of Aotearoa New Zealand’s level of or commitment to our international obligations, emissions budgets, Nationally Determined Contribution (NDC), or 2050 target (which the proposed changes are intended to support)¹
- any changes to the overarching architecture or purpose of the NZ ETS, as provided for in the Climate Change Response Act 2002.

The options presented in this consultation document are based on the information and decisions that are available at the time of writing, including the first emissions reduction plan and the 2023 Greenhouse Gas Inventory. The Government is developing its strategy for the second emissions reduction plan. Consultation on the second emissions reduction plan is expected to begin in mid-2024, with publication by the end of this year. Final decisions on NZ ETS settings will be informed by the information that is available at the time.

¹ For clarity, we are following a net-based approach for this consultation document.

Your views

We welcome your feedback on the questions in this consultation document. The end of each section contains relevant questions, which are also collated in the [Consultation questions](#) section.

The [How to have your say](#) section provides information on how to send us your feedback.

Consultation process

The consultation for this document and for proposals relating to other regulations relating to the NZ ETS will close at 5:00 pm on 14 June 2024.

Once we have considered submissions, decisions will be made by the Minister of Climate Change (the Minister) and Cabinet. Following Cabinet decisions, any new regulations or amendments to existing regulations will be published in the New Zealand Gazette by 30 September 2024 and will come into force from 1 January 2025.

Background

The role of the NZ ETS

The NZ ETS is the Government's key tool to help New Zealand meet its:

- international obligations under the United Nations Framework Convention on Climate Change and its Paris Agreement
- 2050 target: net zero greenhouse gas emissions (except biogenic methane) and a 24 to 47 per cent reduction in biogenic methane
- emissions budgets: a set of descending interim targets to reach the 2050 emissions reduction target.

The NZ ETS supports emissions reductions by:

- requiring businesses to measure and report on their greenhouse gas emissions
- pricing emissions and removals
- requiring businesses to surrender one 'emissions unit' (NZU) 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.

The Government sets and reduces the number of units supplied into the scheme over time, apart from units supplied for removal activities. This limits the total volume of net emissions that can be emitted by from participants in the scheme, in line with New Zealand's emission reduction targets.

Businesses that participate in the NZ ETS can buy and sell units from each other. The price for units reflects supply and demand in the scheme. This price signal allows businesses to make economically efficient choices about how to reduce emissions and increase removals.

Annual process for unit limits and price control settings

Under the Act, NZ ETS unit limit and price control settings for the next five years are made through an annual update process to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 (the Regulations). At present, settings, informed by previous tests of accordance with emission targets, are prescribed for only the next four years. There is a need to decide on the settings for the full five-year period through a re-evaluation of accordance against emissions targets and consideration of new information.

The unit settings must accord with New Zealand's emissions budgets and the Nationally Determined Contribution, and the 2050 target. If they are not strictly in accordance with the emissions budgets and the Nationally Determined Contribution, the discrepancy must be justified in line with the criteria prescribed in the Act.²

This five-year look-ahead period provides regulatory certainty to NZ ETS participants. To increase certainty, these updates are generally intended to exclude changes to unit settings for

² See section 30GC of the Climate Change Response Act 2002.

the first two years (ie, 2025 and 2026, from this year). Changes can only be made in specified circumstances for the first two years (ie, 2025 and 2026). For example, if a change significantly affects one of the matters the Minister must consider when recommending changes to settings.³

Unit limits include:

- a limit on the units available by auction
- a limit on approved overseas units – currently zero
- an overall limit on units – which consists of units available by auction and by other means and approved overseas units.

The price control settings for units are the:

- auction price floor – the price below which the Government will not sell units at auction (the lower 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 (the upper price floor)
- CCR volume(s) – the number of units that will be released if the trigger price is reached.

The price control settings set a minimum and maximum price for auctions for the next five years, providing a forward-looking ‘price corridor’. Unit limit settings help limit the supply of units into the NZ ETS over time, which limits the quantity of net emissions that can occur, in line with New Zealand’s emissions reduction targets.

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

The Climate Change Commission (the Commission) is required to give annual advice on NZ ETS unit settings.³ The 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.

The Commission’s advice on settings was published in March 2024⁴. The two main changes the Commission has recommended this year are:

- significantly reducing the auction volumes for 2025 to 2029 from the volumes that are currently in regulations
- adjusting the first two years of NZ ETS unit limit settings (2025 and 2026).

This consultation seeks feedback on NZ ETS settings options. These include the [Commission’s recommendations](#).

³ See [section 30GB\(5\) of the Climate Change Response Act 2002](#) which includes “(b) *the Minister is satisfied that the amendment is justified by ... (i) a change that has significantly affected any matter that the Minister was required to consider under section 30GC when recommending the limits and price control settings that are to be amended.*”

⁴ He Pou a Rangi | Climate Change Commission. [NZ ETS unit limits and price control settings for 2024–2028](#). Retrieved 18 March 2024.

How we assessed options in this consultation document

Objectives – accordancy test

The Act requires that unit settings must accord with New Zealand’s:

- 2050 target, which is:
 - net zero emissions of all greenhouse gas emissions other than biogenic methane by 2050
 - 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
- the Nationally Determined Contribution under the Paris Agreement (the NDC), which sets a target of a 50 per cent reduction of net emissions below the gross 2005 level by 2030

If the unit settings are not strictly in accordance with the emissions budgets and the NDC, the discrepancy must be justified in line with the criteria prescribed in the Act.

Criteria

We have used the following criteria to assess options. These criteria align with the mandatory considerations for updating unit settings as prescribed in the Act (see [appendix 1](#) for how they align).

The first two criteria apply to both unit limit and price control settings. The last two criteria apply to price control settings only.

We have put more weighting on the criterion ‘likelihood of incentivising (net) emissions reductions’. This is because this criterion relates to the overarching objective the most.

Table 1: Option assessment criteria

| Criteria | Description |
|---|---|
| Likelihood of incentivising (net) emissions reductions | <p>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.</p> <p>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.</p> <p>The NZ ETS drives emission removals by providing a price signal that rewards removal activities such as afforestation.</p> <p>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.</p> |
| Support for proper functioning of the NZ ETS | <p>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.</p> |

| Criteria | Description |
|---|---|
| | <p>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.</p> <p>This criterion also includes NZ ETS participants being able to attain and surrender NZUs to meet NZ ETS obligations.</p> <p>Ensuring the NZ ETS is functioning properly supports actions in emission reductions and removals, as well as the role of the NZ ETS in meeting emissions budgets and targets.</p> |
| <p>Support for consistency of NZU prices with the level and trajectory of international emissions prices</p> | <p>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.</p> |
| <p>Management of overall costs to the economy and households</p> | <p>Settings manage the costs imposed by the NZ ETS on the economy, on households, and on different sectors and regions.</p> |

Options for unit settings

Steps for calculating annual auction volumes

A methodology for calculating the annual auction volumes was first developed in 2020, and both the Government and the Commission have used this approach every year since.

This methodology moves through a series of steps, the result of which is then used as an input to calculate the limits prescribed in regulations.

The methodology for calculating the auction volumes uses the following calculation steps:

1. Align with climate change targets.
2. Allocate the emissions budgets to NZ ETS and non-NZ ETS sectors.
3. Make technical adjustments.
4. Account for industrial allocation volumes.
5. Set the reduction volume to address the unit surplus.
6. Set the approved overseas unit limit.
7. Calculate the base auction volumes.

Analysis of these steps, as well as our options for changes to these steps are outlined below.

We have only analysed more than one option for step 1 and step 5. This is because the other steps mostly involve updating numbers to ensure accuracy in calculation, based on existing methodology. Nonetheless, for clarity, we have included the reason for updating these three steps and links to further information below.

Step 1: Align with climate change targets

The first step sets out how unit limits should align with emissions budgets, the NDC, and the 2050 target. Options detailed below present a range of how well this step can help NZ ETS accord emissions budgets and targets.

Option 1: Status quo

The **status quo option** is to make no changes other than to add settings for 2029.

Option 2: Minimum adjustment

The **minimum adjustment option** is to account for methodological changes made in the 2023 New Zealand's Greenhouse Gas Inventory (GHG Inventory). This is the Commission's recommended option.

Methodological changes to the GHG Inventory impact historical emissions. They are refinements to how emissions are calculated, such as through better data and information, rather than actions that have reduced emissions. These refinements are frequently made with the annual release of the GHG Inventory and changes can go either way.

Table 2 shows the projected unit limits following this step, and comparison with the status quo.

Table 2: The Commission’s recommended option for step 1 and comparison with status quo

| Step 1: Align with emissions budget | Year (Million NZUs) | | | | |
|--|------------------------|------|------|------|------|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Option 1: status quo (extended to 2029) | 69.7 | 66.5 | 63.9 | 60.7 | 58.3 |
| Option 2: minimum adjustment | 66.7 | 64.2 | 61.8 | 59.3 | 57.0 |

Option 3: Further adjustment to manage the impact of non-ETS policies

This option was described by the Commission as adjusting unit limits to reflect sizeable changes in emissions that result from other non-ETS interventions, where these are not already reflected in the related emissions budget. These can include non-NZ ETS policies that reduce emissions from NZ ETS-covered sectors, which reduces demand for NZUs. These can also include firm closures and decarbonisation efforts. These scenarios can lead to a reduction in price expectations and a risk of increased NZU use by other NZ ETS participants. This is called the waterbed effect.

This risk can be managed by tightening the NZ ETS cap (reducing auction volumes) to ‘lock in’ those emissions reductions. This would have the effect of over-achieving emissions budgets, providing a buffer to manage risks and uncertainty. It could also reduce the amount of offshore abatement needed to achieve our NDC.

An example of this is the New Zealand Steel Electric Arc Furnace project⁵. NZ Steel and its coal and fuel suppliers will surrender 800,000 less NZUs once the electric arc furnace is operational. The Commission did not include these reductions when considering pathways for meeting emissions budgets in the advice it provided to the Government, *Ināia tonu nei*⁶.

The Commission raises the question of whether the Government should actively manage the waterbed effect by tightening unit limits from the expected start date of the intervention. It would prevent any increase in the surplus and lock in these unanticipated emissions reductions (when the emissions budgets were set).

We are raising this issue this year due to the general restrictions on adjusting settings for the first two years of the five-year period. The NZ Steel electric arc furnace will be operational from 2027, if not earlier. Delaying a decision on unit limit adjustment risks an increase in the surplus for 2027.

⁵ This project was part funded in 2023 by the Government Investment in Decarbonising Industry Fund. NZ Steel expects to have the Electric Arc Furnace running by 2026, reducing the company’s emissions by 800,000 tonnes of CO²-e per annum, which will be a permanent reduction to its demand for NZUs. Some of that demand would have been met through industrial allocation.

⁶ He Pou a Rangi | Climate Change Commission. *Ināia tonu nei: a low emissions future for Aotearoa*.

The Commission did not recommend additional adjustment to unit limits, because it considered the Government had not made clear decisions on the role of the NZ ETS in meeting the NDC (there is currently a gap in meeting the emissions reduction needed to achieve the NDC). We have not quantified this option because we are seeking feedback on these options. This will inform the design of this option before consideration by the Minister and Cabinet.

Table 3 compares these three options.

Table 3: Options comparison for step 1

| | Option One – Status quo | Option Two – Minimum adjustment | Option Three – Further adjustment |
|---|---|---|---|
| Likelihood of incentivising emissions reductions | 0 Not including methodological changes potentially reduces the contribution of emissions budgets towards the NDC and would therefore be detrimental to accordance with the NDC. | + Minimum adjustment by making methodological changes only. | ++ Better accords with the emissions budgets and targets through direct and timed reduction in unit limits. |
| Support the proper functioning of the NZ ETS | 0 | 0 Updated unit limits to reflect methodological changes. | + Better than option 2 due to avoiding some surplus supply to market then drawing back that volume through auction volume adjustment. |
| Overall assessment | 0 | + | ++ |

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

Questions

Questions

1. What do you think of each of the options presented for step 1? What is your preferred option? Is there any other option that you think we should consider?

2. If option 3 for step 1 was proposed, what criteria could be used to identify eligible reductions and removals?

Step 2: Allocate the emissions 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 emissions and removals outside the NZ ETS will account for a portion of the emissions budget.

The emissions budget volume allocated to NZ ETS and non-NZ ETS sectors is based on specified shares of effort set by the sector sub-targets from the first emissions reduction plan. In previous years, this has meant that if non-NZ ETS emissions (mainly from agriculture) are different from the assumed pathway, the level of effort required by NZ ETS sectors does not change. This approach has been used since 2022.

For example, if emissions from non-ETS sectors increase from expectations, NZ ETS sectors do not become responsible for further emissions reductions to 'make up' for that increase. Conversely, if emissions from non-ETS sectors decreased, NZ ETS sectors retain the same level of effort as before.

Projections of emissions from non-NZ ETS sectors, in particular agriculture, are above target pathway levels due to methodological and policy changes. This means decisions on NZ ETS settings using the previous approach are unlikely to be in strict accordance with emissions budgets. This divergence would need to be justified according to a consideration of the matters in the Act, supported by evidence. We are interested in your feedback on how the emissions budget is allocated, including the current approach and whether an alternative should be considered.

The following sources of emissions and removals are currently outside the NZ ETS⁷:

- Agriculture – biogenic methane and nitrous oxide and carbon dioxide from fertiliser use.
- Waste – all waste emissions except methane emissions from municipal landfill disposal facilities.
- 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 inventory category are outside the NZ ETS, including:
 - non-energy products from fuels and solvent use
 - nitrous oxide from medical applications
 - other uses of carbonate.
- Forestry – 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 would 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 post-1989 forestry (both carbon dioxide removals from forest growth and emissions from deforestation) to the NZ ETS sectors.

⁷ For further information, please refer to the Commission's [Technical Annex 1, from step 2 on page 4](#).

Table 4 shows the updated allocated volume of emissions budgets to sectors inside and outside the NZ ETS.

Table 4: Option for step 2

| | Year (Million NZUs) | | | | |
|--|------------------------|-------|-------|-------|-------|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Share of emissions budget allocated to non-NZ ETS sectors | -41.5 | -41.0 | -40.7 | -40.4 | -40.0 |
| Share of emissions budget allocated to NZ ETS sectors | 25.2 | 23.2 | 21.2 | 19.0 | 17.0 |

Questions

Questions

- Do you agree with the calculation for step 2? If not, why not? Do you have any evidence or information to suggest a different share of the emissions budget?

Step 3: Make technical adjustments

This step is a mechanical step, therefore only one option is presented in this consultation document.

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

In 2022 and 2023, the Commission identified that, compared to the GHG Inventory, the NZ ETS reported lower emissions for the liquid fossil fuels, coal and steel sectors. Considering this difference, the Commission proposed technical adjustments, which the Government applied in 2023.

For this year, the Commission has advised that the differences observed between coal and steel production reported in the GHG Inventory and the NZ ETS (which occurred due to a previous technical error in emissions reporting) no longer existed.

However, the Commission has recommended a technical adjustment to account for an observed discrepancy between the GHG Inventory and the NZ ETS of approximately 3 per cent in total liquid fossil fuels and stationary energy emissions. The Commission observed the most likely cause of this discrepancy was differing classification of liquid petroleum gas emissions, and that the discrepancy remained, despite combining the categories. We are investigating this discrepancy.

Table 5 outlines the update for this step⁸.

⁸ For further information, see the Commission's [Technical Annex 1, from page 6](#).

Table 5: Option for step 3

| | Year (Million NZUs) | | | | |
|-----------------------------|------------------------|------|------|------|------|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Technical adjustment | -0.7 | -0.7 | -0.7 | -0.7 | -0.7 |

Questions

Questions

4. Do you agree with the calculation for step 3? If not, why not? Do you have any evidence or information to support a different option?

Step 4: Account for industrial allocation volumes

Step 4 is a mechanical step (like step 3), therefore only one option is presented in this consultation document.

The Government provides allocations of 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 has forecast industrial allocation volumes for the coming five years. This forecast is based on the existing allocative baselines and production levels of businesses in eligible activities.

The Commission has forecast industrial allocation to be 26.4 million units over the period 2025–29, which is approximately 25 per cent of the total emissions volume allocated to NZ ETS sectors.

The Commission’s recommendations are outlined in table 6⁹.

Table 6: Option for step 4

| | Year (Million NZUs) | | | | |
|------------------------------|------------------------|------|------|------|------|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Industrial allocation | -5.9 | -5.8 | -5.0 | -4.9 | -4.8 |

The Government is implementing relevant provisions of the Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Act 2023 by collecting data to update allocative baselines. All data are now being reviewed.

⁹ For further information, see the Commission’s [Technical Annex 1, from page 12](#).

The updated allocative baselines are not expected to be set in regulations until the second half of 2024, because they will include the recalculation of the general electricity allocation factor in July 2024. This means the changes to forecast industrial allocation will be considered in the 2025 settings analysis.

Questions

Questions

5. Do you agree with the calculation for step 4? If not, why not? Do you have any evidence or information to support a different option?

Step 5: 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 provide liquidity to the market and help to reduce price volatility. However, the current number of units banked presents risks to achieving emissions budgets.

Some of the banked NZUs are held to meet future surrender liabilities or for other reasons, while others are estimated to be held for investment purposes and will more readily be sold when market price expectations change – these are considered ‘surplus’ to the needs of emitters. The use of these surplus NZUs by emitters to meet increased NZ ETS obligations potentially causes challenges in meeting emissions budgets. To reduce this risk, the surplus needs to be managed.

Units move into accounts as they 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 NZ ETS participants to meet their ETS obligations.

The methodology used to calculate auction volumes includes a surplus reduction step, which means setting an auction limit to reduce the risk of emissions being allowed to exceed emissions budgets. This requires NZ ETS participants to use some NZUs from the surplus to meet their NZ ETS surrender obligations. In 2022, the Commission estimated that the central point of the surplus was 49 million units. Adjustments were made to units available for auction to reduce the surplus to zero by 2030.

The Commission’s estimate of the surplus has increased significantly

The Commission has updated its central surplus estimate to 68 million units, within a range of 51 – 85 million units (as at 30 September 2023). This is an increase of approximately 19 million units on the 2022 surplus estimates.

In the Commission's view, the surplus has increased due to:

- pre-1990 forest allocation units being on-sold by their original recipients at a faster rate than previously estimated (approximately 7 million additional surplus units)
- the increase of approximately 11 million 'low risk' units held by post-1989 forestry participants.

The Commission's methodology and surplus estimate

We have reviewed the Commission's methodology for estimating the surplus and its underlying data. The methodology is the same as when first estimated in 2022. This is outlined in [appendix 2](#) and can also be found in the Commission's 2022 advice on settings¹⁰.

We are interested in your views on the Commission's interpretation of increases in the transfer of pre-1990 units between accounts as additions to the surplus. This is the same methodology as used in previous reports to the Minister. However, it is not certain that transfers result the units becoming available to the wider market.

Timing differences and the surplus

Some forestry removal units create risks to achieving emission budgets. There are two reasons

- Forestry units can be used by an emitter in a different emissions budget period from that in which the removal they represent took place. Such use would allow for higher net emissions in the budget period, posing a risk to budget achievement.
- Additionally, some units in the stockpile represent removals before the first emissions budget period.

We have considered three options, including the Commission's recommendation

The options considered include the recommended option from the Commission.

We have not included an option to extend the timeframe to reduce the surplus to zero beyond 2030. This is because it would decrease the alignment of NZ ETS settings with the second and third emissions budgets and the NDC.

Option 1: No change to surplus reductions despite the updated surplus estimate

This option means continuing with the surplus estimate of 49 million units, and not updating surplus reductions for 2025–28. This option does not include the change to the surplus estimate. The projected value estimated in 2023 would be used for 2029.

¹⁰ He Pou a Rangi | Climate Change Commission. 2022. *Advice on NZ ETS unit limits and price control settings for 2023–2027*. Wellington: Climate Change Commission. Section 3.8.2.

Option 2: Update surplus reductions for 2027–28 for the new surplus estimate

This option means updates to 2027–28 for the new surplus estimate and a projection to 2029.

Option 3: Update surplus reductions for 2025–28 to reflect the new surplus estimate (the Commission’s recommendation)

This option means applying new surplus reductions to all years between 2025–29.

The surplus reductions would be distributed evenly between 2025–29 unlike option 2. Table 7 shows surplus reduction adjustments for option 3.

Table 7: Option 3 surplus reduction adjustment

| | Year (Million NZUs) | | | | |
|---|------------------------|-------|-------|------|------|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Option 3 surplus reduction (million NZUs) | -12.7 | -11.7 | -10.7 | -9.5 | -8.6 |

The numbers above do not include changes to the number of units banked in private accounts since September 2023. We are aware that the number of banked units was marginally smaller at the end of December 2023. For the purpose of consultation, choosing a point in time to determine unit supply settings from improves certainty to market participants and allows comparability and consistency, as noted by the Commission.

Justification for consulting on option 3

The Act mandates that the first two years of settings (ie, 2025–26 for this year) can only be updated in specific circumstances.¹¹ We seek your feedback on whether the thresholds have been met for this option to be considered. The new surplus estimate means status quo settings are potentially misaligned with emissions budgets and targets.

Comparison of options

Table 8 compares the three options for step 5.

¹¹ See section 30GB(5) of the Climate Change Response Act 2002 which includes “(b) the Minister is satisfied that the amendment is justified by ... (i) a change that has significantly affected any matter that the Minister was required to consider under section 30GC when recommending the limits and price control settings that are to be amended.”

Table 8: Options comparison for step 5

| | Option One – Status quo | Option Two – Update surplus reduction 2027–29 | Option Three – Update surplus reduction 2025–29 |
|---|---|--|---|
| Likelihood of incentivising emissions reductions | 0 Does not address the risks that an increase in the surplus estimate poses to the achievement of emissions budgets and targets (in particular the second emissions budget and NDC1). | ++ This option would be more likely to be in strict accordance with emission targets and budgets due to reducing the surplus at a faster rate than the status quo. | ++ Similar to option two. |
| Support the proper functioning of the NZ ETS | 0 | -- Sharp reduction of unit limits for 2027–29 will likely impact market function as participants will have considerably reduced auction volumes from which to seek unit for compliance needs. Participants would need to change market strategies. | - Small negative impact on regulatory certainty as update to unit settings will come into force next year instead of setting remaining unchanged for two years. |
| Overall assessment | 0 | - | + |

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

Questions

| Questions |
|---|
| 6. Do you agree with the Commission’s surplus methodology and estimate? If not, why not? |
| 7. What is your preferred option for step 5? Is there any other option that you think we should consider? |
| 8. We are interested in your views on the Commission’s interpretation of increased transfers of pre-1990 units. Do you think the sale of pre-1990 units have increased? If so, what factors are influencing this? |

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 9 sets out the calculation of the annual auction volumes using the recommended options (and in the case of all steps aside from step 1 and 5, the only options) for 2025–29.

Table 9: Calculation of the base auction volume

| Step | Year (Million NZUs) | | | | |
|--|------------------------|------------|------------|------------|------------|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Step 1: Align with climate change targets | 66.7 | 64.2 | 61.8 | 59.3 | 57.0 |
| Step 2a: Allocate to non-NZ ETS sectors | -41.5 | -41.0 | -40.7 | -40.4 | -40.0 |
| Step 2b: Allocate to NZ ETS sectors | 25.2 | 23.2 | 21.2 | 19.0 | 17.0 |
| Step 3: Make technical adjustment | -0.7 | -0.7 | -0.7 | -0.7 | -0.7 |
| Step 4: Account for industrial allocation volumes | -5.9 | -5.8 | -5.0 | -4.9 | -4.8 |
| Step 5: Set the reduction volume to address the unit surplus* | -12.7 | -11.7 | -10.7 | -9.5 | -8.6 |
| Step 6: Set the approved overseas unit limit | 0 | 0 | 0 | 0 | 0 |
| Step 7: Calculate the base auction volumes* | 5.9 | 5.0 | 4.9 | 3.9 | 3.0 |

*Note we will provide final numbers when seeking final Cabinet approval once a preferred set of options is identified following consultation.

Table 9 excludes adjustments for abatement that was not expected when emission budgets were set (step 1) and for the possibility the non-NZ ETS share of the budget will be exceeded. Both adjustments would reduce auction volume.

Accordance with emissions budgets

The Ministry for the Environment undertook internal modelling to test the accordence of the different unit settings options with emissions budgets. The modelling used an updated version of the ETS Market Model.¹² Emissions outside of the NZ ETS (mostly agriculture) were assumed to be as per the Commission’s settings advice, which does not include historical revisions to

¹² A full description of the model and the model itself is available on the [Ministry for the Environment website](#).

agriculture emissions contained in the 2024 Greenhouse Gas Inventory^{13,14}. A range of scenarios were modelled, testing different price assumptions, afforestation responses, and stockpile levels. As with any modelling, there is a degree of uncertainty in the projected results and that uncertainty increases the further out the projections extend.

The internal modelling shows that the Commission's proposed settings are more likely to be in strict accordance with meeting emissions budgets across the scenarios tested than current settings.¹⁵ Using the Commission's projected emissions for non-NZ ETS sectors (without the latest 2024 inventory data), the Commission's proposed settings are expected to accord with emissions budgets one (2022–25) and two (2026–30) and only narrowly miss emissions budget three (2031–35). However, there is greater uncertainty for emissions budget three, due to the time horizon.

Furthermore, the Commission's settings reduce the total number of units banked in private accounts by a larger amount than the status quo, reducing the magnitude of the risk that these units pose to meeting emissions budgets.¹⁶ Finally, the Commission's proposed settings are likely to lead to higher prices relative to current settings (all else equal), and therefore greater incentives for emissions reductions and removals.

¹³ See table 1 of Pou a Rangi Climate Change Commission's [Advice on NZETS unit limits and price control settings for 2025-2029 Technical Annex 1: Unit limit setting](#).

¹⁴ The Commission's data does not include the latest Greenhouse Gas Inventory data, which was released on 18 April 2024, after the Commission's advice. Due to methodological changes, emissions from the agricultural sector were revised upwards by about 1.8Mt in 2021.

¹⁵ Emissions budgets set the total quantity of net emissions that is allowed to be released during an emissions budget period. Emissions budgets will act as stepping stones to reaching the 2050 emissions reductions targets. See the [Ministry for the Environment website](#) for further information.

¹⁶ The surplus of NZUs poses a risk to the achievement of emissions budgets because emitters could choose to use these units to meet surrender obligations rather than reduce emissions at source. This is a risk to the budgets as the use of these units can shift the timing of emissions reductions from one period to another.

Options for price control settings

Auction price controls provide the Government with tools to manage the supply of units. The price controls are intended to be used very rarely and are not intended to set secondary market unit prices.

Auction price controls include the:

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

The auction 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.

The auction price floor has a different purpose to the confidential reserve price. The confidential reserve price functions at auctions to prevent the sale of units materially below prevailing secondary market prices. While the auction price floor stays at a prescribed value for each auction in a year, the confidential reserve price is not revealed and can be different at each auction.

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. In 2023, the Government adopted the Commission’s recommended two-tiered design for the CCR and trigger prices.

How do we approach price control settings?

We have considered the Commission’s 2024 advice on price control settings. The Commission recommended that the current settings are fit for purpose, with only slight adjustment for the latest inflation forecasts and with extension to 2029. The current settings are based on the Commission’s 2022 modelling and analysis of the range of unit prices consistent with meeting New Zealand’s emissions reduction targets.

The auction floor price and the cost containment reserve (CCR) trigger prices are closely interrelated. The Commission have advised against making decisions on either setting in isolation.

We have included two options for price control settings. An extension to the status quo is the first option, and this is consistent with the Commission’s recommendation. The second option is to lower the price corridor trigger prices (ie, lower the trigger prices for both the auction floor and the CCR).

We also considered options to increase the price control settings, and to remove them. Increasing the price control settings is not an option included in this consultation document because, given recent price trends, the price floor would likely be above the market price for

NZUs and potentially for longer. A higher price floor could encourage speculation, increasing the risk of it being triggered, and impacting the functioning of the NZ ETS if supply of units through auctions is decreased further. Similarly, increasing the trigger price for the CCR would mean it is set higher than the prices considered needed for meeting emissions budgets. This could place undue costs on the economy if there is a shock in the market and the CCR is set higher than the prices considered necessary to support meeting emissions budgets.

To remove all price interventions, both the auction price floor and the CCR would need to be removed. Removing all price controls would likely increase the level of uncertainty about future price expectations. We do not consider this an appropriate time to remove these price control features.

There is also the possibility of changing just one of the price controls, either the floor or the ceiling. The current approach is to consider both features together as a price corridor. This is because the price corridor was set in relation to decisions on the first emissions reduction plan and supporting modelling. We are interested in your feedback on the value of a price corridor, which signals upper and lower auction prices.

Price control trigger prices (auction price corridor) options

Option 1: Status quo extended (Commission’s recommendation)

Maintain the current price control triggers for 2025 and 2026, and then increase by 3 per cent each year and adjusted for forecast inflation. This is shown in table 10.

Option 2: Lower price corridor trigger prices

This option would involve setting a lower price corridor (ie, a lower trigger for the auction price floor and for the CCR). We have not provided values for a lower price corridor as we are seeking feedback on the factors that could inform lower settings.

A lower price corridor could apply from 2025 if there are circumstances that enable changes to be made to the first two years of settings (see [Justification for consulting on option 3](#)). The triggers would increase at the same rate as status quo (3 per cent and forecast inflation).

Table 10 shows the Commission’s recommended price control triggers for the next five years.

Table 10: Commission’s recommended price control triggers for the next five years

| | 2025 | 2026 | 2027 | 2028 | 2029 |
|---------------------------------|-------|-------|-------|-------|-------|
| Auction floor price (\$) | \$68 | \$72 | \$76 | \$79 | \$83 |
| CCR tier 1 (\$) | \$194 | \$205 | \$216 | \$227 | \$238 |
| CCR tier 2 (\$) | \$243 | \$256 | \$270 | \$283 | \$298 |

There are different roles that an auction floor price could play, and we are interested in your feedback on the relative importance of these.¹⁷ They include managing oversupply and market and investor signalling.

Table 11: Options comparison for trigger prices

| | Option One – Status quo | Option Two – Lower price control settings |
|--|-------------------------|---|
| Likelihood of incentivising emissions reductions | 0 | - This option would reduce the ability for the Government to reduce supply if removals/reductions are cheaper than estimated when emissions budgets were set, preventing over-achieving emissions budgets to meet the NDC1. Risk of decreased NZU prices increasing surplus stockpile through liquidity of hedged volume. |
| Support the proper functioning of the NZ ETS | 0 | 0 |
| Support consistency of NZU prices with the level and trajectory of international emissions prices | 0 | - NZU prices within this range would be in the low range of forecast international emissions prices. |
| Manages overall costs to the economy and households | 0 | + A lower corridor could allow lower prices, which reduces cost impact on households and the economy. |
| Overall assessment | 0 | 0 |

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

¹⁷ The roles are explained by the Commission from page 61 of their report *Advice on NZ ETS unit limits and price control settings for 2023-2027 (July 2022)*.

Questions

Questions

9. What is your preferred option for the price control corridor? Is there any other option that you think we should consider? What factors should inform the price these are set?
10. Do you consider a price corridor (ie, an auction floor price and a CCR), to be important? Why or why not?

Cost containment reserve volume

The volume of the CCR needs to be large enough to enable it to perform its function of mitigating against auction prices that are too high.

In its 2022 and 2023 recommendations on NZ ETS settings, the Commission recommended that the CCR volume should be equal to the surplus stockpile reduction volume for each year. If the CCR was triggered and fully sold, there would be no units supplied above the overall limit on units and the surplus would not change.

This year, the Commission recommended maintaining the volume of the CCR for 2025–28 as set in 2023, plus an extension to 2029, despite the increase in the Commission’s surplus reduction volume. Decoupling CCR volume from surplus reduction represents a change of methodology to previous years where the volume in the CCR was adjusted with changes in the surplus estimate.

There are two options for the cost containment reserve volume.

Option 1: Status quo: maintain the current CCR volume

This option means maintaining the current volume as set in regulations and extending it to 2029 (Commission’s recommendation). This reflects a change in methodology of how CCR was set previously (ie, to reflect changes to surplus reduction).

Option 2: Increase CCR volume to reflect surplus reduction (step 5)

Only the tier 2 volume would increase. The tier 1 volume would remain the same as it is based on an estimate of the average demand gap between the NZ ETS cap and forecast emissions for sectors covered by the NZ ETS. This tier 1 volume should therefore meet required demand if NZ ETS participants find it more difficult than expected to reduce their emissions.

The options for CCR volumes are outlined in table 12.

Table 12: Options for cost containment reserve volume

| | 2025 | 2026 | 2027 | 2028 | 2029 (new) |
|--|------|------|------|------|------------|
| Tier 1 volume (same for both options) | 2.6 | 2.3 | 2.1 | 1.9 | 1.7 |
| Tier 2 volume status quo extended (option 1) | 4.5 | 4.2 | 3.8 | 3.4 | 3.0 |
| Tier 2 volume (option 2) | 10.1 | 9.4 | 8.6 | 7.6 | 6.9 |
| Total CCR volume (option 1) | 7.1 | 6.5 | 5.9 | 5.3 | 4.7 |
| Total CCR volume (option 2) | 12.7 | 11.7 | 10.7 | 9.5 | 8.6 |

Table 13: Options comparison for cost containment reserve volume

| | Option One – Maintain the current CCR volume | Option Two – Increase CCR volume to reflect surplus reduction |
|---|--|---|
| Likelihood of incentivising emissions reductions | 0 | - If the CCR is triggered, there is increased risk that the surplus stockpile is maintained. |
| Support the proper functioning of the NZ ETS | 0 | - The surplus stockpile undermines the effectiveness of the NZ ETS. |
| Support consistency of NZU prices with the level and trajectory of international emissions prices | 0 | 0 |
| Manage overall costs to the economy and households | 0 | + More units in the CCR could provide increased protection against higher prices if tier 2 is triggered. |
| Overall assessment | 0 | - |

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

Questions

Questions

11. What is your preferred option for the CCR volume? Is there any other option that you think we should consider?

Impacts of NZ ETS unit settings

NZ ETS unit and price control settings do not directly set a price path for the NZ ETS. Price controls set the boundaries within which price discovery by the market is largely expected to occur.

However, the secondary market could trade outside these boundaries (and has done so). We have analysed the impact options presented in this consultation document could have on different sectors in table 14.

Note that this analysis assumes that the final set of options leads to NZ ETS prices that are relatively higher than the status quo option in the near term, all else equal (ie, no other changes occur).

We are interested in your views on our impact assessment, and if there are further impacts we have not captured in our analysis.

Table 14: Summary of impacts of NZ ETS unit settings

| Affected groups | Benefits | Costs | Overall impact assessment |
|---|--|---|--|
| Landowners (eg, foresters and farmers) | Returns to foresters are closely linked to NZ ETS prices, with relatively higher prices likely to lead to higher returns. 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). | Increase in land use for exotic carbon forestry 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 term, gradually reducing unit limits is likely to marginally increase the rate of afforestation and farm conversions, subject to existing capacity constraints (eg, labour, seedling supplies). Likely to lower net emissions from increased removals, although these will not be realised for several years. Increased afforestation now may lead to greater downward pressure on prices in the 2030s when these forestry units enter the market in material volumes. |
| Emitting firms subject to NZ ETS obligations | Increased certainty on the direction of future emissions prices for investment decisions. | Higher costs for firms to meet surrender obligations. This may be mitigated by the extent to which firms have hedged their forward obligations, and by the extent to which these additional costs can be passed on to households (see household row below). | The short-term 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, relatively higher NZ ETS prices would increase the incentive for firms to invest in emissions reduction actions. |
| Firms that receive industrial allocation of | | | At emissions prices over \$100 there is increased |

| Affected groups | Benefits | Costs | Overall impact assessment |
|---|---|--|---|
| NZUs (additional to firm impacts above) | | | risk that industrial allocation is no longer effective in preventing emissions leakage for some activities. A rising NZU price increases the likelihood of this occurring. |
| Other NZ ETS participants | Relatively higher prices would increase the financial value of stockpiled units, both those held for hedging purposes and the liquid stockpile. | | |
| Households | Benefits associated with emissions reductions and achieving emissions budgets, the NDC, and the 2050 target. | The impacts of emission prices on households are regressive, and relatively higher NZ ETS prices will likely increase these impacts. 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 response. | A \$10 increase in NZU prices is estimated to increase annual household expenditure on emissions costs by about \$87 for the average household (\$1.67 per week). ¹⁸ For lower income households, the increase is estimated at \$46–49 per annum, while for higher income households it is estimated at \$125–145. |
| Wider economy | Relatively higher prices are likely to induce greater emissions reductions and removals, although in both cases these are likely to take time to materialise. | Relatively higher NZ ETS prices are likely to marginally increase inflationary pressures, in an already overheated economy, although we judge this highly unlikely to influence the trajectory of monetary policy. | A \$10 increase in NZU prices is estimated to contribute to a 0.1% increase in inflation as measured by the Consumer Price Index, largely due to higher fuel and electricity prices. ¹⁹ |

Questions

Questions

12. Do you agree with our impact analysis? Are there any further impacts that should be considered, which we have not captured in our analysis?

¹⁸ 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.

¹⁹ This assumes 100 per cent instantaneous pass through of ETS costs to households, and no resulting change in household consumption. Therefore, this is an upper bound estimate of the impact on inflation.

Consultation questions and providing feedback

Consultation questions

The questions below are also included under the relevant sections throughout the document.

Questions

1. What do you think of each of the options presented for step 1? What is your preferred option? Is there any other option that you think we should consider?

2. If option 3 for step 1 was proposed, what criteria could be used to identify eligible reductions and removals?

3. Do you agree with the calculation for step 2? If not, why not? Do you have any evidence or information to suggest a different share of the emissions budget?

4. Do you agree with the calculation for step 3? If not, why not? Do you have any evidence or information to support a different option?

5. Do you agree with the calculation for step 4? If not, why not? Do you have any evidence or information to support a different option?

6. Do you agree with the Commission's surplus methodology and estimate? If not, why not?

7. What is your preferred option for step 5? Is there any other option that you think we should consider?

8. We are interested in your views on the Commission's interpretation of increased transfers of pre-1990 units. Do you think the sale of pre-1990 units have increased? If so, what factors are influencing this?

9. What is your preferred option for the price control corridor? Is there any other option that you think we should consider? What factors should inform the price these are set?

10. Do you consider a price corridor (ie, an auction floor price and a CCR), to be important? Why or why not?

11. What is your preferred option for the CCR volume? Is there any other option that you think we should consider?

12. Do you agree with our impact analysis? Are there any further impacts that should be considered, which we have not captured in our analysis?

We are specifically seeking feedback on the impact these options have on Māori

We recognise that, as rangatira, kaitiaki, land and forest owners, rural communities, workers, business owners, and whānau, Māori have a significant interest in climate change action and the NZ ETS.

The multiple interests in the NZ ETS mean that options could have positive, negative and neutral impacts simultaneously.

For example, an increase in New Zealand Unit (NZU) price could benefit Māori forest owners or owners of land suitable for afforestation, due to the possibility of increased returns from carbon. This would provide particular benefit to those entered in the post-1989 permanent forest category, as well as to participants registered under averaging accounting (as they no longer face surrender obligations when they harvest).

However, increased emissions costs will also have implications across the economy, with flow-on effects for households and communities. Whānau Māori are disproportionately represented in lower-income groups with the most limited ability to absorb cost increases.

We have analysed the impact of the options presented in the consultation document on different affected groups, detailed in table 13. However, we acknowledge the possibility of gaps in our analysis, including on impacts specific to Māori.

Therefore, as part of this consultation, in addition to the questions on each issue we are specifically requesting views from Māori on impact these issues have on them. We will include this feedback in our analysis to inform the Government's final decision-making following this consultation.

How to have your say

The Government welcomes your feedback on the issues described in this consultation document. The questions throughout the document and summarised here are intended as a useful guide. You do not have to answer them all and any additional comments are welcome.

To ensure that those reading and analysing submissions clearly understand your point of view, you should explain the reasons for your views and give any supporting evidence.

You are welcome to submit on both the issues and options presented in this document and those in the consultation on the [NZ ETS regulatory updates](#) in the same submission. As part of the respective analyses, we will consider any feedback that you provide relating to either set of issues.

Timeframes

This consultation starts on 15 May 2024 and ends on 14 June 2024. Submissions should be made by no later than this date, to ensure that your views are considered in our analysis.

Submissions made after this date will be received and noted, but we may not be able to reflect the views presented in late submissions in our analysis and decisions.

When the consultation period has ended, we will develop recommendations on changes to regulations.

How to make a submission

There are two ways you can make a submission:

- Via [Citizen Space](#), our consultation hub. You can also provide feedback on NZ ETS regulations consultation at the same time if this is of interest to you.
- Write your own submission.

If you want to provide your own written submission, you can include this as an uploaded file in Citizen Space. We prefer that you don't email or post submissions as this makes analysis more difficult. However, if you need to please send written submissions to NZ ETS settings consultation, Ministry for the Environment, PO Box 10362, Wellington 6143 and include:

- the title of the consultation
- your name or organisation
- your postal address
- your telephone number
- your email address.

If you are emailing your submission, send it to etsconsultation@mfe.govt.nz as a:

- PDF
- Microsoft Word document (2003 or later version).

Submissions close at 5:00 pm on 14 June 2024.

For more information

Please direct any queries to:

Email: etsconsultation@mfe.govt.nz

Postal: NZ ETS annual settings updates, Ministry for the Environment,
PO Box 10362, Wellington 6143

Publishing and releasing submissions

All or part of any written comments (including names of submitters), may be published on the Ministry for the Environment's website, environment.govt.nz. Unless you clearly specify otherwise in your submission, the Ministry will consider that you have consented to website posting of both your submission and your name.

Contents of submissions may be released to the public under the Official Information Act 1982 following requests to the Ministry for the Environment (including via email). Please advise if you have any objection to the release of any information contained in a submission and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding

to requests for copies of, and information on, submissions to this document under the Official Information Act.

The Privacy Act 2020 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Any personal information you supply to the Ministry in the course of making a submission will be used by the Ministry only in relation to the matters covered by this document. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry may publish.

If you have any questions or want more information about the submission process, please email etsconsultation@mfe.govt.nz.

Appendix 1: Alignment of criteria with mandatory consideration for updating settings

The Climate Change Response Act 2002 prescribes mandatory factors the Minister of Climate Change must consider when determining settings. These relevant factors can also justify settings that do not strictly accord with these emissions targets.

These mandatory considerations are outlined in table 14, along with explanations of how we have considered the relevant factors in our analysis. Some of these factors have been used to derive criteria to evaluate how these options compare with the status quo, as provided in table 1.

Table 15: Considerations for determining unit limits and price control settings

| Relevant matters in section 30GC of the Climate Change Response Act 2002 | Criteria that reflect this matter |
|--|--|
| <p>The Minister must be satisfied that the limits and price control settings are in accordance with:</p> <ul style="list-style-type: none"> (a) the emissions budget and the nationally determined contribution (b) the 2050 target. | <p>The criterion ‘<i>likelihood of incentivising (net) emissions reductions</i>’ described in table 1 is used to assess whether the option increases or decreases the likelihood that emissions budgets will be met. This recognises a potential range of options that might align with emissions budgets, but which have different risk levels.</p> |
| Matters the Minister must consider | |
| <p>Projected trends in greenhouse gas emissions, including both emissions covered by the NZ ETS and those that are not covered.</p> | <p>This is considered when determining the unit limits as an input to emissions inside and outside the NZ ETS.</p> |
| <p>The proper functioning of the NZ ETS.</p> | <p>This is considered as a criterion, as described in table 1.</p> |
| <p>International climate change obligations and contracts New Zealand may have for accessing offshore mitigation from other carbon markets.</p> | <p>New Zealand has no current instruments or contracts with other jurisdictions to access emissions reductions in their carbon markets.</p> |
| <p>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.</p> | <p>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.</p> |
| <p>The recommendations made by the Climate Change Commission (the Commission) under section 5ZOA of the Act.</p> | <p>The Commission’s recommendations are included among the options considered for all NZ ETS unit settings decisions.</p> |
| Additional matters the Minister must consider in analysing price control settings | |
| <p>The impact of emissions prices on households and the economy.</p> | <p>This is considered within the criterion ‘Management of overall costs to the economy and households’, as described in table 1.</p> |
| <p>The level and trajectory of international emissions prices (including price controls in linked markets).</p> | <p>This is considered in the criterion ‘Support for consistency of NZU prices with the level and trajectory of international emissions prices’, as described in table 1.</p> |

| Relevant matters in section 30GC of the Climate Change Response Act 2002 | Criteria that reflect this matter |
|--|--|
| Inflation. | <p>All price control options have been adjusted for forecast inflation.</p> <p>Inflationary impacts of the NZU price are considered in the criterion 'Management of overall costs to the economy and households', as described in table 1.</p> |

Appendix 2: Methodology for estimating surplus

Below is a summary of the methodology the Commission uses for estimating surplus, which has been the same since the Commission first estimated surplus in 2022.

The Commission estimates the volumes of three types of units that are unlikely to be available to the market and subtracts that amount from total stockpile. The three unit types are outlined below.

Units held for post-1989 forest harvest liabilities. Owners of forests planted after 1989 receive NZUs for the carbon stored in their forests. However, when the forest is harvested, they must surrender a large proportion of these units back to the Government. This means that forestry participants need to hold a large number of units in advance of harvesting their forests.

Units held for hedging by market participants. It is common practice for NZ ETS participants to hold NZUs to cover a proportion of their compliance obligation over a certain period in advance to manage their exposure to NZU price risk. This is a legitimate form of market risk management known as hedging, and it is important for the stable operation of the market.

Pre-1990 forest allocations held long term. Pre-1990 units were originally allocated to owners of forests planted before 1990 as partial compensation for the restriction the NZ ETS put on their ability to change land-use units held for post-1989 forest harvest liabilities.