



2026 Report on Reasons for Differences between Prescribed ETS Limits and Price Control Settings for Units and the Climate Change Commission's Advice on these Settings

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Introduction

1. This report sets out the reasons for differences between the Climate Change Commission's (the Commission) 2026 advice on limits and price control settings for units in the New Zealand Emissions Trading Scheme (ETS settings) and the settings that have been prescribed in the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020¹ (regulations).
2. A report explaining the differences is required under section 30GC(7) of the Climate Change Response Act 2002 (CCRA).

¹ [Climate Change \(Auctions, Limits, and Price Controls for Units\) Regulations 2020](#).

Context

3. Unit limits restrict the supply of emissions units into the ETS through auctions. Unit limits include:
 - a. a limit on the units available by auction (base auction volumes and cost containment reserve (CCR) volumes)
 - b. a limit on approved overseas units – currently zero
 - c. an overall limit on units – which consists of units available by auction (including CCR volumes), by other means (primarily industrial allocation) and approved overseas units.
4. Price controls settings effectively set the bounds for high and low prices for units sold at ETS auctions.
5. Regulations prescribing ETS settings need to be updated each year. This is to meet the requirement under the CCRA² that, at all times, settings are in place for each of the following five calendar years.
6. The Commission provides annual advice with its recommendations on ETS settings for the upcoming five years under section 5ZOA of the CCRA. The Minister of Climate Change tabled the Commission’s advice on ETS settings for 2026 to 2030 on 24 April 2026.³

² Climate Change Response Act 2002 No 40 (as at 25 August 2026), Public Act 30GB Regulations about limits and price control settings for units – New Zealand Legislation, section 30GB(3).

³ He Pou a Rangi Climate Change Commission, Advice on NZ ETS unit limits and price control settings for 2027–2031, April 2026 C.31.

Differences in unit limits

7. The Commission recommended that the Government maintain the current ETS auction volumes through to 2030 and set 2031 auction volumes on the basis that the surplus of units in the market has been depleted by then. This results in a total of 11.7 million units over 2027 to 2030 and 3.0 million units for 2031.
8. The Government took the same approach for auction volumes through to 2030 but set lower 2031 auction volumes of 1.1 million units. Both the Commission and the Government set auction volumes using the ETS settings analytical method, which is a flexible organising framework that allows relevant factors, analysis and judgements to be considered in arriving at recommendations for unit limits and price control settings. It first determines the emissions cap for the settings period, and then (for auction volumes) works through the following five steps.
 - Step 1: Make technical adjustments – converting and aligning emissions and units.
 - Step 2: Account for industrial allocation volumes.
 - Step 3: Estimate the New Zealand Unit (NZU or unit) surplus.
 - Step 4: Set the approved overseas unit limit.
 - Step 5: Determine the range of possible auction volumes.
9. This provides a range of potential auction volumes, which are then considered alongside price control options and other relevant factors like risks and uncertainties to determine recommendations for unit limits and price control settings.
10. However, the Commission and Government at times used different input data or made different judgements when working through the steps. This has resulted in the Government adopting different volumes for the 2031 limit on units available by auction, and different volumes for the overall limits on units for 2027 to 2031. The reasons for these differences are explained below.

Lower provisional third emissions budget cap

11. 2025 government emissions projections were used as the basis of the third emissions budget (EB3) caps by both the Commission and the Government. The 2025 projections include both 'with existing measures' (WEM) projections, which reflect expected emissions based on government policies in place, and 'with additional measures' (WAM) projections, which incorporate government policies that are under development or proposed but not yet implemented.
12. For agricultural projections, three different WAM scenarios (A, B and C) were produced, which represent how different levels of efficacy and uptake of agricultural mitigation technology could impact methane emissions. All agricultural WAM scenarios include assumptions of incentives to uptake technology that are not currently outlined in agreed policy nor are currently implemented.
13. The Commission used an EB3 cap of 28.9 Mt CO₂e. This was set using the WAM central projections, including the 'with added measures' agriculture scenario B (WAM B). This was based on the presentation of WAM B as the central projection in the amended second emissions reduction plan (ERP2). The Commission interpreted the presentation of the

WAM B scenario as the central projection as an indication that this scenario represented the Government's policy goal for agricultural emissions.

14. The Government took a more conservative approach and used the WEM agricultural projections in combination with the WAM central projections for other non-agriculture sectors.⁴ This approach reflects currently agreed policies. It results in a provisional EB3 cap of 24.8 Mt CO₂e and reduces 2031 auction volumes.

Updated industrial allocation projections

15. The Government's 2027 to 2031 industrial allocation figures are slightly higher than the Commission's based on updated industrial allocation projections that were unavailable to the Commission at the time of their advice. The updates included:
 - a. receipt of actual industrial allocation figures for 2025
 - b. a delay in expected operation of the New Zealand Steel electric arc furnace.
16. For 2027 to 2030, industrial allocation is 0.3 million units higher than the Commission's forecast. This has no impact on auction volumes over this period (as status quo auction volumes are held unchanged), but results in a marginal corresponding increase in the overall limit on units compared with the Commission's recommendation (0.3 million units across 2027 to 2030).⁵
17. For 2031, industrial allocation is 0.1 million units higher than the Commission's forecast and 2031 auction volumes are adjusted down accordingly.

Discrepancy adjustment

18. As in previous years, the Government incorporated a discrepancy adjustment, which accounts for the changes that would otherwise have been implemented for the first two years of the settings period (ie, 2027 and 2028), but that have regulatory constraints limiting their change. The discrepancy adjustment would also account for differences between current regulations and updated estimates of unit requirements in 2026, which also cannot be changed.
19. The discrepancy adjustment was previously treated as a sub-step within the surplus calculation, and the Government considers it appropriate to retain it as part of the refined framework to help with transparency.
20. The Commission's approach was to update all inputs from 2026 to 2030. With status quo auction volumes fixed in those years, the resulting gap in unit supply was then compared against surplus estimates to determine whether the auction volumes in regulation remained appropriate or not.
21. The main practical difference between the two approaches was that the Government discrepancy adjustment was spread over 2029 to 2031 and therefore creates a small difference with the Commission's 2031 auction volumes.

⁴ The agriculture WEM projections used to determine the provisional EB3 cap includes estimated impacts from the ERP2 afforestation on Crown land policy.

⁵ The increase in industrial allocation from 2026 to 2028 indirectly reduces 2031 auction volumes through the discrepancy adjustment (explained further in discrepancy adjustment section).

Ongoing surplus adjustment

22. The Commission recommended making an ongoing surplus reduction post-2030 totalling about 2.3 million units, resulting in corresponding reductions in auction volumes over the EB3 period. The ongoing surplus adjustment reflects the additional surplus units that would be generated due to declining pre-1990 forestry holdings and emitter hedging volumes over 2031 to 2035.
23. In the Government's recommended auction volumes presented in the ETS settings consultation document, the Government did not include the ongoing surplus adjustment suggested by the Commission. After considering consultation feedback, the final ETS decisions have incorporated an adjustment.
24. The Government included an ongoing surplus adjustment totalling about 1.5 million units over 2031 to 2035, which reflects the additional surplus units that would be generated due to declining pre-1990 forestry volumes. Declining emitter hedging volumes were excluded from the Government's ongoing surplus adjustment on the basis that the interaction between lower future obligations, firms' holding volume, reduced unit acquisition, and therefore stockpile liquidity, needed further consideration before being incorporated into the adjustment.

Phasing of third emissions budget volumes

25. EB3 auction volumes need to be smoothed to address low and negative volumes in late EB3. The Commission's EB3 auction volumes total 7.5 million units, with negative volume first occurring in 2035. The Commission addresses this by redistributing the 2035 negative volume over 2031 to 2034. This results in the last year of auctions occurring in 2034.
26. The Government's EB3 auction volumes are lower than the Commission's, totalling 2.1 million units, with negative volumes first occurring in 2034. The Government further phases auction volumes over EB3 by taking the total volume over 2031- to 2035 and redistributing it over 2031 to 2032. This results in the last year of auctions occurring in 2032.
27. For clarity, the EB3 phasing impacts that fall between 2032 to 2035 are outside of this year's settings period.

Annual differences in auction volumes

28. The annual difference in auction volumes between the Commission's recommendation and Government's decision is shown in table 1.

Table 1: Comparison of the Commission’s 2026 unit limit recommendations with the Government’s decision (differences highlighted with *)

Million units		2027	2028	2029	2030	2031
Prescribed NZUs available by auction (base auction volumes)	Volumes prescribed in regulations	4.3	3.3	2.4	1.7	1.1*
	Commission advice	4.3	3.3	2.4	1.7	3.0*
Total CCR volumes	Volumes prescribed in regulations	5.9	5.3	4.7	3.9	3.5*
	Commission advice	5.9	5.3	4.7	3.9	3.5*
Limit on NZUs available by auction (total of base auction and CCR volumes)	Volumes prescribed in regulations	10.2	8.6	7.1	5.6	4.6*
	Commission advice	10.2	8.6	7.1	5.6	6.5*
Industrial allocation (not subject to ETS settings decision)	Volumes prescribed in regulations	4.0	3.8*	3.7*	3.7*	3.6*
	Commission advice	4.0	3.7*	3.6*	3.6*	3.5*
Limit on approved overseas units	Volumes prescribed in regulations	0	0	0	0	0
	Commission advice	0	0	0	0	0
Overall limit on units**	Volumes prescribed in regulations	14.2*	12.4*	10.8*	9.3*	8.2*
	Commission advice	14.6*	12.7*	10.7*	9.2*	10.0*

* Difference between Commission advice and volumes prescribed in regulations.

**Note the Commission did not update the overall limits for 2027 and 2028 due to the CCRA’s restrictions on amending those years of the settings. The Government chose to update the overall limits for 2027 and 2028 to align with best estimates of industrial allocation volumes, with the amendment justified because of a change to the anticipated volumes of greenhouse gases to which the ETS applies – specifically greenhouse gases volumes for firms eligible for industrial allocation.⁶

⁶ [Climate Change Response Act 2002 No 40 \(as at 25 August 2026\), Public Act 30GC Requirements for regulations about limits and price control settings for units – New Zealand Legislation, section 30GC\(5\)\(a\)\(i\).](#)

Differences in price control settings

29. Both the Commission and the Government adjusted price controls for the final three years of the settings period (2029 to 2031) to account for inflation. The Commission had used earlier forecasts of inflation rates⁷, which were then updated by the Government to reflect the most recent inflation rates from the Budget Economic and Fiscal Update 2026.⁸ This results in updated price controls that vary in some years by \$1 to \$4 compared to the Commission's advice. As with last year, price control settings were also rounded to the nearest whole number.
30. The impact of differences in inflation adjustments is somewhat larger than normal as the Budget 2026 forecasts incorporated some of the impacts of fuel price shock caused by the Middle East conflict that began at the end of February.

Table 2: Differences in price control settings between the Commission's 2026 advice and those prescribed in regulations

		2027 (no difference)	2028 (no difference)	2029	2030	2031
Cost containment reserve trigger price	Tier 1	\$213	\$224	\$241	\$253	\$266
		CCC \$213	CCC \$224	CCC \$239	CCC \$251	CCC \$264
	Tier 2	\$267	\$280	\$301	\$316	\$332
		CCC \$267	CCC \$280	CCC \$298	CCC \$313	CCC \$328
Auction reserve price		\$75	\$78	\$84	\$89	\$93
		CCC \$75	CCC \$78	CCC \$83	CCC \$88	CCC \$92

Note: CCC = Climate Change Commission.

31. There were no differences between the Commission's recommended cost containment reserve volumes and those agreed by the Government.

Use of lower provisional third emissions budget cap

32. When making ETS settings decisions, the Government used a lower provisional EB3 cap than the cap recommended by the Commission. A lower cap could possibly have required higher price controls than those recommended by the Commission in order to meet the accordance requirements set out in the CCRA.
33. However, internal MCERT modelling provided confidence that the existing price controls remain appropriate with the proposed provisional EB3 cap. Modelling using scenarios broadly aligned to the updated provisional cap suggested the auction price floor remains appropriate for EB3. Additionally, the possible EB3 gap remains highly uncertain and is likely to reduce further with additional complementary policies.

⁷ [Half Year Economic and Fiscal Update 2025 | The Treasury New Zealand.](#)

⁸ [Budget Economic and Fiscal Update 2026 | The Treasury New Zealand.](#)

34. The Government also viewed that extended status quo price control settings (as recommended by the Commission) best supported stability, predictability and proper functioning of the ETS market. This approach was also strongly supported by consultation feedback.
35. For those reasons, the Government did not adjust price control settings from those recommended by the Commission. As noted in the Commissions advice, there remains time to assess what the appropriate price controls for EB3 should be.

Temporary lower CCR tier

36. The Commission recommended that if the Government amended the CCRA to move to biennial ETS settings decisions, and the next settings decision would not be until 2028, that the Government should adopt a temporary lower CCR tier to address the undersupply risk from 2028 to 2030.
37. The Government decided after consultation that it would not progress with the planned change to biennial ETS settings decisions and that annual decisions would continue.⁹ For this reason, it will not adopt a temporary lower CCR tier and will instead consider undersupply risks as part of annual ETS settings decisions.

⁹ The Climate Change Response Amendment Bill as introduced still retains the change to biennial settings, but the Government will recommend it be removed as the Bill progresses.