

New Zealand Emissions Trading Scheme unit settings and annual regulatory updates 2024

Summary of submissions



Ministry for the
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Te Kāwanatanga o Aotearoa
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Introduction

From 15 May to 14 June 2024, the Government consulted on proposals to update New Zealand Emissions Trading Scheme (NZ ETS) unit settings for the period 2025 to 2029. This included two webinars held on 28 and 29 May 2024. Simultaneously, the Government consulted on technical updates to NZ ETS regulations for 2024.

This report summarises the views expressed from public consultation on updates to NZ ETS unit settings, and proposed changes to NZ ETS regulations, described in the consultation documents:

- [Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024](#)
- [Proposed changes to New Zealand Emissions Trading Scheme regulations 2024](#).

It does not provide an analysis of those views or recommendations in response to them. Input from submissions was incorporated into policy development and advice to the Minister of Climate Change.

Why do we need to update New Zealand Emissions Trading Scheme limit and price control settings for units in 2024?

The NZ ETS is one of the Government's main tools to address climate change. The NZ ETS supports and encourages domestic and global efforts to reduce greenhouse gas emissions. Its purpose is to help Aotearoa New Zealand to meet its international obligations under the Paris Agreement, its 2050 target, and emissions budgets. The Government sets the number of units supplied into the scheme over time. This limits the quantity of greenhouse gases that emitters can emit, in line with Aotearoa New Zealand's emission reduction targets.

Aotearoa New Zealand's first emissions budgets were set in 2022. These place limits on the emissions that Aotearoa can produce for 2022–25, 2026–30, and 2031–35. The Government published the first emissions reduction plan (ERP1) on 16 May 2022, and development of the second emissions reduction plan (ERP2) is underway, set to be published before the end of 2024.

ERP1 and ERP2 describe how Aotearoa New Zealand is going to meet the first (2022–25) and second (2026–30) emissions budgets and progress towards the 2050 target. Emissions pricing, through the NZ ETS (and the related synthetic greenhouse gas levy), is an important part of the ERP policy package.

NZ ETS unit limits and price controls are updated so they continue to align with emissions budgets and targets. Updates for the years 2025–29 comply with the statutory requirement that unit settings cover each of the next five calendar years at all times, which provides certainty to the market and ensures the proper functioning of the NZ ETS.

Why do we need to update regulations relating to the New Zealand Emissions Trading Scheme in 2024?

Businesses interact with the NZ ETS in different ways. Some people and businesses must report their emissions, and some also must surrender emission units to cover their direct greenhouse gas emissions or the emissions associated with their products. Others may have opportunities to earn New Zealand Units (NZUs) by carrying out an eligible removal activity that reduces emissions reported in New Zealand's Greenhouse Gas Inventory. Some businesses are eligible to be allocated emission units under the NZ ETS.

These interactions are supported by a set of regulations that help the NZ ETS to run efficiently and accurately. This means that, periodically:

- existing regulations need to be amended or replaced
- new regulations need to be created
- technical factors need to be updated to keep them current.

Table 1: Regulations affected by consultation proposals

Regulations under the Act	Abbreviation
Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020	Auction Regulations
Climate Change (Liquid Fossil Fuels) Regulations 2008	LFF Regulations
Climate Change (Other Removal Activities) Regulations 2009	ORA Regulations
Climate Change (Stationary Energy and Industrial Processes) Regulations 2009	SEIP Regulations
Climate Change (Unique Emissions Factors) Regulations 2009	UEF Regulations
Climate Change (Unit Register) Regulations 2008	Unit Register Regulations
Climate Change (Waste) Regulations 2010	Waste Regulations

Most of the proposed changes to these regulations are technical and operational, involving either:

- recalculations of values listed in the regulations based on new data, which do not entail policy decisions, or
- minor clarifications and corrections to the text of the regulations, which do not change the policy intent.

Who responded to the consultation

We received 109 submissions. Some submitters responded to both consultations, and others just one¹, therefore, numbers in the tables below will not add up to the total (109) number of submissions received.

¹ Form submissions with unanimous view were designated as one submission.

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

We received 100 submissions² on annual updates to NZ ETS limits and price control settings for units through our consultation tool, Citizen Space, and email.

Table 2 sets out the number of submissions received from individuals and groups.

Table 2: Number of submissions by submitter group

Submitter type		Number
Individual		23
Academic or subject matter expert	8	77
Iwi/hapū	2	
Local government	2	
Business	43	
Industry body	4	
Non-governmental organisation (NGO)	10	
Other	8	
Total		100

Proposed changes to New Zealand Emissions Trading Scheme regulations 2024

We received 38 submissions on proposed changes to the NZ ETS regulations 2024 through our consultation tool, Citizen Space, and email.

Table 3 sets out the number of submissions received from individuals and groups.

Table 3: Number of submissions by submitter group

Submitter type		Number
Individual		10
Academic or subject matter expert	2	28
Iwi/hapū	–	
Local government	3	
Business	19	
Industry body	2	
Non-governmental organisation	2	
Other/not applicable	–	
Total		38

² This is a different number than referenced in the Cabinet paper *New Zealand Emissions Trading Scheme Unit Limits and Price Control Settings for 2025-2029*, which cited '106' submissions, due to a counting error that has since been corrected after quality assurance.

Annual updates to NZ ETS limits and price control settings for units 2024

The consultation document sought feedback on options for unit limits and price control settings. The consultation document also sought feedback on matters informing those options, as well as on the impact of NZ ETS settings.

Overall, submitters supported tightening unit limits, reducing the surplus, and maintaining the current price control settings. Submitters generally agreed with the consultation document's estimate of the surplus. The details of submitters' responses, including differences in view, are outlined below.

Options for unit settings

Submitter views are presented through the methodological steps 1–7 in the consultation document.

Step 1: Align with climate change targets

Under this step, the Ministry consulted on ways to align with climate change targets.

The status quo option was to make no changes other than to add settings for 2029. Option 2 was to adjust the demonstration path and shares of effort by applying the most recent Greenhouse Gas Inventory methodological changes. Option 3 was, in addition to option 2, to make further adjustment to manage the impact of non-NZ ETS policies.

We also consulted on criteria for identifying eligible non-NZ ETS policies, should option 3 be the submitter's preferred option.

Of those submitters who expressed a preferred option for step 1:

- 40 supported option 3: further adjustment to manage the impact of non-NZ ETS policies
- 30 supported option 2: minimum adjustment
- five supported option 1: status quo.

The general sentiment from those who supported option 3, further adjustment, was that this option strengthens the NZ ETS in a way that will support domestic investment towards meeting future emissions reductions targets, while mitigating the need for offshore abatement.

Many of those who supported option 2, minimum adjustment, stated this was because this was recommended by the Climate Change Commission (the Commission). The Commission recommended option 2 because it considered Government direction is needed before further adjustment (option 3) should be made.

For those submitters who supported option 2:

- three noted this would support better accuracy in tracking emissions against targets
- one noted option 2 could increase the NZU price to what they considered will influence emitter and consumer behaviours
- one noted this would support proper functioning of the ETS
- two noted that option two would provide more certainty to the market than Option 3, even considering the impact for not adjusting to non-NZ ETS policies.

Some submitters explicitly noted their concerns with option 3:

- One submitter identified the trade-off between over-achieving emissions budgets and the costs that government, business and individuals are willing to pay; noting that adjusting for non-NZ ETS policies may raise unit prices, creating short-term inflationary and distributional impacts.
- Others mentioned that further analysis could be undertaken if the Government looks to more actively manage the impact of non-NZ ETS policies.

Suggestions from submitters on the possible criteria to identify eligible non-ETS policies included:

- only adjusting where it is the result of government policies and investments, not private decisions in response to the NZ ETS and other market forces, to avoid the risk of market manipulation and possible disincentives for future action where market participants believe these might influence future unit limits
- criteria that are relatively broad, including any identifiable, significant non-NZ ETS reduction that otherwise would have resulted in those NZUs being sought from the NZ ETS market, such as reductions resulting from firm closures
- the effect on overall emissions must be certain and easily measurable
- only adjusting where economic activity remains constant at a lower level of pollution
- setting a threshold of around 80 per cent likelihood that the unanticipated reduction would take place, before reducing auction units.

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 consultation document sought feedback on whether submitters agreed with calculating emissions budgets for NZ ETS and non-NZ ETS sectors, based on specified shares of effort set by the sector sub-targets from the first emissions reduction plan. This is because, at the time of writing the consultation document, projections of non-ETS emissions were above the share of the emission budget. This meant there was a risk to the achievement of emissions budgets, and an alternative approach may be needed.

Following consultation, updated projections of non-ETS net emissions showed closer alignment with the assumed levels of the sector sub-targets.³ An alternative approach was no longer needed in decisions this year.

Of those submitters who responded to whether they agree with calculating allocating emissions budgets based on sector sub-targets from the first emissions reduction plan:

- 29 said they agree with the calculations for step 2
- 11 disagreed with the calculations.

Some submitter's substantive feedback is summarised below:

- One submitter noted the importance of meeting emissions budgets and targets, and that to achieve this, all sectors need to make reduction efforts.
- One submitter disagreed with the use of the demonstration path because it is based on sectoral targets for the agriculture sector that the current Government has not agreed to. Their view is that it would be more accurate to use reference projections for non-ETS sectors. However, they suggested the current approach continue for 2024 settings, and be adjusted in 2025 to align with the ERP2.

Step 3: Make technical adjustments

As it is a mechanical step, the Ministry only presented one option for step 3. This was to make a technical adjustment to account for an observed discrepancy between the Greenhouse Gas Inventory and the NZ ETS of approximately 3 per cent in total liquid fossil fuels and stationary energy emissions.

Of those submitters who responded:

- 36 said they agree with the calculations for step 3
- five disagreed with the calculations
- seven were undecided.

Most who opposed the calculations wanted to know more about the source of the discrepancy between the Greenhouse Gas Inventory and NZ ETS.

Step 4: Account for industrial allocation volumes

Only one question was presented for step 4, which was whether people agreed with the industrial allocation calculations.

Of those submitters who responded:

- 28 said they agree with the calculations for step 4
- 13 were undecided but provided comment, and eight disagreed with the calculations.

Those who provided comment and those in disagreement held varying views about the industrial allocation process which fall outside the scope of step 4. These are detailed in the ['Additional feedback and comments'](#) section.

³ As shown in the [ERP2 consultation document](#).

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

Units do not expire and can be banked indefinitely before they are surrendered. Previous NZ ETS policies have led to a large accumulation of units held in private accounts (known as the stockpile). Many of these units are banked for future liabilities, allowing participants to manage their future obligations. The stockpile provides liquidity to the market.

The volume of the stockpile presents a risk to achieving emission budgets, because NZ ETS participants can use it to meet their surrender obligations rather than reducing emissions in line with the NZ ETS cap.

A portion of the units held in private accounts are considered unlikely to come to market as they are held against future forestry harvest or forestry land-use change liabilities or are being used to hedge future surrender liabilities by non-foresters.

The remainder is termed as the 'surplus'. This is the excess component (ie, units that are not held for a particular purpose) of the stockpile. This surplus poses the greatest risk of enabling emissions to exceed emissions budgets.

This step determines the size of the surplus and the speed and timing of its reduction.

The Commission updated its central surplus estimate to 68 million units as at 30 September 2023, within a range of 51 – 85 million units. This was a significant increase from last year, where the central estimate was 49 million units. The Commission's methodology for estimating the surplus is to estimate the volumes of three types of units that are unlikely to be available to the market (ie, post-1989 forest, pre-1990 forest, or are being used to hedge future surrender liabilities by non-foresters) and subtracting that amount from the total stockpile.

The consultation document sought feedback on the surplus estimate methodology and the Commission's surplus estimate. It also sought feedback on options to reduce the surplus, and whether submitters agree there has been increased transfers of pre-1990 units (as it was a key factor that informed the Commission's surplus estimate).

The three options for surplus reduction were:

- option 1: No change to surplus reductions despite the updated surplus estimate
- option 2: Update surplus reductions for 2027–29 for the new surplus estimate
- option 3: Update surplus reductions for 2025–29 to reflect the new surplus estimate (the Commission's recommendation).

Of those submitters who expressed a preferred option for step 5:

- 57 supported option 3: Update surplus reductions for 2025–29 to reflect the new surplus estimate (the Commission's recommendation)
- two supported option 2: Update surplus reductions for 2027–28 and a projection to 2029 for the new surplus estimate
- 10 supported option 1: No change to surplus reductions despite the updated surplus estimate
- five were undecided.

Submitters who supported option 3, updating the surplus stockpile from 2025, commented on the need to stay in line with emissions budgets and targets. Some of these submitters noted it is important that the estimated size of the surplus is accurate and recommended further analysis.

One submitter in support of option 2 agreed with addressing the surplus stockpile but suggested that for regulatory certainty, current settings should remain for 2025 and 2026.

The majority of those who supported no change to the surplus stockpile also disagreed with the Commission's surplus methodology.

Of those submitters who provided feedback on whether they agreed with the Commission's surplus methodology:

- 24 agreed
- 10 disagreed.

Those who disagreed with the Commission's methodology noted the need to confirm the Commission's surplus estimate with additional analysis and asked the Government to look to other policy tools to reduce the surplus; beyond a one-off adjustment through the NZ ETS settings channel.

One submitter suggested an alternative approach similar to that of either the Market Stability Reserve in the EU ETS or a supply adjustment mechanism like that proposed for the UK ETS in a recent consultation. The Market Stability Reserve is a key mechanism designed to rebalance the supply and demand of emissions allowances and create resilience to major future shocks in the EU carbon market.

Thirty-three submitters responded to the Commission's interpretation of increased transfers of pre-1990 units:

- 19 generally agreed there has been an increase in transfers
- three disagreed with the Commission's interpretation.

A few submitters noted that earlier unit market conditions and market expectations are likely influencing a reduction in pre-1990 holdings. One submitter who did not support the Commission's estimate suggests there is still little visibility of pre-1990 units. Another submitter stated the Commission did not provide the necessary evidence to support their interpretation.

Other substantive feedback included:

- the Commission's approach linearly extrapolated short-run movements in pre-1990 units when a longer trend suggests a general flattening. Further, this submitter noted that a movement from an original account could now be held as long-term investment elsewhere and does not mean an increase in the surplus
- the Commission's one year hedging assumption is too short given liquidity concerns and compliance penalties.

Step 6: Set the approved overseas unit limit

There are currently no overseas units approved for use in the NZ ETS. As a result, no questions were asked on this matter.

Step 7: Calculate the base auction volumes

Base auction volumes presented in the consultation document were provisional. No questions were asked on this matter.

Options for price control settings

Auction price controls provide the Government with tools to manage the supply of units.

Auction price controls include the:

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

The Ministry consulted on options for the auction price corridor (trigger prices for the auction price floor and the cost containment reserve), and the CCR volume as detailed below.

Price control trigger prices (auction price corridor) options

Auction price control settings help manage the NZU price in auctions from being too high (which may unduly affect households and the economy) or lower than needed to meet emissions budgets and targets. The auction floor price acts as a release mechanism – if the market is sufficiently supplied that auctions fail to clear, the floor price prevents additional units being sold and tightens supply automatically.

The consultation document sought feedback on two options for price control settings: an extension of the status quo or lowering the price corridor trigger prices for the price floor and the CCR.

Of those submitters who expressed a preferred option for price control trigger prices:

- 64 supported option 1: Status quo extended (Commission’s recommendation)
- four supported option 2: Lower price corridor trigger prices
- five were undecided, and one submitter opposed price controls entirely.

In response to being asked whether submitters considered the price corridor to be important, almost all of those who responded felt the price corridor ensures market confidence and predictability of the market.

A few submitters stated that option 2 is inconsistent with emission targets.

Submitters who supported lowering the price corridor trigger price (option 2) were predominately from the non-renewable energy sector. One such submitter was opposed to price controls and considered that current price controls are negatively affecting secondary market trading and prices.

Cost containment reserve (CCR) volume

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 against auction prices that are too high.

The consultation document sought feedback on two options: the status quo approach of maintaining the current CCR volume or increasing the CCR volume to reflect the surplus reduction.

Of those submitters who expressed a preferred option for the cost containment reserve volume:

- 50 supported option 1: Status quo: maintain the current CCR volume
- seven supported option 2: Increase CCR volume to reflect surplus reduction (step 5).

Many submitters stated that stability in the NZ ETS market is essential. This is a similar view to others who support the current CCR volume because they felt that it is performing adequately.

Impacts of NZ ETS unit settings

The Ministry performed an impact analysis on the options presented for NZ ETS unit and price control settings, which assessed the costs, benefits and overall impact of the options on affected groups. These groups included:

- landowners (eg, foresters and farmers)
- emitting firms with ETS obligations
- firms that receive industrial allocation of NZUs
- other NZ ETS participants
- households
- the wider economy.

Consultation participants were asked if they agreed with the impact analysis, and whether any further impacts not captured in the assessment should be considered.

Of those submitters who responded:

- 10 agreed with the impact analysis
- eight did not agree
- eight were unsure whether they agreed.

Some of these submitters suggested ways of improving the impact analysis. These included:

- assessing the value of meeting emissions budgets and targets
- assessing NZ ETS impacts in comparison to other ways of meeting targets, rather than to the cost of doing nothing
- including other affected groups – local communities
- considering intergenerational impacts
- considering how NZ ETS settings contribute to global emissions reductions.

Additional feedback and comments

General feedback

Additional feedback from submitters mainly fell under the following topics, some of which are considered out-of-scope for this consultation.

In relation to step 2: Allocate the emissions budgets to NZ ETS and non-NZ ETS sectors:

- some submitters noted concern that agricultural emissions remain outside of the NZ ETS
- a few submitters felt a burden is being placed on NZ ETS sectors to help Aotearoa stay within emissions budgets if agricultural emissions are not subject to emissions pricing and have no obligations to reduce emissions.

In relation to step 4: Account for industrial allocation volumes:

- some submitters felt that emissions intensive industries should not receive allocations
- a few submitters advocated for faster phase out of industrial allocation
- one submitter wanted to see analysis of emissions leakage risks from reduced industrial allocation volumes
- a few submitters suggested limiting the ability of industrial allocation recipients to trade (exchange or sell) on the secondary market.

In relation to price control trigger prices:

- some submitters commented that the presence of option 2 (lowering the price floor) in the discussion document had undermined market confidence in the NZ ETS. This was especially clear from forestry sector submitters who suggested that further consideration be given to market reaction before releasing consultation content.

Proposed changes to NZ ETS regulations 2024

The consultation document sought feedback on proposals to update regulations relating to the NZ ETS. The updates sought to ensure that the NZ ETS runs efficiently and accurately through updated values listed in regulations informed by new data, and through minor clarifications and corrections to regulation text.

Overall, submitters were supportive of the proposed regulatory updates for the NZ ETS in 2024.

Section A: NZ ETS sector-specific regulatory updates and improvements

Submitter views are laid out through the proposed regulatory updates 1–7 presented in the consultation document.

Proposed regulatory update 1: Updating DEFs and UEF methodologies for geothermal activities

We asked for feedback or evidence on the proposed default emissions factor (DEF) values for directly updating the (Stationary Energy and Industrial Process) (SEIP) Regulations 2009, and for the proposed unique emissions factors (UEF) methodologies for addition to the UEF Regulations. We also asked for feedback on directly updating the existing regulatory structure or taking a new approach.

Two submitters gave feedback on DEF values. Both submitters note that the DEF values for their geothermal plant operations are unaligned with their most recent UEF values, and do not accurately reflect emissions.

Two submitters gave feedback on the proposed UEF methodology, both highlighting the need for measurement methodologies to be fit for purpose in practice.

Eight submitters provided views on directly updating the existing regulatory structure or taking a new approach:

- three submitters supported taking a new approach
- two submitters supported a direct update to the existing regulatory structure,
- three submitters were undecided.

Proposed regulatory update 2: Updating DEFs for natural gas activities

We asked for feedback or evidence on the proposed DEF values for natural gas fields in the SEIP Regulations, and whether submitters support continuing to retain and regularly update the DEFs for natural gas fields.

- Six submitters supported option 2: Update the SEIP Regulations.
- One submitter did not support the continual updates to DEFs for natural gas fields due to perceived cost implications for the operator.

Proposed regulatory update 3: Updating DEFs for liquid fossil fuel activities

We asked for feedback or evidence on the proposed update to DEFs for liquid fossil fuels in the LFF Regulations, and whether submitters support continuing to regularly review and, where needed, update the DEFs.

- Five submitters supported option 2: Update the LFF Regulations (where the DEFs for each category of fuel will be updated using the latest data on imported fuel quality).
- One submitter did not support the continual updates to DEFs for liquid fossil fuels due to perceived cost implications for the operator.

Proposed regulatory update 4: Improving accuracy for the waste sector

4a – Aligning values in DEF and UEF regulations

We asked for feedback on updating the waste DEF used to calculate UEFs from 0.91 to 1.023 tCO₂e/TJ.

- Ten submitters supported option 2: Update the UEF Regulations (updating waste DEF as above).
- One submitter was generally unsupportive of the continual updates to DEFs.

4b – Clarifying data used to calculate UEFs for waste participants

We asked for feedback on using historical waste composition data to inform the calculations of UEFs.

- Ten submitters supported option 2: Update the UEF Regulations (applicants use the default (historical) waste composition that applied when the waste was disposed).
- One submitter did not support using historical waste composition data for worry of overestimations of gas generation and high costs in their situation.

Two submitters on this topic suggested deferring updates to 2026 to manage cost impacts.

4c – Offsite destruction of landfill gas

We asked whether the regulations should be changed to recognise the destruction of landfill gas offsite, potentially by a third party. They were additionally asked whether they themselves were working with a third party to destroy landfill gas offsite.

- Thirteen submitters supported option 2: Update the UEF Regulations (so that applicants can destroy the landfill gas offsite, including by a third party).
- Three submitters did not support landfill gas to be destroyed offsite or potentially by a third party.

Proposed regulatory update 5: Clarifying how the destruction of synthetic greenhouse gases is recognised

We asked for feedback or relevant evidence on the proposal to clarify the ORA Regulations to allow for the onshore destruction of synthetic greenhouse gases.

- Eleven submitters supported option 2: Update the ORA Regulations to clarify that any synthetic greenhouse gases are eligible for NZUs upon destruction.

Section B: NZ ETS auctioning and operational regulatory updates and improvements

Proposed regulatory update 6: Clarifying the definition of qualified person

We asked for feedback or evidence on the proposal to update the ‘qualified person’ definition in the Unit Register Regulations.

- One submitter supported option 2: Update the Unit Register Regulations and considered it an improvement.

Proposed regulatory update 7: Improving auctioning collateral methodology

While the current method for calculating auctioning collateral works well, the Ministry recognises benefit in clarifying the definition of ‘maximum bid’ when a bidder posts multiple bids at different price points.

Consultation participants were asked if they agree whether the methodology for calculating auctioning collateral needs updating, or if there are any options for calculating auctioning collateral that we haven’t considered.

- Five submitters supported option 2: Change the methodology to a cumulative approach.
- Two submitters did not agree that the methodology for calculating auctioning collateral needs updating, with one submitter citing added complexity to accounting.