

Hon Simon Watts  
Minister of Climate Change  
PARLIAMENT BUILDINGS

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18 July 2025

Tēnā koe Minister

Thank you for your letter of Thursday 26 June 2025, regarding the refresh of the analytical tools and decision-making framework for the NZ ETS unit limits and price control settings (NZ ETS settings) that you have directed Ministry for the Environment officials to undertake.

The Commission considers it timely to undertake this refresh project and is happy to participate in it.

Now that there are several years of experience in managing the NZ ETS settings, it makes sense to step back to re-evaluate the approaches and tools used. In particular, there are a wider range of modelling tools available than before. This includes the Ministry's model of the NZ ETS market, which I understand Commission staff are keen to understand better, including how it could be used for NZ ETS settings analysis. The project is consistent with the Commission's commitment to continual improvement, including through engaging with Ministry officials to draw on their knowledge and expertise where relevant.

I understand Commission staff and Ministry officials have already agreed on several work areas to explore, in a way that will assist both agencies to enhance their understanding, improve practices and approaches, while respecting the Commission's independent role. These workstreams are within the focused scope of this project, which is limited to working within the current legislative framework, rather than contemplating any structural changes to the NZ ETS.

The Commission shares your desire for a stable and predictable NZ ETS. Our advice over recent years, as well as our forthcoming emissions reduction monitoring report, point out that there are structural factors that contribute to some instability in the scheme. These issues will become more serious in the 2030s, and it is important to start considering how to address them well in advance. That is outside the scope of this project, and in the meantime, we will endeavour to help the NZ ETS work as well as it can under its current design.



I also recognise the sensitivity of this work, given decisions by the Government are pending on the 2026-2030 NZ ETS settings regulations update. The Commission will also appropriately protect information about this work, which is focused on future NZ ETS settings updates. We will discuss with relevant Ministry officials the approach we intend to take to publish this correspondence, at an appropriate time when this period of uncertainty has passed, consistent with the Commission's policies on transparency.

Ngā mihi nui

A handwritten signature in blue ink, appearing to read 'P. Reddy', with a stylized flourish at the end.

Dame Patsy Reddy

**Chair of He Pou a Rangi Climate Change Commission**