

Hon Simon Watts

Minister of Climate Change
Minister for Energy
Minister of Local Government
Minister of Revenue



Date: 23 January 2026

The Right Honourable Dame Patsy Reddy GNZM, QSO
Chair – Climate Change Commission
Patsy.reddy@climatecommission.govt.nz

Dear Dame Patsy,

I am writing to you in response to your letter of 18 December 2025, that explained how the Commission will consider the recent amendments to the Climate Change Response Act 2002 (as well as other recent Government announcements) as part of its upcoming advice to the Government on the appropriate NZ ETS unit limits and price controls (ETS settings) in 2026. Thank you for clarifying the approach and when we can expect to receive the Commission's advice.

As noted in your letter, the Commission recently supported the Ministry for the Environment to review the framework and tools used for providing advice on ETS settings. Based on the findings of that review, I expect the forthcoming advice will be clear on the key judgements or trade-offs that the Commission has made in forming its advice. Explaining where different judgements may result in materially different outcomes will also help me understand my alternative options. I also expect that the advice will be explicitly clear as to how the current market conditions – such as non-clearing auctions – have been considered and to address foreseeable confusion that might arise in the market as a result.

The Government is fully committed to meeting its emissions reduction targets, including the 2050 target, emissions budgets, and nationally determined contributions. The ETS plays a central role in achieving these targets, as set out in the Government's Climate Strategy. I also agree with you that ETS settings decisions need to balance short-term market predictability while ensuring sufficient supply in the long run. In considering options for 2026 ETS settings decisions, the Government wants to ensure we are well positioned to meet these targets and to appropriately balance short-and longer-term considerations.

As such, in its forthcoming 2026 ETS settings advice, I ask the Commission to consider including options with lower auction volumes and/or an increase in auction floor price. I am interested in options that deliver additional emissions reductions and:

- better position the Government to achieve emissions budgets and accordance requirements
- help New Zealand to go further towards meeting the first nationally determined contribution through domestic means
- do the above while appropriately balancing risks to the proper functioning of the ETS, including providing predictable supply that allows emitters to plan for meeting their statutory obligations.

It would be helpful for the Government's forthcoming ETS settings decision if the Commission's advice provides options that explore the above considerations along with their implications and relative merits.

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To avoid doubt: the Government has not made any decision as to the direction of ETS settings in 2026 at this stage. This additional advice will be a valuable input for the Government's consideration when it forms a decision later this year.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Watts'.

Hon Simon Watts
Minister of Climate Change