He Pou a Rangi
Climate Change Commission

Advice on
NZ ETS unit limits and price control settings for 2027–2031

Technical annex 3: Assessment of accordance

April 2026

Contents

Introduction

This document is published by He Pou a Rangi Climate Change Commission as a supplementary document to our Advice on NZ ETS unit limit and price control settings (NZ ETS settings) for 2027–2031 (the advice report).

He Pou a Rangi Climate Change Commission is an independent Crown entity established by the Climate Change Response Act 2002 (the Act) to provide expert, evidence-based advice and monitoring to successive governments on how to reduce emissions and adapt to the effects of climate change.

About this document

As part of its responsibilities under the Act, the Commission is required to provide the Government with annual advice on the unit limits and price control settings for the New Zealand Emissions Trading Scheme (NZ ETS settings) for five years into the future.

The Commission's recommendations must adhere to the same requirements in the Act that apply to the Minister, which are set out in section 30GC of the Act.[1] This document sets out how the Commission has addressed those legislative requirements, as well as other matters that the Act requires the Commission to consider in developing its NZ ETS settings advice. This document contains two sections:

1. **Assessment of Accordance.**

   The Commission must be satisfied that the recommended unit limits and price control settings accord with emissions budgets and the 2050 target. This section sets out in detail our assessment of how our recommendations comply with the accordance requirements in section 30GC of the Act.

2. **Summary of how legislative requirements and considerations have been addressed.**

   This section sets out the wider legal obligations on the Commission under the Act. It notes in summary how we have addressed these obligations, and, if relevant, where in the advice report further information about these matters can be found.

This document should be read alongside the Commission's advice report on NZ ETS settings for 2027–2031.

[1] Section 5ZOA also requires us to adhere to the requirements of s30GB that apply to the Minister. That section sets out the scope and timing of the unit limits and price control regulations, and when regulations may be changed. It is addressed in the main report.

1. According NZ ETS settings with targets

When recommending the unit limit and price control settings for the NZ ETS under section 5ZOA, the Commission must be satisfied that either:

- the settings strictly accord with all emissions budgets currently in place, and with the 2050 target (collectively 'emissions reduction targets') (section 30GC(2)); or
- if the settings do not strictly accord with the emissions budgets, that they nevertheless still accord with the emissions budgets, and that the discrepancy is justified after considering prescribed statutory matters (section 30GC(3)).

For clarity, the specific obligations from sections 30GC(1)–(3) are set out in Box 1 below.[2]

Box 1. Requirement that NZ ETS settings accord with emissions reduction targets

Section 30GC Requirements for regulations about limits and price control settings for units

(1) The Minister must comply with this section in—

(a) recommending under section 30GB(2), (3), or (4)(b) the making of regulations that prescribe individual limits, overall limits, or price control settings; and

(b) considering under section 30GB(4)(a) whether to recommend prescribing new individual limits, overall limits, and price control settings for the 2 calendar years before a further calendar year.

(2) The Minister must be satisfied that the limits and price control settings are in accordance with—

(a) the emissions budget that applies to—

i. the period for which the limits or price control settings are being prescribed; or

ii. any period after that, if a budget or contribution exists for that period; and

(b) the 2050 target.

(3) However, they need not strictly accord with the budgets as long as the Minister is satisfied that the discrepancy is justified, after considering the other matters under this section.

1.1 Approach to accordance

We understand that 'strict accordance' equates to settings with a high probability of constraining emissions to the levels required for meeting emissions reduction targets. The

[2] Note that since our last advice on the NZ ETS settings the Climate Change Response Act 2002 has been amended. The Climate Change Response (2050 Target and Other Matters) Amendment Act 2025 removed the requirement for the NZ ETS settings to accord with nationally determined contributions.

Commission is permitted to recommend settings that do not provide this, with respect to the emissions budgets in place, but in such case the settings must nevertheless accord – i.e. there must still be a good probability that the settings will achieve what is necessary, or the discrepancy must be one that can be made up for elsewhere. The deviation from strict accordance must also be justified, after considering the matters set out in sections 30GC(5) and (6).

Assessing accordance must be done by considering the whole package of settings, i.e. the unit limits and the price control settings together, because their effects on emissions are interdependent.

Determining the extent to which potential NZ ETS settings accord with emissions reduction targets requires us to consider the likelihood that targets will be achieved, including assessing the risks and mitigations. This necessarily involves considering projections of emissions and factors affecting emissions for some years into the future, which are inherently uncertain. This requires us to make reasonable judgements and assumptions about Aotearoa New Zealand's future emissions trends, and the effects of policies and other factors on emissions, based on the best available evidence.

We have therefore assessed the accordance of our recommended settings by drawing on a range of analysis and evidence, and considering all matters prescribed by the Act.

In determining the NZ ETS emissions caps to use for the second and third emissions budget periods, we have considered projected emissions trends, including those to which the NZ ETS does and does not apply (s30GC(5)(a)). We have also considered the forecast availability and cost of ways to reduce emissions (s30GC(d)).

For determining unit limits we have used the unit limit methodology that has been developed over several years for the purpose of aligning the unit limits with emissions reduction targets. This methodology has been designed to factor in various matters that we must consider under the Act. For example, it incorporates the proper functioning of the NZ ETS (s30GC(b)) (such as in *step 2: account for industrial allocation*),[3] and international climate change obligations and contracts for accessing emissions reductions in other carbon markets (s30GC(c)) (in *step 4: set limit on approved overseas units*).

For the price control settings, we have drawn on modelling, including modelling we commissioned from Concept Consulting and modelling undertaken by the government, to inform our judgements about the emissions prices needed to meet targets. We considered the government's recent 2025 emissions projections (s30GC(5)(a)), and research and analysis of the cost of specific mitigation options such as afforestation and the decarbonisation of industrial process heat (s30GC(5)(d)). We looked at how the NZ ETS was

[3] There are several aspects to the proper functioning of the NZ ETS and it is considered at multiple points in our methodology. The example given here highlights that the rules applying to other parts of the NZ ETS, such as those determining how industrial allocation is provided, need to be considered as part of the proper functioning of the scheme.

functioning (s30GC(5)(b)), including by gathering information and insights from engaging with NZ ETS market participants. We examined evidence available about international emissions prices and the cost of offshore mitigation (s30GC(6)(b) and s30GC(5)(c)), and about the impacts of emissions prices on households and the economy (s30GC(6)(a)). We also factored forecast inflation into the price levels of the price control settings and considered the effect of the NZ ETS emissions price itself on inflation (s30GC(6)(c)).

These are examples, not an exhaustive account of how these matters have been considered as required by the Act. More information can be found in table 2 in the next section of this document; the main advice report, in particular *chapter 4: Unit limits, Chapter 5: Price control settings, and Chapter 6: Discussion and recommendations*; and *Technical Annex 1: Unit limit settings*.

Where possible, we have incorporated uncertainty into our consideration of these matters and our judgements about the settings.

In determining our recommendations, we applied an adaptive management lens to consider the uncertainties inherent in the data and information we use, and how the settings could be updated as this information changes over time. This can be seen throughout the advice report and particularly in *Chapter 6: Discussion and recommendations.* We consider this to be consistent with the system for managing the settings established by the Act, which provides for the settings to be reviewed, updated and extended each year.

1.2 Accordance assessment of the recommended settings

Table 2 below contains our assessment of how the Commission's recommended unit limits and price control settings for the NZ ETS accord with emissions budgets and the 2050 target. Where relevant, it provides our justifications for discrepancies from strict accordance and cites the most important matters from the Act supporting the justification.

Throughout the table we refer to the 2025 government emissions projections. The specific projection we have used is the "with additional measures" (WAM) central projection. According to the Ministry for the Environment, this shows the impact of the additional emissions reductions policies generated by the policies and measures in the final second emissions reduction plan.[1]

We note that the latest emissions projections use a scenario-based approach to agricultural emissions from 2030 onwards. This differs from the government emissions projections prepared in previous years. Rather than providing a single WAM projection for agricultural emissions estimating likely future policy impact, the projections included three scenarios (named A, B and C). There is uncertainty about which of these three scenarios the Government prefers, or what policies the Government will adopt to realise its preferred scenario.

Based on the information available, in particular the fact that the WAM scenario B has been used in the WAM central projection, we have interpreted the WAM scenario B for agricultural emissions as the policy goal that the Government is working towards. As we have noted in *Chapter 3: The NZ ETS emissions cap* of the advice report, if the Government is not aiming to achieve the WAM scenario B, it should clarify what its policy goals for agricultural emissions are and it should use the corresponding agricultural emissions scenario when making decisions about the NZ ETS settings for 2027–2031 and when assessing whether those settings accord with emissions budgets and the 2050 target.

Table 2: Accordance assessment of the recommended settings

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies
The first emissions budget (2022–2025)	
Not applicable. The first emissions budget has now finished.	Not applicable.
The second emissions budget (2026–2030)	

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies
Our recommended settings are based on an NZ ETS emissions cap for the second emission budget period which aligns with the 2025 government emissions projections. This is lower than the notified level of the second emissions budget. Aligning the settings with an emissions constraint that is more stringent than the budget increases the probability that the budget will be met. There is a surplus of units in the NZ ETS, which poses a risk that the scheme will allow emissions exceeding the second emissions budget, as discussed in *Chapter 4: Unit limits* in the advice report. We have recommended maintaining the status quo auction volumes for 2027–2030, which imply a surplus volume that is close to the top end of our estimated surplus uncertainty range. This mitigates the risk the surplus volume poses and increases the likelihood that the surplus is drawn down by 2030, the final year of the budget. There are still risks to achieving the second emissions budget, but these risks can be managed. Key uncertainties relate to the forecast of emissions not covered by the NZ ETS, and to the estimated surplus units: • If emissions outside the NZ ETS (mainly biogenic methane and nitrous oxide emissions from agriculture) turn out in reality to be higher than forecast, sectors within the NZ ETS would have to reduce emissions by more to enable the second emissions budget to be met. • If the surplus is higher than the volume implied by maintaining the status quo auction volumes, more units could be available for use by emitters and could allow emissions above the emissions cap for 2026-2030. We note, however, that the surplus volume implied by the status quo auction volumes is at the top end of our estimated surplus uncertainty range, so we consider this risk to be relatively low. In addition, as described below, the auction reserve price (ARP) provides a further safeguard that may prevent	The settings strictly accord with meeting the second emissions budget. The settings provide a high probability of limiting emissions to the necessary level.

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies
units from entering the market in the case that the surplus is larger than we have estimated. As noted above, the emissions cap for the NZ ETS is based on emissions projections which, overall, are 4 $MtCO_2e$ below the level of the second emissions budget. This provides some buffer for emissions outside the NZ ETS to be higher than expected while still meeting the second emissions budget. The auction reserve price (ARP) levels we recommend for 2027–2030 are in line with the minimum prices we have assessed as necessary to support achievement of the second emissions budget. This is based on the lower bound of the cost of gross emission reductions in Aotearoa New Zealand, rather than costs related to forestry – because it is now too late for further forest planting to assist with meeting the second emissions budget. The ARP prevents additional units from being sold into the market when prices are below the ARP level, so it works together with the unit limits to support accordance with emissions budgets. The recommended unit limits are based on our estimates of the surplus units in the NZ ETS market. These estimates are uncertain, partly because the surplus is dynamic and depends on NZ ETS participant behaviour which is changeable. The ARP helps to mitigate the risk to achieving budgets from this uncertainty, as it can prevent units from entering the market if more units in the market are surplus than we have estimated, causing low NZU prices. In this way the ARP can also discourage the emissions price from dropping to levels below those likely needed for meeting the second emissions budget. The recommended cost containment reserve (CCR) trigger prices are above the likely cost of abatement needed to meet the second emissions budget. This is based on a range of evidence generated by the Commission[2], EECA[3], and MfE[4] (see advice report for further information), which indicates that in Aotearoa New Zealand a significant amount of gross emissions reductions are economic at prices below $200/tonne.	

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies
The 2025 government emissions projections also provide assurance that the recommended CCR trigger prices are consistent with achieving the second emissions budget. This modelling projected that the second emissions budget could be met with an NZU price path rising to $80 in 2030 (in 2024 dollars). This price is comfortably below the first trigger price applying in that year ($219 in 2024 dollars), with substantial headroom for the price to range higher if necessary. Overall, we consider that the CCR trigger prices are at a high enough level that there is a very low risk that the CCR would be triggered and release more units to the market, which would be detrimental to accordance with the second emission budget.	
The third emissions budget (2031–2035)	
The third emissions budget starts in 2031 and so is now included in the timeframe of the settings recommended in our advice, which cover 2027–2031. The settings will cover only the first year of the third emissions budget, however we also need to consider how the unit limits until 2030 will enable future unit limits that are consistent with meeting the third emissions budget. The Commission's recommended unit limit settings until 2030 would eliminate the surplus units from the NZ ETS by 2030, based on a surplus estimate at the upper end of our estimated surplus range. If successful, this will mitigate the risk that surplus units could enable emissions above the third emissions budget. Current projections of emissions are higher than the level of the third emissions budget over 2031-2035. In determining our recommendations, we have used an emissions cap for the third emissions budget which assumes that all of the extra abatement required to meet the third emissions budgets comes from NZ ETS sectors.	The settings do not strictly accord, but nevertheless accord with a discrepancy, with the third emissions budget. We consider there is a good probability that the recommended settings will enable future settings that limit emissions to the required level over 2031–2035 to meet the third emissions budget. The discrepancy from strict accordance relates to the price control settings. There is some evidence that the CCR price triggers and ARP levels may be lower than the NZU prices needed to meet the third emissions budget in some scenarios of the future. However, this is a risk that may not materialise, because there is a high level of uncertainty about whether the future will play out in line with these high emissions price scenarios.

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies
Although we judge that the recommended unit limits align with the third emissions budget, there are risks to meeting it. • The emissions cap is based on only just meeting the budget and does not provide any buffer if emissions outside the NZ ETS are higher than assumed over the third emissions budget period. • The approach of providing emissions scenarios in the 2025 government emissions projections, rather than projections of what existing and planned policy are expected to achieve, creates uncertainty about the extent to which the Government intends to constrain emissions outside the NZ ETS. As the settings period of this advice only covers the first year of the third emissions budget, there will be time to adjust the unit limits for the budget period in future. However, we also note that there is little room left to reduce the unit limits further for the third emissions budget period. According to our analysis based on the data and information currently available, there is only room to auction 7.5 million NZUs in total over 2031–2035, because of the rapidly decreasing trajectory of the net emissions cap for the NZ ETS and the projections of industrial allocation, which take up an increasing share of the emissions cap volume over that five-year period. This means that, given the current scope and architecture of the NZ ETS, the ability to adjust the NZ ETS settings to mitigate risks to meeting the third emissions is becoming limited. We also need to consider the emissions prices that may be needed to meet the third emissions budget. The settings period covered by this advice only extends to the first year of the third emissions budget. This provides some leeway, as it means that there is still time to make adjustments in future advice if needed. In our 2025 advice, we commissioned modelling using the *Energy and Emissions in New Zealand* (ENZ) model which generated shadow emissions prices necessary to meet the third emissions budgets under different emissions scenarios. This modelling found a wide range of emissions	We have considered all the relevant matters in the Act. We consider that this discrepancy from strict accordance is justified, by the following considerations in particular: • s30GC(5)(d) – the forecast availability and cost of reducing GHG emissions to meet targets. Specifically, there is large uncertainty over the costs of reductions to meet the third emissions budget, and, due to timeframes, increasing the CCR price triggers and ARP can be delayed until this uncertainty has reduced, without jeopardising achievement of the third emissions budget. • s30GC(5)(b) – the proper functioning of the NZ ETS. This includes considering the importance of regulatory predictability given the current depressed and volatile state of the market. We consider it important for the effectiveness of the NZ ETS that the price settings are not changed unnecessarily, and if there is a need to do so, the change should be signalled as much in advance as possible. Our advice supports this by not recommending changes to the price control settings when it is highly uncertain that this is needed, but rather signalling that depending on how key factors (such as afforestation rates) evolve over the coming years, these settings may need to be increased in future. • s30GC(5)(f) – any other matter the Commission considers relevant. We consider it relevant that the

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies
prices that could be needed to meet the budget. It indicated that under some scenarios, the price controls could need to be increased, however whether such scenarios would eventuate depended on three key uncertain factors – fossil gas prices, afforestation rates, and EV uptake. These uncertainties have not resolved over the last year, as discussed in *Chapter 5: Price control settings* in the advice report. We considered whether higher prices potentially being needed to meet the third emissions budget justifies increasing the price control settings. In line with our advice last year, our judgement is that it would be premature to increase the price control settings now, when it is very uncertain that this will actually be needed. Factors influencing this assessment included: • That NZU prices are currently low compared to the price control settings (with the spot price at the time of writing being around $40, well below the $71 ARP for 2026). The current settings provide significant room for the market price to range higher to help meet the second emissions budget and lay the foundations for meeting the third emissions budget. Given uncertainty, as well as the current state of the market, it appears unlikely that the potential need for higher prices in the 2030s could start to be reflected in current NZU prices, causing the CCR to be triggered. • Government policy to meet the second emissions budget and contribute to meeting the third emissions budget is still evolving. There is uncertainty over the details and likely impacts of key policies (such as that on afforestation on Crown land). The Government may make changes and consider potential new policies as part of the adaptive management approach set out in its second emissions reduction plan, which, while aimed at achieving the second emissions budget, will affect the outlook for meeting the third emissions budget. The Government is also not required to have a plan for meeting the third emissions budget until 2029.	framework of the Climate Change Response Act does not require a plan be in place to meet the third emissions budget yet, and that policies will continue to evolve over time. This supports our assessment that it is acceptable to wait until some uncertainty is resolved before making a judgement that the price control settings need to increase, despite some evidence that they could be too low. We have considered the other matters included in section 30GC, and consider them to be less relevant: • s30GC(5)(a) – projected trends of emissions over the next five years. Projections of emissions inside and outside the NZ ETS over the next five years cover the first year of the third emissions budget period. The projections identify a gap to meet the third emissions budget. We have accounted for this in how we have determined the emissions cap for this budget period. • s30GC(5)(c) – international climate change agreements and offshore mitigation. Offshore mitigation is of limited relevance for the unit limits needed for meeting the third emissions budget, since budgets must be planned to be met domestically (s5W and s5Z). However, we consider that it is relevant to the price control triggers that may be needed.

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies

• The mix of actions and the associated emissions prices needed to meet the third emissions budget are currently very uncertain, but this uncertainty will reduce over the coming years.
  ○ The likely afforestation rates until 2031 will be much clearer in one to two years' time, when the impacts of key forestry-related policies become clearer and more data about planting in the years to 2031 becomes available, for example from afforestation intentions surveys.
  ○ The impact of recent high fossil gas prices on emissions trends, and the potential for continued high and/or increasing fossil gas prices, will become clearer. Over the past year, fossil gas reserves have continued to decline faster than previously expected, making higher fossil gas prices more likely. There is uncertainty about the possible impacts on fossil gas prices if LNG starts to be imported, but even in this case fossil gas prices would likely still be higher than assumed in modelling to date.
We will monitor the risk that higher prices may be needed to meet the third emissions budget. If adjustments are required to the price controls so that the NZ ETS settings can continue to accord with the third emissions budget, we can still recommend that they be made well ahead of 2031, the beginning of the third emissions budget period.
	The discrepancy relates to the price control settings, to which the additional considerations in section 30GC(6) also apply:
	• s30GC(6)(a) – impacts on households and the economy. We have considered the impacts on households and the economy in recommending price control settings. We consider that for the third emissions budget period these impacts would best be managed using policies separate from the NZ ETS.
	• s30GC(6)(b) – level and trajectory of international emissions prices. We consider that the recommended price triggers are not out of step with the level of and trajectory of international emissions prices. The NZ ETS is not currently linked to any international emissions markets.
	• s30GC(6)(c) – inflation. We considered the impact of inflation in recommending the price control settings. We adjusted our recommended ARP and CCR price triggers for forecast inflation. We have considered the likely impacts of the NZ ETS on inflation in recommending the price control settings.

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies
2050 target	
The recommended unit limits and price control settings are in line with what is needed to meet the first and second emissions budgets. The emissions budgets act as interim targets that step down to the 2050 target level over the coming decades. The emissions budgets that have been set were based on the Commission's 2021 advice on the pathway to achieving the 2050 target. By according the NZ ETS settings with meeting emissions budgets, we consider that the settings also strictly accord with meeting the 2050 target. Despite the recommended settings according, but not strictly according, with the third emissions budget, we still consider that there is strict accordance with the 2050 target. This is because the 2025 government emissions projections meet the long-lived gas component of the 2050 target, despite not meeting the third emissions budget. As the vast majority of emissions covered by the NZ ETS are within the long-lived gas component of the 2050 target, we consider this the key component of the 2050 target to consider in assessing accordance. The 2050 target also includes 2030 and 2050 biogenic methane targets. The 2025 government emissions projections meet the 2050 biogenic methane target, but do not meet the 2030 target (i.e. emissions are projected to be above the 2030 target level). There is particular uncertainty in the emissions projections for biogenic methane after 2030, with the 2025 government emissions projections taking a "scenario" modelling approach rather than strictly projecting the expected emissions outcomes under their planned policy. While the central "with additional measures" emissions scenario meets the 2050 biogenic methane target, the higher "with additional measures" emissions scenario and the "with existing measures" projection do not. This highlights risks to achieving the biogenic methane components of the 2050 target.	We assess that the recommended settings strictly accord with the 2050 target.

Summary analysis of the accordance of the recommended settings for 2027-2031 with targets	Conclusion, with justification for any discrepancies
The NZ ETS covers only a very small proportion of biogenic methane emissions. In addition, the NZ ETS provides a price incentive that is neutral to how and where emissions reductions are achieved. By design, the NZ ETS cannot target reductions in a particular sector or to a particular greenhouse gas. Together, these features of the NZ ETS mean that it has no real ability to address any shortfall in meeting the biogenic methane components of the 2050 target. We therefore do not consider that the risk of not meeting these biogenic methane targets impacts our assessment of accordance of the NZ ETS settings with the 2050 target. More generally, we note that considering effects of the NZ ETS settings on meeting the 2050 target involves looking 25 years into the future, and so involves high levels of uncertainty. There are many factors that will influence emissions over that period which the settings recommended for 2027–2031 cannot influence, due to their limited scope in time and the limited scope of the NZ ETS. As noted in *Chapter 6: Discussion and recommendations* in the advice report, based on its current scope and structure the NZ ETS could lose its ability to drive further net emissions reductions from the mid-2030s onwards, before the long-lived gas component of the 2050 target has been achieved. There is significant uncertainty about the effectiveness of the NZ ETS past the mid-2030s as continued industrial allocation may stop the scheme from being able to achieve net-zero emissions. There are also uncertainties about the policies applying to emissions outside the NZ ETS and the trajectory for those emissions, which are mostly methane and nitrous oxide from agriculture. The risks that these issues present to the achievement of the 2050 target are issues that cannot be addressed or corrected for by amending the NZ ETS unit limit and price control settings for the 2027–2031 period. Therefore, we do not consider that these future challenges or policy gaps undermine or are relevant to the recommended settings' accordance with the 2050 target.	

2. Summary of how we have addressed legislative requirements and considerations

Under the Climate Change Response Act 2002, in relation to He Pou a Rangi Climate Change Commission's annual recommendations about NZ ETS unit limits and price control settings, the Commission has three principal obligations.

The recommendations must:

1. cover the limits and price control settings for each year that the Minister must cover
2. be made in accordance with:
   a. the requirements of sections 30GB and 30GC (except for s30GC(5)(e)) that apply to the making of the Minister's recommendations
   b. the Commission's other duties, for example:
      i. to consider, where they are relevant, the matters set out in s5M of the Act
      ii. to proactively engage and provide for public consultation where necessary (s5N)
      iii. to act independently (s5O)
      iv. to act in a manner consistent with the purpose of the Act (s3).
3. be given to the Minister a reasonable time before the Minister is required to recommend the making of regulations.

Table 2 describes the legal obligations on the Commission and where in the advice report they are addressed.

Table 2: Summary of legislative requirements relevant for the Commission's 2026 advice

Obligations in the Act	Where addressed
Section 3: Purpose	
(1) (aa) provide a framework by which New Zealand can develop and implement clear and stable climate policies that – **(i) contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels;**	The Act's purpose has been considered in all our analysis. Particularly through analysis of how to accord the settings with emissions budgets and the 2050 target, and through our consideration of matters set out in the Act discussed in this table.
(1)(b) provide for the implementation, operation, and administration of a	

Obligations in the Act	Where addressed
greenhouse gas emissions trading scheme in New Zealand that supports and encourages global efforts to reduce the emission of greenhouse gases by – **i) assisting New Zealand to meet its international obligations under the Convention, the Protocol, and the Paris Agreement; and** **ii) assisting New Zealand to meet its 2050 target and emissions budgets:**	
Section 30GC: Requirements for regulations about limits and price control settings for units	
(5)(a) Projected trends in greenhouse gas emissions, including both emissions covered by the NZ ETS and those that are not covered	We consider projected trends through our analysis to determine the emissions cap, but they are also considered throughout the analysis in steps 1,2 and 3 of the unit limits method. We also considered projected trends in greenhouse gas emissions in considering what actions and NZU prices may be needed to meet future emissions targets in advising on the price control settings.
(5)(b) The proper functioning of the NZ ETS	We have considered the proper functioning of the NZ ETS in each of the judgements and approaches described in this advice. The settings support the ability of the NZ ETS to provide a price signal to reduce net emissions consistent with achieving the reductions needed to meet the applicable NZ ETS emissions caps. In particular, we have considered the importance of regulatory predictability, including the need to provide advance signalling to market participants about potential changes to the NZ ETS settings. This is linked with the "clear and stable" policies aspect of the purpose of the Act as well as the requirement that the settings accord with the emissions budgets and the 2050 target, and the rules in the Act about how the settings are managed over the rolling five-year period.
(5)(c) International climate change obligations, instruments or contracts New Zealand may have for accessing offshore mitigation from other carbon markets	We have taken this into account for step 4 (set approved overseas unit limits) of the unit limit method. We have also considered the potential

Obligations in the Act	Where addressed
	cost of offshore mitigation in the assessment of the price control settings.
(5)(d) 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	This is considered as part of our assessment of the NZ ETS emissions caps to use for the second and third emissions budget periods. It is also considered in our assessment of the NZU prices needed to meet emissions reduction targets in the price control settings.
(6) In respect of the price control settings:	
(a) the impact of emissions prices on households and the economy	We have considered the impact of emissions prices on households and the economy in making our recommendations on the price control settings. Our analysis on the impacts of emissions prices is included in *Chapter 5: Price control settings* of the advice report.
(b) the level and trajectory of international emissions prices	We have considered the cost of offshore mitigation, including how it may change over time, in our assessment of the appropriate price level for the ARP. We have also reviewed information on current and future possible international emissions prices. We consider that the recommended price control settings are still within the range of forecast international emissions prices and comparable to the efforts of developed country peers, rather than falling behind or overtaking them.
(c) inflation	Inflation is considered in our advice on the price control settings. The consideration of inflation is relevant in two ways: whether and how to adjust the price control settings for inflation, and the potential impact of emissions prices on inflation. Our conclusions on inflation are set out in *Chapter 5: Price control settings* of the advice report.
Section 5ZOA: Recommendations about limits and price control settings for units This is the provision containing the Commission's duty to make recommendations.	
Section 5M: Matters the Commission must consider, where relevant	
(a) Current available scientific knowledge	This is accounted for through the requirement to accord settings with emissions budgets and the

Obligations in the Act	Where addressed
	2050 target. It is also considered in price control settings in the assessment of ways emissions budgets could be met, and the costs of different approaches
(b) Existing technology and anticipated technological developments, including the costs and benefits of early adoption of these in New Zealand	This is considered in determining the emissions cap, and in the price control settings in the assessment of NZU prices that may be needed to meet emissions reduction targets.
(c) Likely economic effects	Our analysis takes this matter into consideration when determining the emissions cap, as well as in the analysis of impacts of emissions prices on households and the economy for considering the price control settings.
(d) Social, cultural, environmental, and ecological circumstances, including differences between sectors and regions	Our analysis takes this matter into consideration when determining the emissions cap, as well as in the price control settings through the analysis of impacts of emissions prices on households and the economy.
(e) Distribution of benefits, costs, and risks between generations	For this advice, we have considered this through the way we have reflected the Government's second emissions reduction plan in our settings advice (including through our consideration of the 2025 Government emissions projections). This reflects that the Government was required to consider these matters in setting emissions budgets and the emissions reduction plan, and that we consider that the Commission's recommendations on the NZ ETS settings need to be compatible with the Government's wider climate policy package.
(f) The Crown–Māori relationship, te ao Māori, and specific effects on iwi/Māori	This is considered in step 3 of our unit limits analysis where we estimate the surplus range, particularly in relation to the availability to the market of pre-1990 forestry units, and in our advice on the price control settings. *Chapter 5: Price controls* of the advice report contains specific information related to the impacts of the NZ ETS on iwi/Māori.

Obligations in the Act	Where addressed
(g) Responses to climate change taken or planned by parties to the Paris Agreement or to the Convention	Our analysis considered this through the section 30GC 6(b) consideration of international emissions prices noted earlier in this table. We have also considered this in the price control settings in considering the auction reserve price.
Section 5N: Consultation	
(1) In performing its functions and duties and exercising its powers under this Act, the Commission must— **(a) proactively engage with persons the Commission considers relevant to the functions, duties, and powers; and** **(b) where the Commission considers it is necessary, provide for participation by the public.**	In developing this advice on NZ ETS unit limits and price control settings, we considered whether it was necessary to provide for public consultation on this advice and decided that it was not. In *Chapter 2: Current state of the NZ ETS* of the advice report we describe the proactive engagement we undertook to meet the requirement in s5N(1)(a).
Section 5O: Commission must act independently	
(1) The Commission must act independently in performing its functions and duties and exercising its powers under this Act. **(2) However, the Minister may direct the Commission to have regard to Government policy for the purposes of the Commission—** **(a) recommending unit supply settings of the New Zealand emissions trading scheme; and** **(b) providing advice about New Zealand's nationally determined contributions under the Paris Agreement (in a report requested under section 5K).**	We have prepared our recommendations independently. The Minister has not directed us to have regard to Government policy in preparing our recommendations.

References

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2. He Pou a Rangi Climate Change Commission. *Advice on NZ ETS unit limits and price control settings for 2023-2027*. 2022. July 2022. https://www.climatecommission.govt.nz/assets/ETS-advice-July-22/PDFs/NZ-ETS-settings-2023-2027-final-report-web-27-July-2022.pdf

3. Energy Efficiency and Conservation Authority (EECA). *South Island Regional Energy Transition Accelerator RETA: Phase One Report*. 2024. https://www.eeca.govt.nz/insights/eeca-insights/reta-south-island/

4. Ministry for the Environment Manatū Mō Te Taiao. *Marginal abatement cost curves analysis for New Zealand*. 2020. January 2020. https://environment.govt.nz/assets/publications/Files/marginal-abatement-cost-curves-analysis-2020.pdf