



Cabinet

Minute of Decision

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New Zealand Emissions Trading Scheme: 2022 Update to Limits and Price Control Settings for Units

Portfolio **Climate Change**

On 28 November 2022, following reference from the Cabinet Economic Development Committee, Cabinet:

Background

- 1 **noted** the need to update New Zealand Emissions Trading Scheme (NZ ETS) limits and price control settings for units (unit settings) and extend them to 2027;
- 2 **noted** that:
 - 2.1 on 29 August 2022, Cabinet agreed to the release of a consultation document on proposed changes to NZ ETS limits and unit settings, and noted that the Minister of Climate Change intended to seek Cabinet approval for the necessary amendment regulations in November 2022 [CAB-22-MIN-0343];
 - 2.2 regulations extending these settings need to be made and published in the Gazette before 31 December 2022;

Legal requirements

- 3 **noted** that the Climate Change Response Act 2002 (the Act) requires the Minister of Climate Change to consider matters described in section 30GC when making recommendations on updates to price control settings;
- 4 **noted** that if the Minister of Climate Change recommends prescribing limits or price control settings that differ from recommendations made by the Climate Change Commission under section 5ZOA of the Act, the Minister must, as soon as reasonably practicable, prepare a report of the reasons for the difference and present this to the House of Representatives;

Limit settings for units

- 5 **noted** that the Climate Change Commission has recommended adjustments to limit settings, which result in reduced auction volumes compared to the status quo;
- 6 **noted** that this will reduce the supply of units into the NZ ETS, which may exert an upwards price pressure;

- 7 **agreed** to update limits for units to reflect auction volumes if no technical adjustment is made while retaining the stockpile adjustment recommended by the Commission (as set out in Table 1 of the paper under CAB-22-SUB-0533), as follows:

Limit	Millions of units for each year				
	2023	2024	2025	2026	2027
New Zealand units available by auction	25.9	24.8	22.5	20.0	17.6
Approved overseas units used	0	0	0	0	0
Overall limit on units	32.3	31.1	28.8	26.2	23.7

Price control settings for units

- 8 **noted** that New Zealand Unit (NZU) prices affect costs faced by households and the economy, including the prices of fossil fuels and electricity;
- 9 **noted** that price control settings for units are intended to mitigate unacceptably low or high NZ ETS prices, and are not intended to signal price expectations to the market, nor to be triggered regularly or often;
- 10 **noted** that status quo price control settings appear to have been encouraging market participants to bid high prices in order to trigger and exhaust the cost containment reserve fully each year;

Price floor – auction reserve price

- 11 **noted** that the Climate Change Commission has recommended increasing the price floor from \$32.10 to \$60 in 2023, and subsequently increasing at 3 percent plus inflation;
- 12 **agreed** to extending status quo auction reserve prices adjusted for inflation for all years:

Year	2023	2024	2025	2026	2027
Auction reserve price	\$33.06	\$35.90	\$38.67	\$41.45	44.35

Upper price control setting – the cost containment reserve

- 13 **noted** that secondary market NZU prices have to date risen to the level of the upper price control setting;
- 14 **noted** that a significant increase to the cost containment reserve trigger price is an attempt to decouple NZU prices from the upper price control setting;

- 15 **agreed** to updated cost containment reserve volumes and status quo trigger price extended and adjusted for inflation for all years:

Cost containment reserve	2023	2024	2025	2026	2027
Trigger price	\$80.64	\$91.61	\$103.24	\$115.84	\$129.97
Reserve volume, million NZUs	8.0	7.7	7.2	6.5	5.9

- 16 **noted** that if NZU prices rise to the level of the recommended cost containment reserve trigger prices, this would have impacts on costs faced by households and the economy, including increased fossil fuel and electricity prices;
- 17 **agreed** to inviting the development of additional actions if the cost containment reserve is triggered;
- 18 **noted** that new actions to address distributional impacts are likely to require additional resourcing and will likely require Ministers to make trade-offs between different objectives they have for Climate Emergency Response Fund revenue;

Sharing decisions with the Commission

- 19 **noted** that the 2022 decisions on NZ ETS unit settings will be a key input to the development of the Climate Change Commission's 2023 advice;
- 20 **agreed** to share the paper under CAB-22-SUB-0533, including its appendices and minute of decisions, with the Climate Change Commission prior to the public release of these decisions;

Legislative implications

- 21 **authorised** the Minister of Climate Change to further clarify and develop policy matters relating to the amendments outlined above, in a way not inconsistent with Cabinet's decisions;
- 22 **invited** the Minister of Climate Change to issue drafting instructions to Parliamentary Counsel Office in order to promulgate amendment regulations in 2022 to update New Zealand limits and price control settings for units.

Rachel Hayward
Secretary of the Cabinet