

BPMR Mission: Shanghai

Lessons learnt from the Australian Carbon Pricing Scheme

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AGENDA

- **About Carbon Market Institute**
- **State of the Australian Carbon Market**
- **National Survey of liable entities - aims and methodology**
- **Survey results and key findings**
 - **Internal capacity**
 - **Administrative and governance arrangements**
 - **Carbon price impacts**
 - **Investment in abatement and emissions reduction**
 - **Emissions trading strategy**
 - **Interaction with the Clean Energy Regulator**
- **Current developments**
- **Discussion/Q&A**



ABOUT CARBON MARKET INSTITUTE

- **CMI is an independent membership-based not-for-profit organisation. The peak body for carbon market participants.**
- **Members – liable entities, professional service providers, banks, project developers, technology providers, academics, specialists**
- **Facilitates the networks, knowledge exchange and commercial interaction amongst key government policy makers and regulators, industry, financiers and investors, professional services companies and technology solution providers.**
- **CMI works with Government to ensure effective implementation of policy.**
- **Working groups – Policy, Emissions Reduction Fund**
- **Networking, research, market data, events- Carbon Expo, annual summit**
- **Strategic Alliance with IETA**



THE STATE OF THE AUSTRALIAN CARBON MARKET – 1ST YEAR

- The Australian scheme is three years fixed price then moving to a floating price
- In total, **372 liable entities** were included in the Carbon Pricing Scheme (25,000 tonne/pa emissions) in the first year
- Given the first compliance year has a fixed price of \$23 per carbon unit, the Carbon Market Institute estimates the total value of the Australian carbon market at approximately **A\$6.58 billion**.
- 258 of the largest emitters were required to surrender carbon units for 75% of their liability in the June 2013 interim surrender.
- A total of **103.7 million free permits** were issued under the Jobs and Competitiveness Program to 121 entities – at \$23/tonne, it equates to \$2.2 billion of free permits
- 99% of companies met their 1st year compliance obligations with only 4 companies failing to surrender permits



THE STATE OF THE AUSTRALIAN CARBON MARKET – 1ST YEAR

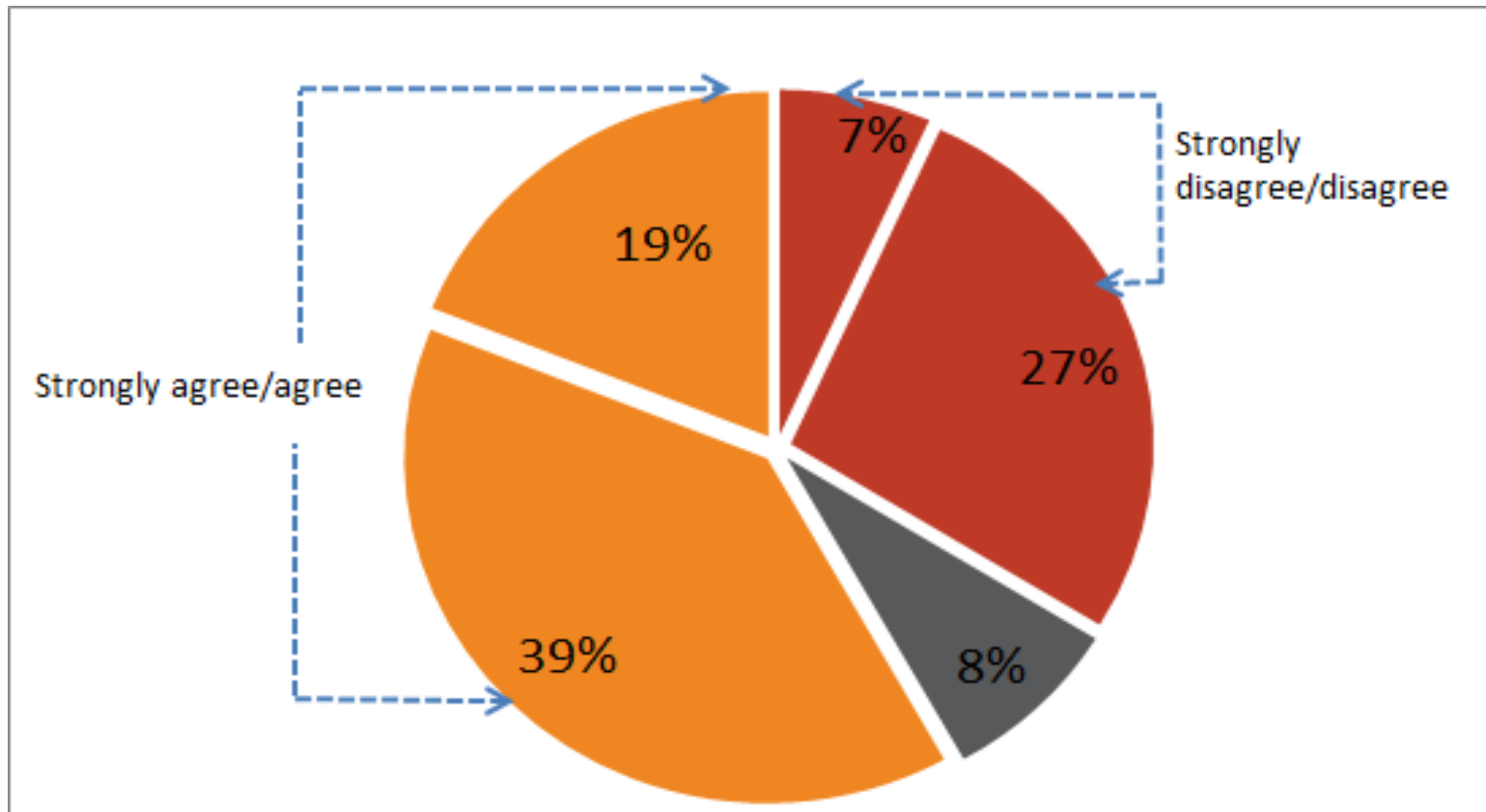
- The Clean Energy Regulator issued **1,750,179 ACCUs** in the first year of operation. Almost all of the issued ACCUs, 97%, were purchased by 18 liable entities to meet part of their compliance obligations
- In the fixed price period, liable entities can purchase ACCUs (credits from CFI activities) to offset up to 5% of their total liable emissions
- 22 CFI projects were issued with ACCUs, mostly emissions avoidance.
- Projects included landfill gas capture, piggery methane, savannah burning, reforestation/afforestation
- Most liable entities come from Energy/Power generation sector and expected to be the biggest demand source for domestic offset units (ACCUs)

NATIONAL LIABLE ENTITY SURVEY

- **Capture the key issues faced lessons learnt by liable entities in the first year of the scheme.**
- **Use the results to inform domestic and international policy makers, the Clean Energy Regulator and international companies facing compliance the key issues faced by liable entities in meeting compliance.**
- **Understand the main competency gaps and identify areas for capacity building.**
- **Understand best practice compliance.**
- **Survey respondents = Liable Entities – 200+**

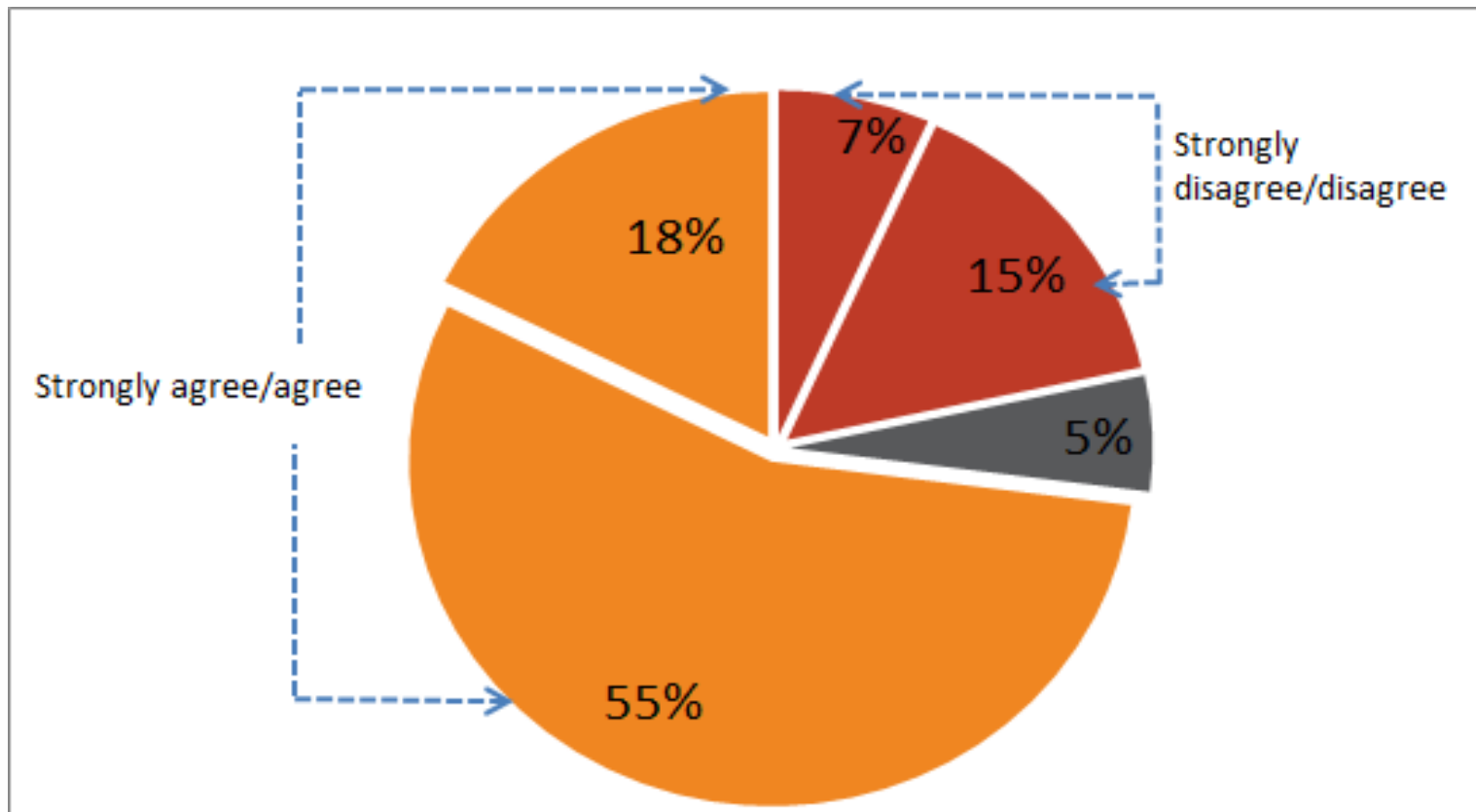
INTERNAL CAPACITY

- Our organisation had pre-existing management capability to manage our compliance and obligations under the Carbon Pricing Mechanism.



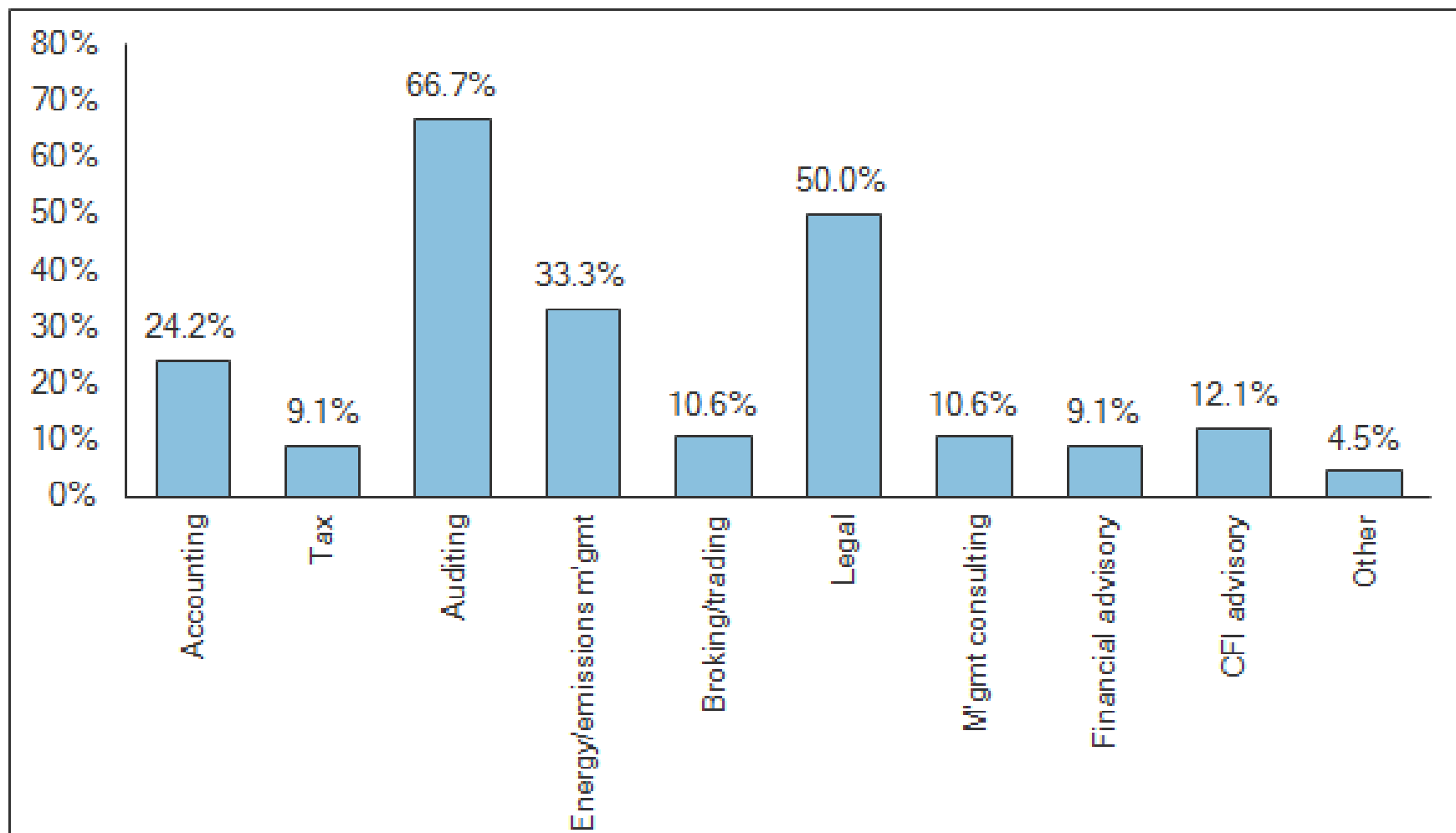
INTERNAL CAPACITY

- Our organisation engaged external service providers to assist us in meeting our compliance and obligations under the CPM.



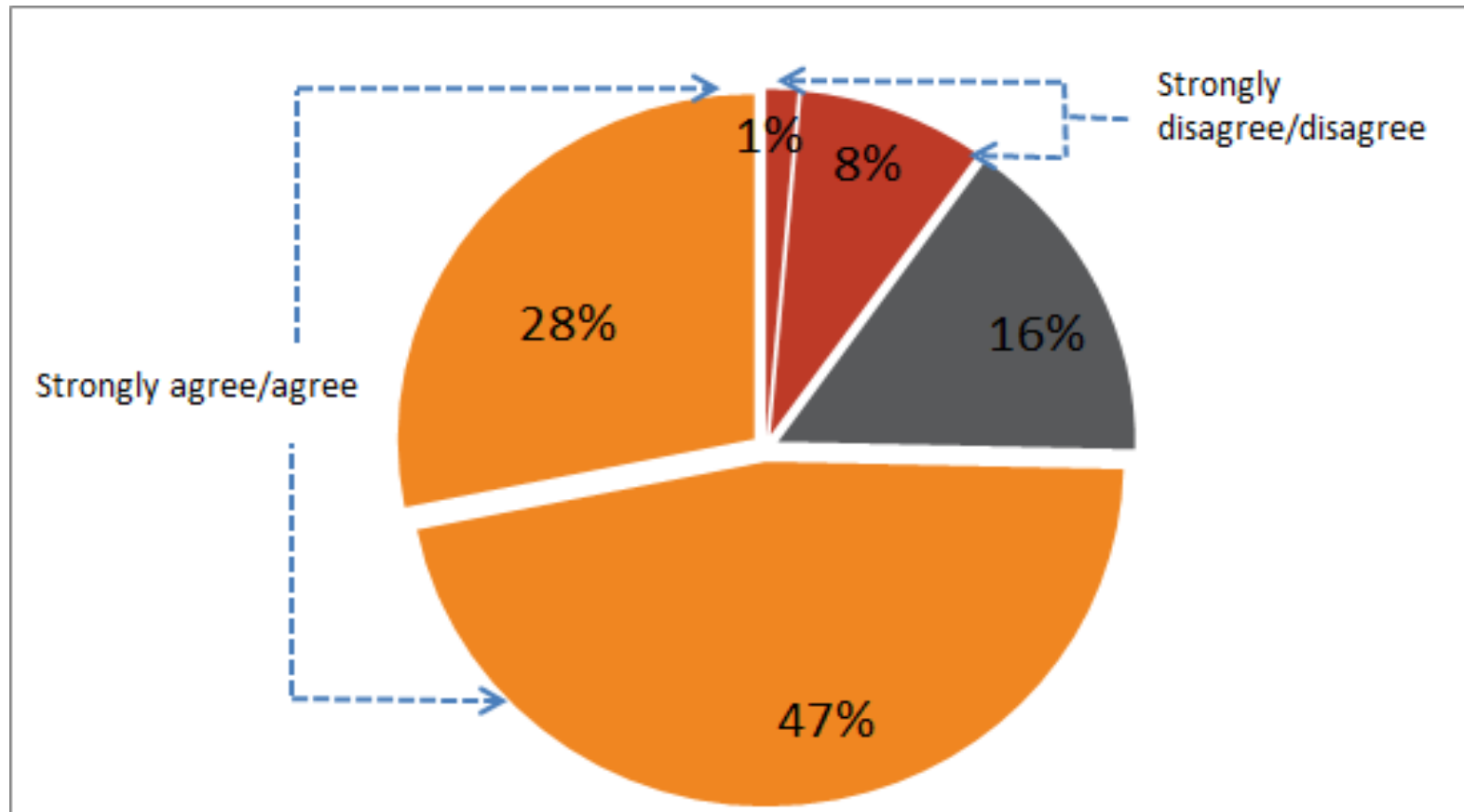
INTERNAL CAPACITY

- What type of professional services were engaged?



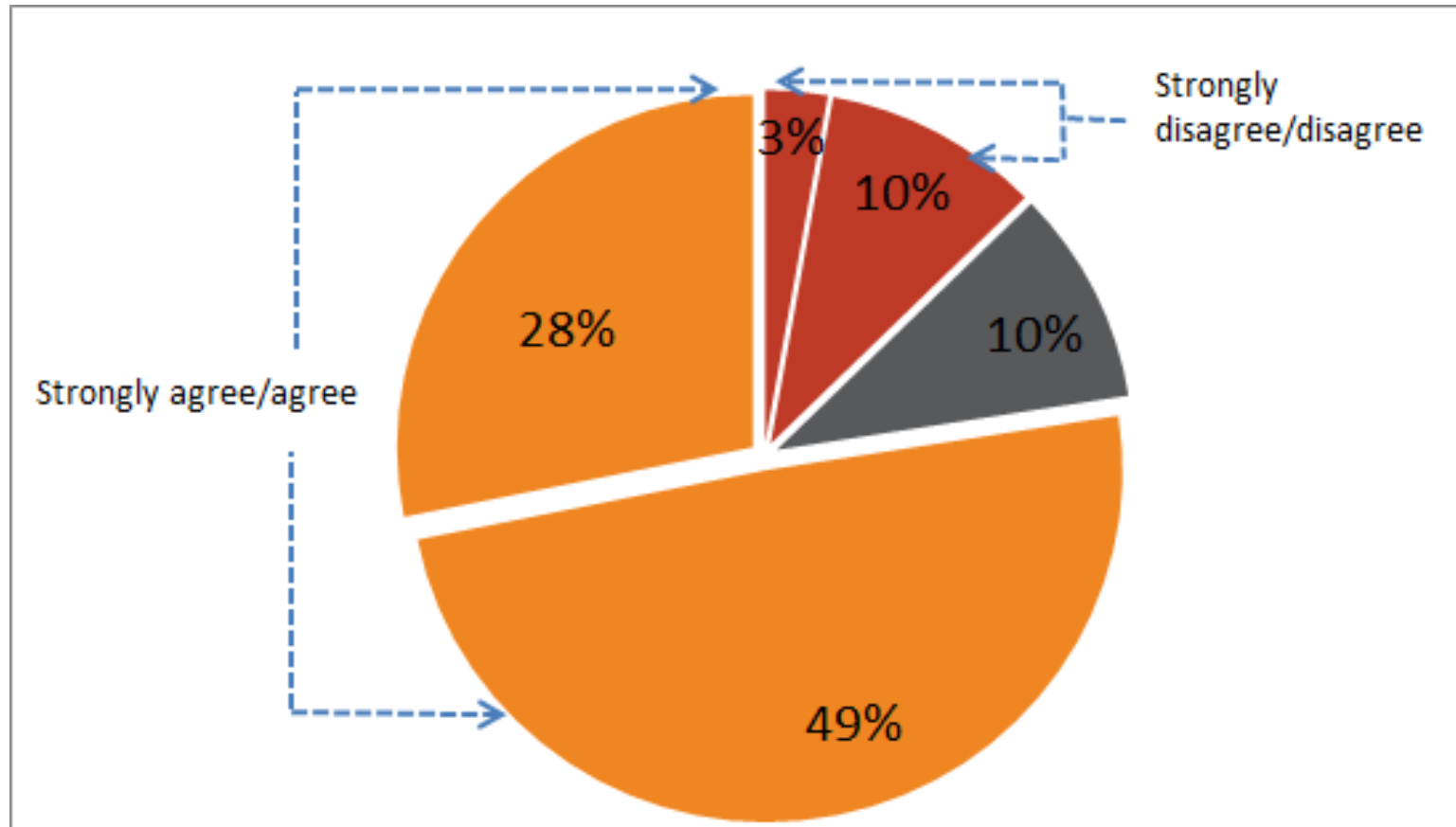
ADMINISTRATION/COMPLIANCE

- Our organisation established new governance policies and carbon risk management frameworks to comply with the CPM.



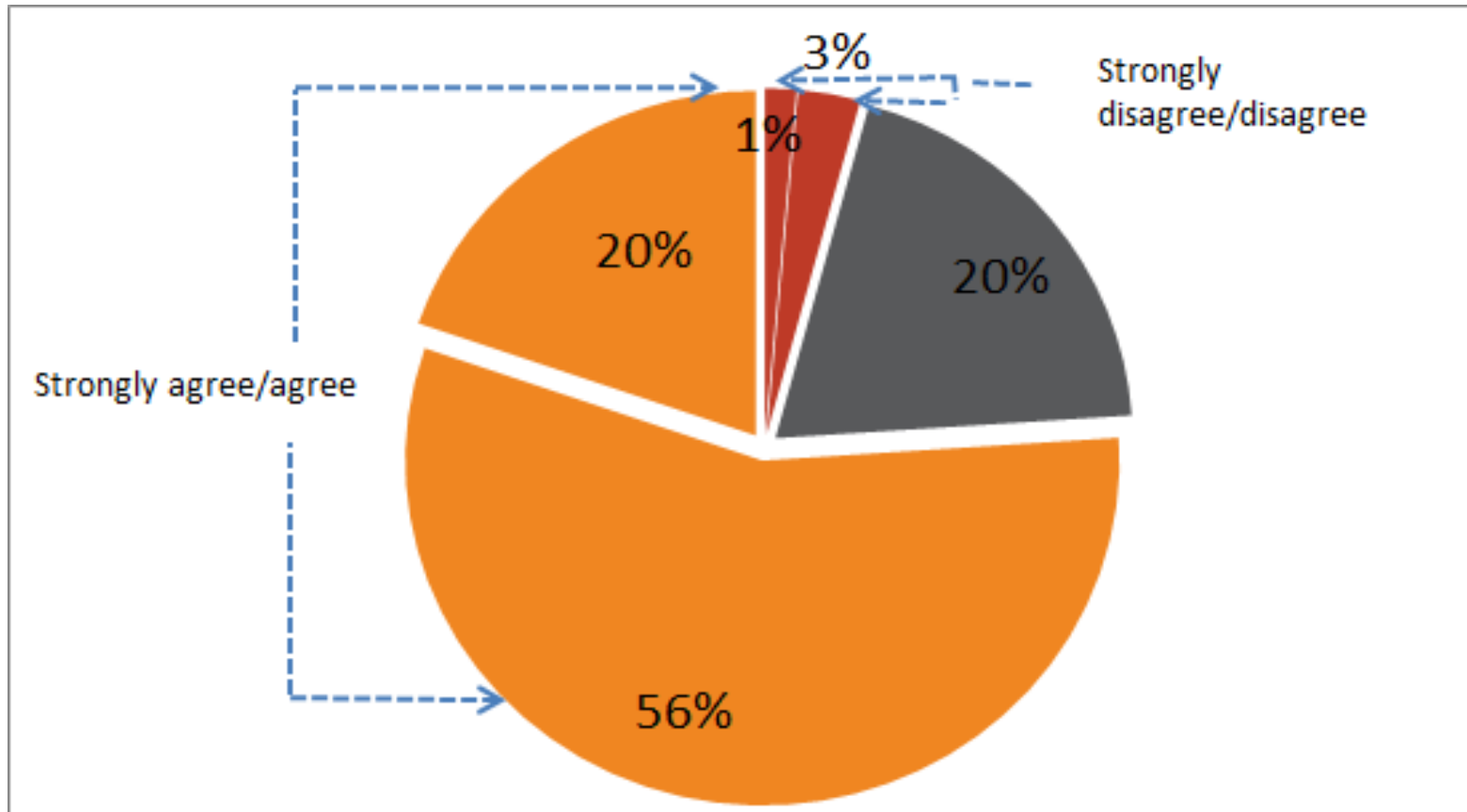
ADMINISTRATION/COMPLIANCE

- Meeting compliance and obligations under the CPM created new internal lines of communication, coordination and decision making.



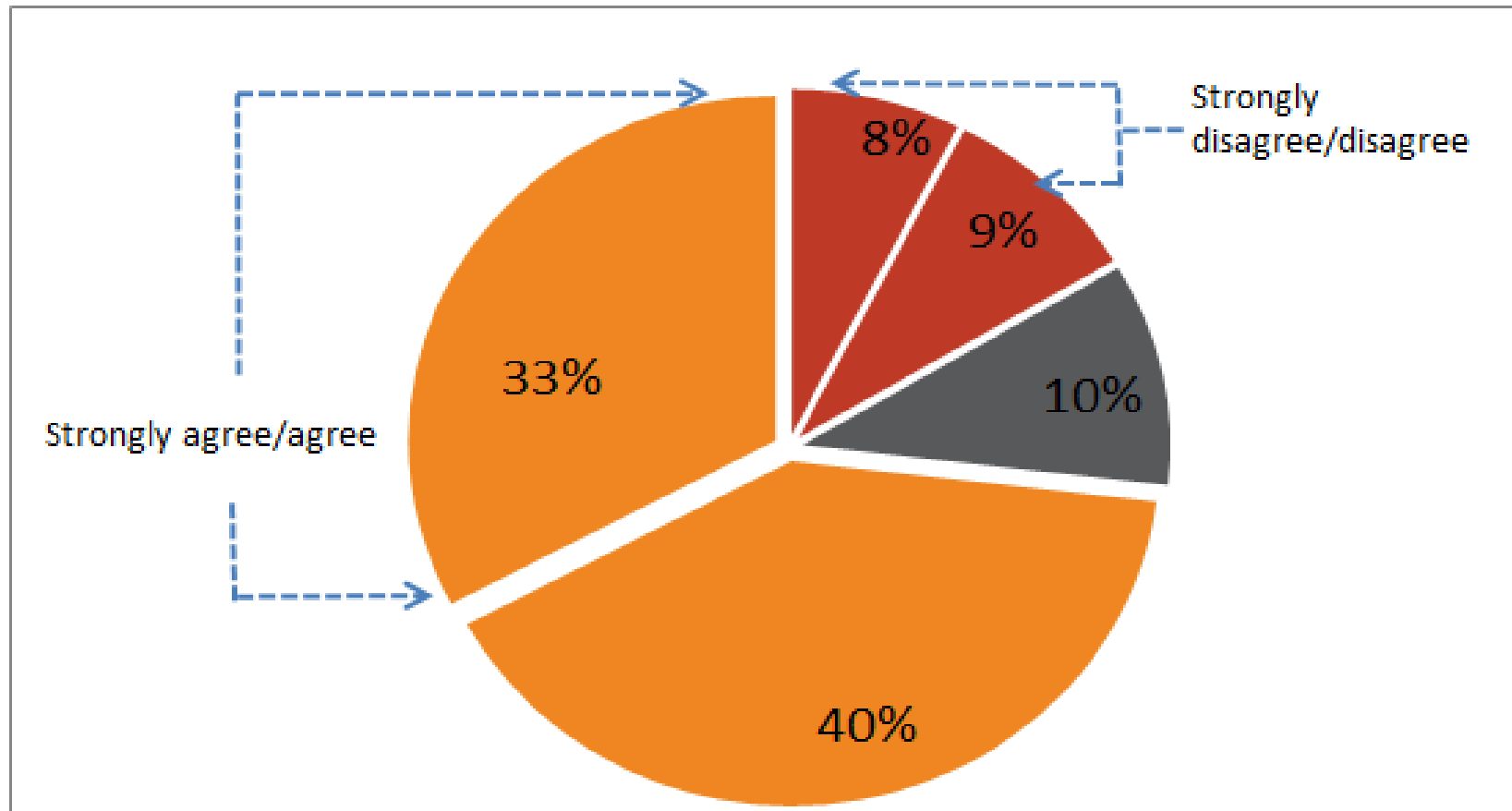
ADMINISTRATION/COMPLIANCE

- Our corporate board was involved and aware of our strategy to meet compliance and manage our liability.



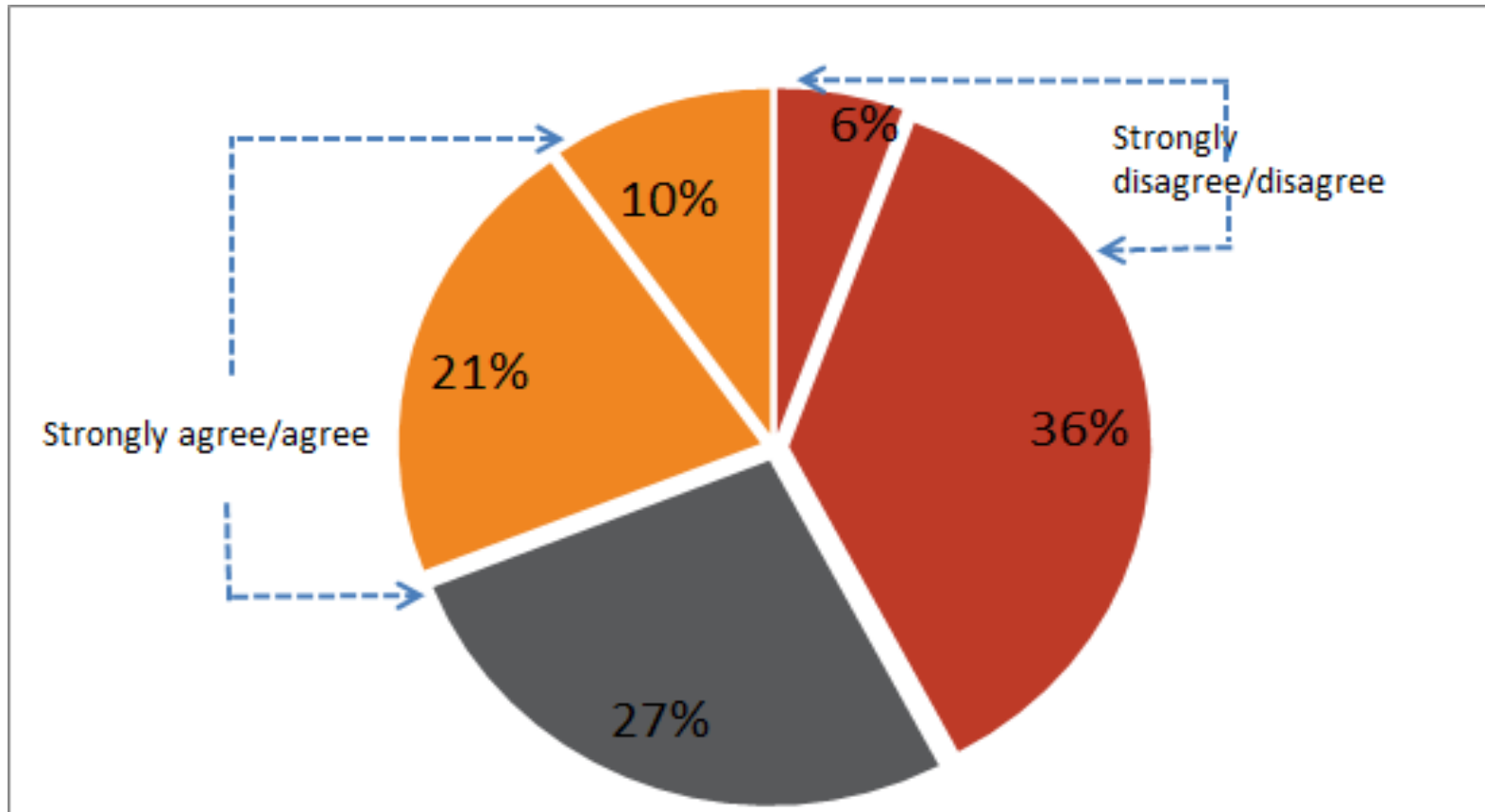
CARBON PRICE IMPACTS

- A strategy was developed to adequately pass through carbon price cost impacts to customers.



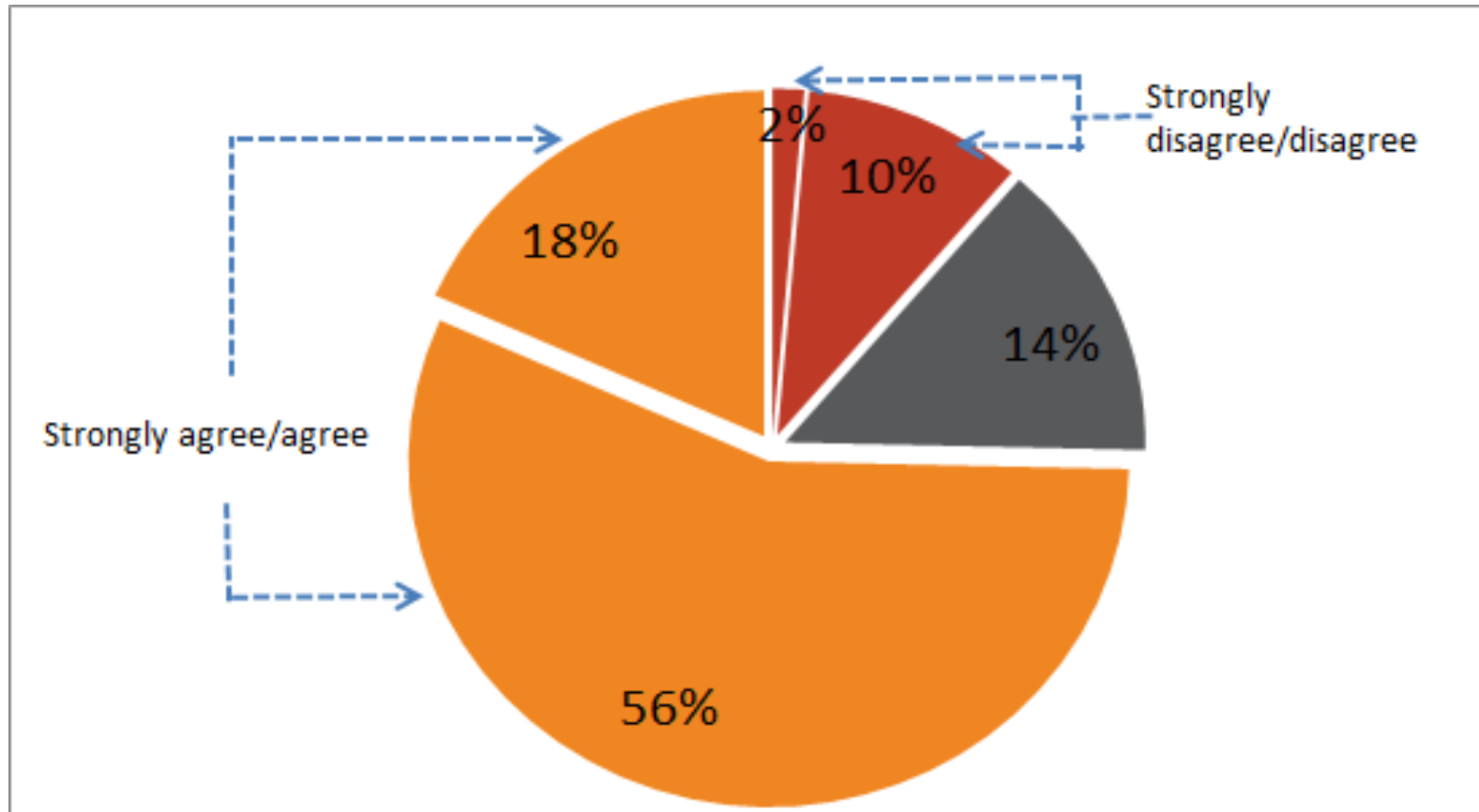
INVESTMENT IN ABATEMENT

- New investment has been committed to financing energy efficiency and low carbon solutions.



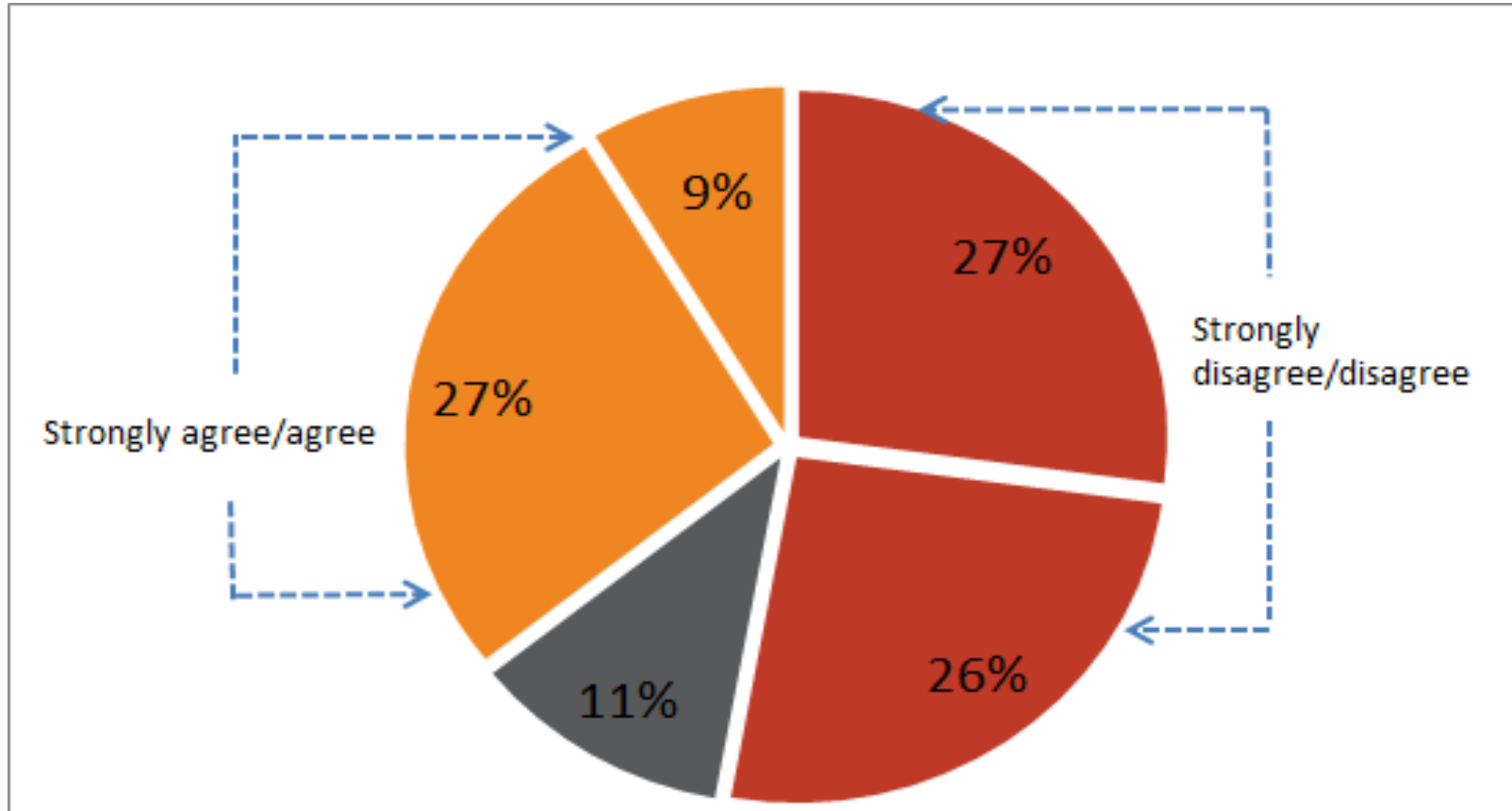
INVESTMENT IN ABATEMENT

- Our organisation has factored a carbon price into future investments.



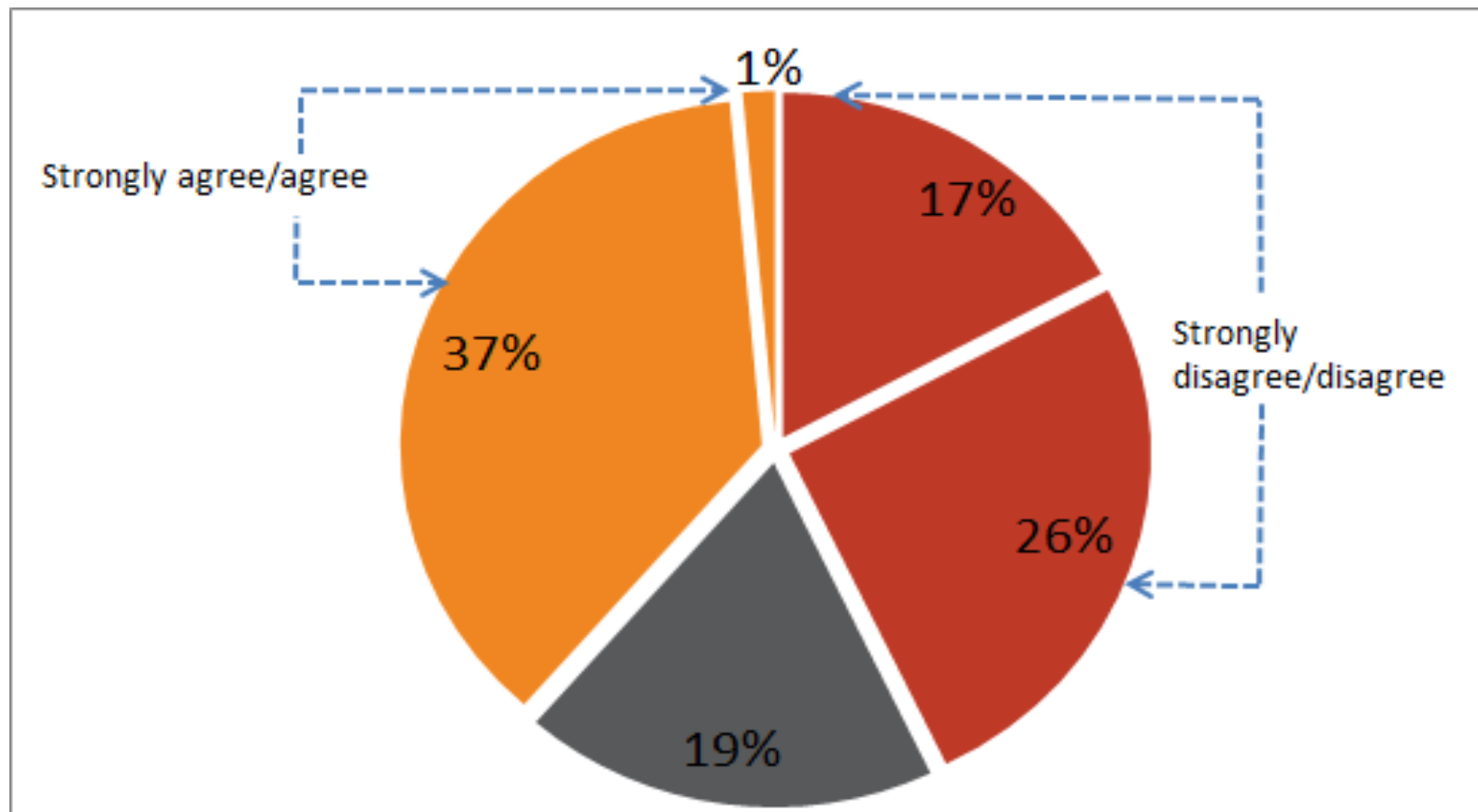
TRADING STRATEGY

- We investigated and/or sourced domestic Carbon Farming Initiative credits to meet a component of our first year's liability.



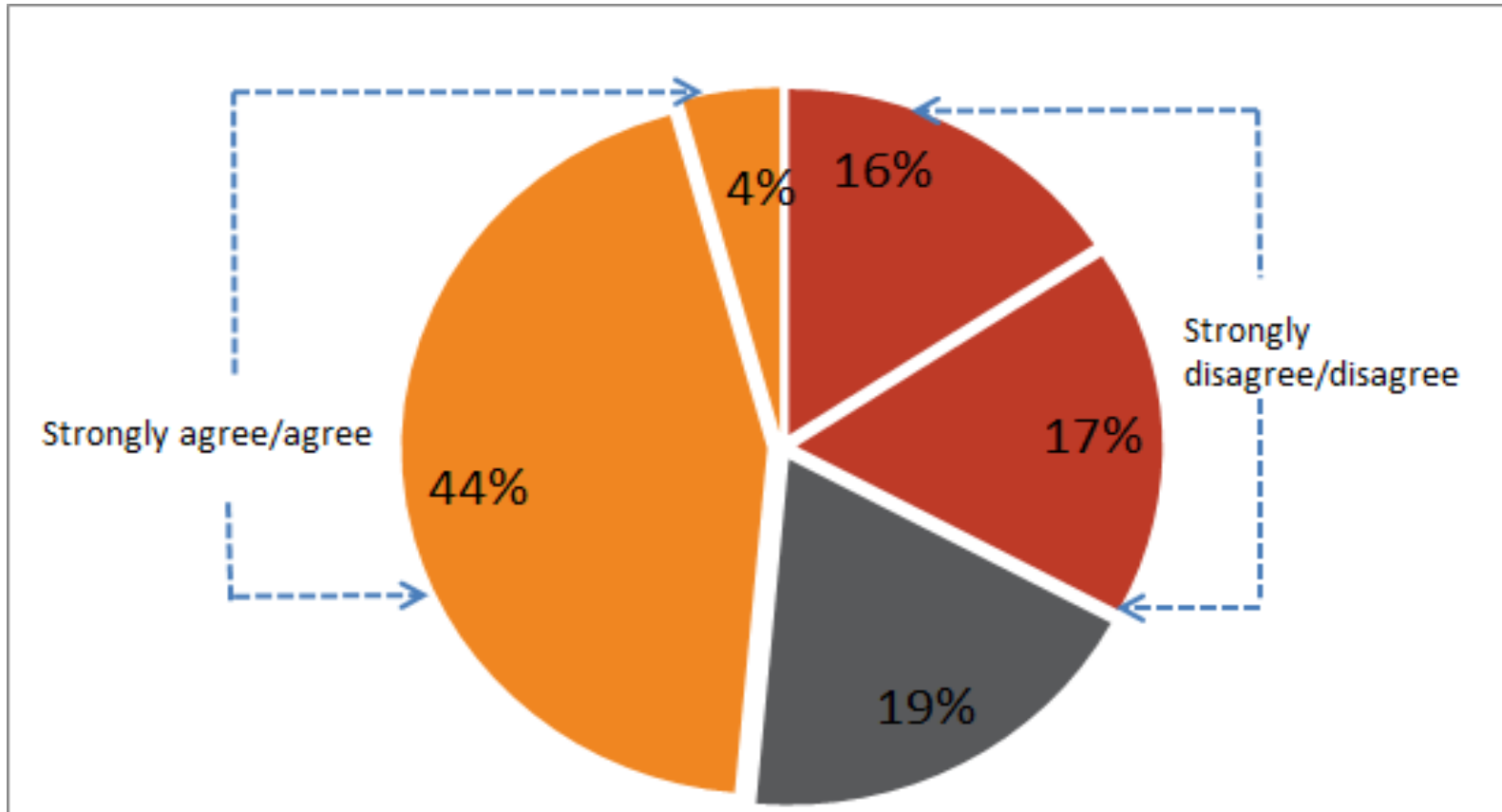
TRADING STRATEGY

- In anticipation of a flexible price emissions trading market, currently planned for 2015, we have developed a carbon procurement and trading strategy.



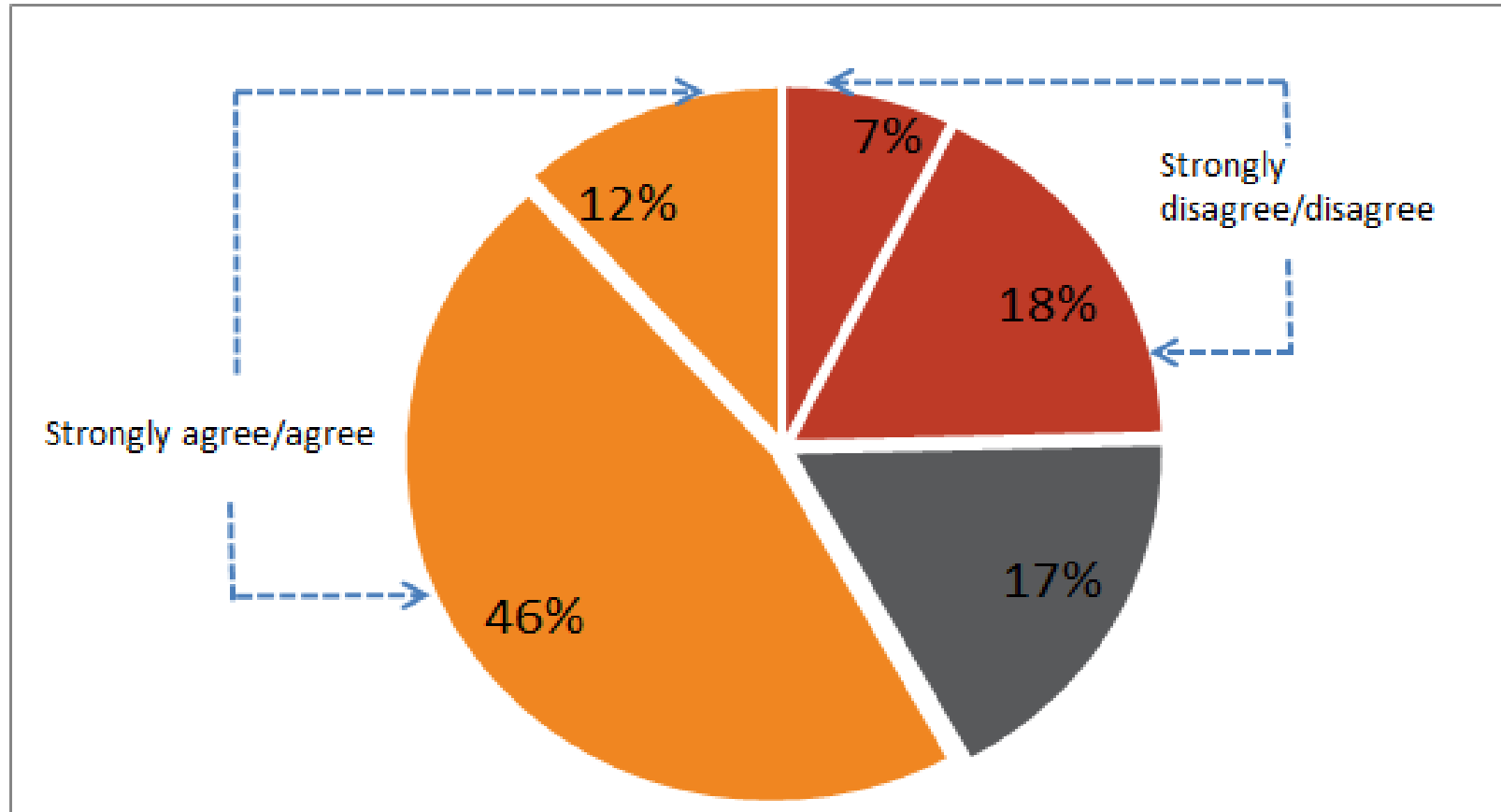
TRADING STRATEGY

- We have processes in place to track developments in international markets, such as linkage to the EU ETS, that may impact the carbon price in Australia.



INTERACTION WITH THE CLEAN ENERGY REGULATOR

- The Clean Energy Regulator has provided adequate information and support to help meet our obligations under the CPM.



SUMMARY – KEY FINDINGS

- **There were two tiers of internal capacity amongst liable entities**
 - One tier had pre-existing internal capacity and international exposure to carbon pricing etc.
 - The second tier had some existing internal capacity (mainly through NGERS reporting) and had to rely on external service providers.
- **External service providers were used extensively by liable entities to assist in meeting CPM requirements.**
- **The history of National Greenhouse and Energy Reporting Scheme has enabled liable entities to have in place adequate controls and assurance of emissions data.**
- **Placing a dollar value on emissions has resulted in new internal lines of communication, coordination and decision making, especially between sustainability/energy and the CFO's office.**



SUMMARY – KEY FINDINGS

- **New governance and risk management frameworks were developed that involved the board and senior management.**
- **Two main approaches to governance – top down driven by the board or CEO and or bottom up driven from operations responsible for energy data.**
- **Carbon costs impacts were modelled and pass through costs determined as a priority. Supplier/customer contracts were revised.**
- **The majority of liable entities reported that the CPM elevated the priority to assess internal abatement opportunities.**
- **One-third committed to new investment to energy efficiency and low carbon projects.**
- **The long term expectation is that there will be some form of carbon pricing.**

SUMMARY – KEY FINDINGS

- **The majority of liable entities have not looked closely at the CFI (domestic offsets).**
- **Liable entities were focussed on compliance, not portfolio optimisation.**
- **A “client focussed” approach from the Regulator was very important to help companies meet compliance**
- **Workshops and ongoing stakeholder engagement was very important.**
- **Cross-industry sharing of best practice approaches is extremely important**



NEW GOVERNMENT POLICIES

- **Repeal of the Carbon pricing mechanism**
 - Planned to end 30 June 2014
- **Introduction of an emissions reduction fund**
 - \$2.55 billion fund for abatement projects from July 2014
 - Introduce and baseline and credit scheme
- **Maintain Renewable Energy Target**
 - 20% by 2020
- **Maintain Kyoto target**
 - 5% reduction on 2000 levels by 2020

Discussion Q&A

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