



Safeguard Mechanism reforms: Determining the Default Prescribed Unit Price

Purpose

This document sets out the Department of Climate Change, Energy, the Environment and Water's (the department's) proposed approach to determining the annual 'Default Prescribed Unit Price', which is an input to calculations required under section 36 of the Safeguard Rule for those applying for trade-exposed baseline-adjusted (TEBA) status. We are seeking the views of stakeholders in relation this proposed approach.

The final approach to determining the Default Prescribed Unit Price will be published on the department's website.

The Default Prescribed Unit Price will be published on the department's website by 30 June each year from 2024 for the purposes of the relevant calculations. It does not have any other operation or regulatory significance.

Background

The Safeguard Mechanism reforms, which commenced 1 July 2023, will help Australia meet its climate targets and ensure Australia remains competitive in a decarbonising world. The reforms will reduce net emissions at Australia's largest emitting facilities on a trajectory consistent with achieving Australia's emission reduction targets.

The Safeguard Mechanism applies to facilities that emit scope 1 emissions of more than 100,000 tonnes of CO₂ equivalent in a year and sets legislated emissions targets, known as baselines, on the net greenhouse gas emissions of covered facilities. Baselines for facilities will decline by 4.9 per cent each year to 2030 in line with Australia's climate targets.

The Safeguard reforms also ensure that the competitiveness of trade-exposed industries is appropriately supported during the transition to net zero. Trade exposed facilities can apply to the Clean Energy Regulator for trade-exposed baseline-adjusted (TEBA) status, which provides a reduced baseline decline rate for eligible facilities. Facilities are eligible for TEBA support if their assessed scheme cost is above prescribed thresholds. This assistance has been designed so that it reduces compliance costs for facilities that genuinely need it, while retaining an incentive to reduce emissions.

Default Prescribed Unit Price

When applying for TEBA status, a facility's scheme cost is calculated by multiplying excess emissions in a given financial year by the Default Prescribed Unit Price. The Default Prescribed Unit Price is an estimate



of the average price of a *prescribed carbon unit*¹ as determined annually by the department and provides a standard basis for calculating the cost of offsetting a facility's excess emissions.

The proposed approach to determining the Default Prescribed Unit Price aims to provide:

- a robust annual value that is consistent with legislative requirements,
- a simple, transparent and replicable method to provide facilities and market participants with greater certainty for decision making, and
- a framework that can adapt to the evolving domestic carbon market and include new data that may become available in future.

Under section 38 of the Safeguard Rules, the Secretary of the department is required to publish the Default Prescribed Unit Price on the department's website before 30 June each year from 2024.

Default Prescribed Unit Price Development – key considerations

Use of spot prices to estimate the Default Prescribed Unit Price

We consider the use of spot prices to determine the Default Prescribed Unit Price to be a transparent and reasonable approach that is robust and makes best use of the available data.

We are aware that spot transactions are only a part of the broader market and that Safeguard facilities may also engage in direct transactions with ACCU project proponents and intermediaries. However, the spot price of any commodity will capture all information available to the market for that commodity at any point in time, given sufficient market liquidity. Spot ACCU prices are also likely to be closely linked with the price of direct trades as significant price differences tend to be quickly arbitrated away by the market.

Proposal 1: To use spot price data to calculate the Default Prescribed Unit Price.

Market data availability and sources

The fragmented nature of the current ACCU market means that, in a particular year, there may be no single and comprehensive source of spot price data. The department is not proposing to use any single particular data source and will seek out appropriate sources each year to ensure a comprehensive coverage of spot transactions. This is expected to include spot ACCU data from market intermediaries, as well as the Australian Carbon Exchange once this body is established. Current data sources include intermediaries such as Core Markets and Jarden Australia.

To enhance transparency, the department also proposes to publish the names of the companies that provide ACCU market data, without publishing the data itself.

¹ Prescribed Carbon Units are defined in section 22XM of the *National Greenhouse and Energy Reporting Act 2007* and include Australian Carbon Credit Units and Safeguard Mechanism Credits.



Proposal 2: The department will determine a comprehensive source of spot price data each year and publish the names of companies that provide the data in accordance with relevant licensing agreements.

The Safeguard legislation requires the Default Prescribed Unit Price value to be published before the end of each financial year. This means that data from the end of the financial year will not be available when the Default Prescribed Unit Price is calculated, as time is needed to collate the required data, calculate the value and obtain approvals for the publication of the Default Prescribed Unit Price value. We expect this period will be around a month and will mean that the department will not be able to access data from this period when calculating the Default Prescribed Unit Price value.

One option would be to calculate a Default Prescribed Unit Price value from the available period, however, to best account for years with price volatility during the later part of the year, the department proposes using average prices and volumes from the previous three months of spot price data as a proxy for direct data for the final period.

Proposal 3: That an estimate of prices at the end of the compliance year be made using an average of the previous three months of spot price data.

Incorporating SMCs into the DPUP

For the first Safeguard Mechanism compliance year (2023-24), ACCUs are the only prescribed carbon unit that will be available. However, from the second compliance year (2024-25), the Default Prescribed Unit Price methodology will incorporate data for the Safeguard Mechanism Credits (SMCs) traded on the spot market, with the first issuance of SMCs scheduled for February 2025.

Worked example

Table 1 below illustrates how a Default Prescribed Unit Price could have been determined based on 2022-23 ACCU market spot price data. The data below is broken down by ACCU methodology and includes the data set for the full year with a final Default Prescribed Unit Price value of \$36.04.

Table 1: Example DPUP estimate based on 2022-23 spot ACCU market data

ACCU methodology	Volume, 'units	Value, A\$	Average price, A\$/t
Generic	8,788,320	312,005,858	35.50
Agriculture	80,000	2,826,667	35.33
Human Induced regeneration	5,944,900	216,409,526	36.40
Landfill gas capture	50,000	1,725,000	34.50
Savanna burning	112,000	4,670,909	41.70
Savanna burning+ Indigenous Co Benefits	150,000	7,458,000	49.72
Totals and estimated DPUP	15,125,220	545,095,960	\$36.04

Source: Core Markets 2024, Clean Energy Regulator 2024.