Australia’s domestic policy settings

The Emissions Reduction Fund and Safeguard Mechanism

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Emission Reduction Fund
Emission Reduction Fund

- Government’s proposed approach to achieving target of 5% emission reduction by 2020 (on 2000 baseline)
- Carbon “Buy-back” / Purchasing Fund $2.55 Bn + $2.4 Bn
- Emission reductions generated through CFI/ERF projects across a range of sectors:
  - energy efficiency; waste gas; reforestation; improved soils; transport; savanna burning etc.
- Project developers, aggregators or facility operators can bid in to reverse auction
ERF process

Note that transitional provisions apply to existing CFI projects
ERF – participant and project eligibility

- A participant must apply for project registration and provide client information to the CER.

- For a project to be eligible for registration with the CER under the ERF it must:
  - not have begun to be implemented before it has been registered with the Clean Energy Regulator (the newness requirement),
  - not be required to be carried out by or under a Commonwealth, State or Territory law (the regulatory additionality requirement), and
  - not be likely to be carried out under another Commonwealth, state or territory government programme in the absence of registration under the Emissions Reduction Fund (the government program requirement).

- Project must be developed consistently with an approved methodology.
Examples of approved methodologies

- a generic method for emissions reductions at facilities reporting under the National Greenhouse and Energy Reporting Scheme
- capture and destruction of coal mine fugitive emissions
- reductions in emissions-intensity of transport
- commercial, industrial and aggregated energy efficiency
- capture and combustion of landfill gas and agricultural waste
- alternative treatment of organic waste
- capture and combustion of biogas from wastewater, and
- methods for the land sector, including increasing soil carbon, reducing livestock emissions, expanding opportunities for environmental and carbon sink plantings, and reforestation.
Auction and contracting

- To participate in an auction you must agree to enter into a **Carbon Abatement Contract**.
  - choice of three contract durations including a standard, short term or immediate term.

- Participants must also be pre-qualified to participate and register to participate in an ERF auction
  - Auction Guidelines provide information on auction schedules, eligibility, bidding, suspension and cancellation, participant disqualification and information publication.

- bids are provided in the form of a financial terms of offer / auction bid form
Emissions Reduction Fund
15 - 16 April 2015 Auction Results
Released 23 April 2015

- Contracts awarded: 107
- CO₂-e Contracted abatement: over 47 million tonnes
- Volume of abatement by method:
  - Sequestration *
  - Landfill and waste *
  - Savanna burning
  - Piggyfles
  - Transport
  - * This includes multiple methods under the Emissions Reduction Fund

- Projects under contract: 144
- Average price per tonne of abatement: $13.95
- Contract duration:
  - Standard: 7 years
  - 3 years
  - 10 years

- Contractors: 43
- $2.55 billion contracted
- $660 million contracted
- Smallest: 12 thousand tonnes
- Largest: 3.5 million tonnes

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Safeguard Mechanism
Overview of Mechanism

- Established under the *National Greenhouse and Energy Reporting Act 2008 (C’th)* and *NGER (Safeguard Mechanism) Rule 2015*.

- Intention to ensure emissions reductions purchased through the ERF are not displaced by significant rises above BAU elsewhere in the economy.

- Operates by setting baselines for designated facilities and requiring businesses to keep emissions below the baseline or surrender units / pay penalty.
Coverage

- Applies to NGER facilities with direct emissions of more than 100,000 t CO2-e per year, called “designated large facilities”.
  - expected to cover @140 large businesses representing 50% of Australia’s emissions (power generation, mining, oil & gas, manufacturing, transport, construction and waste)
- The person with operational control of a designated facility is responsible for safeguard obligations, called the “responsible emitter”.
- “Persons” encompasses a wide range of legal structures, not just corporations.

NGER Act s22XH & s22XJ
Rule – section 8
Existing facilities: Reported-emissions baseline

Baseline Emissions Number reflects highest covered emissions between 2009-10 and 2013-14

Eligibility

5 years of NGER data between 2009-10 and 2013-14 and at least 1 year >100,000 t CO₂-e

OR

3 or more years >100,000 t CO₂-e

OR

1 year of NGER data and at least 1 year >100,000 t CO₂-e and nominate to the Regulator
Calculated-emissions baseline, then production-adjusted baseline

Estimation period is five years for large new projects (>2 Mt CO₂-e in baseline year)

Rule – subdivision 3 and 5 of Part 3
Baseline adjustments for existing facilities and projects already underway

- **Initial calculated baseline**
  - Only available in 2016-17

- **Significant expansion**
  - \( \uparrow \) capacity >20% or new product
  - Post-2020 will result in a benchmark-emissions baseline.

- **Inherent emissions variability**
  - Available between 2016-17 and 2024-25
  - Potential for 2\textsuperscript{nd} calculated-emissions baseline

- **Emissions intensity variation**
  - Available indefinitely.
  - Adjusts baseline for a single financial year
  - Intensity in relevant year < baseline intensity comparison year

- **Reporting change or activity change**
  - Permanent adjustment to in response to:
    - historical reporting error or change in activities (reported-emissions baseline), GWP or calculation error

Results in a new calculated emissions baseline determination
Inherent emissions variability associated with the extraction of natural resources

- Principal activity is resource extraction or gas/LNG processing
- An eligible facility may apply for two calculated-emissions baselines to 2024-25.
- Properties of resource directly affect emissions and have resulted in exceeding baseline

Rule – section 25
Emissions intensity variation

- Where emission exceed baseline but emissions intensity decreasing
- Can increase the baseline emissions number for a single year to equal emissions
- Alternative to multi-year monitoring period
Benchmark emissions baseline after 2020

- estimation period 5 years for large new projects (>2Mt CO2-e in baseline year)
Managing excess emissions

Baseline setting period: Baseline reflects highest emissions between 2009/10 and 2013/14.

Safeguard mechanism operational.

Emissions above baseline

Apply for a multi-year monitoring period:
- Baseline
- 3 year average

Apply for baseline adjustment:
- Revised baseline
- Baseline

Surrender eligible offsets:
- Offsets
- Baseline

Apply for an exemption, for example due to natural disaster.
Exemptions

- Excess emissions situation must be direct result of natural disaster or criminal activity
- Responsible emitter must have taken reasonable steps to mitigate before and after the event leading to the excess emission situation
- Test is whether excess emissions situation was directly caused by event itself, or if it was caused by responsible emitter’s reaction to event
- Directness test will be applied by the Regulator based upon a review of the facts and evidence before it
- Exemption declaration applies to a monitoring period
- Responsible emitters must apply to Regulator for declaration
- Application must state specific reason why an exemption is being sought
Enforcement provisions

- Prescribe safeguard maximum civil penalty as lesser of:
  - 100 penalty units per day; or
  - 10,000 penalty units
- A penalty unit currently set at $180.00
- Equals maximum penalty of $1.8 million
- Infringement notices up to 1/5th of maximum civil penalty
- Injunction power in Act (s 49)
Future Market Opportunities
Revisiting carbon trading

- Use of international credits in the Safeguard Mechanism
  - 2017 review
  - Government has signalled interest in buying REDD+ credits from Asia – Pacific region

- Alternative policy of Labor opposition
  - re-introduce a cap and trade ETS
Thank you

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