



# The Safeguard Mechanism

## What it means to business

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energetics<sup>•</sup>

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International climate change  
policies....

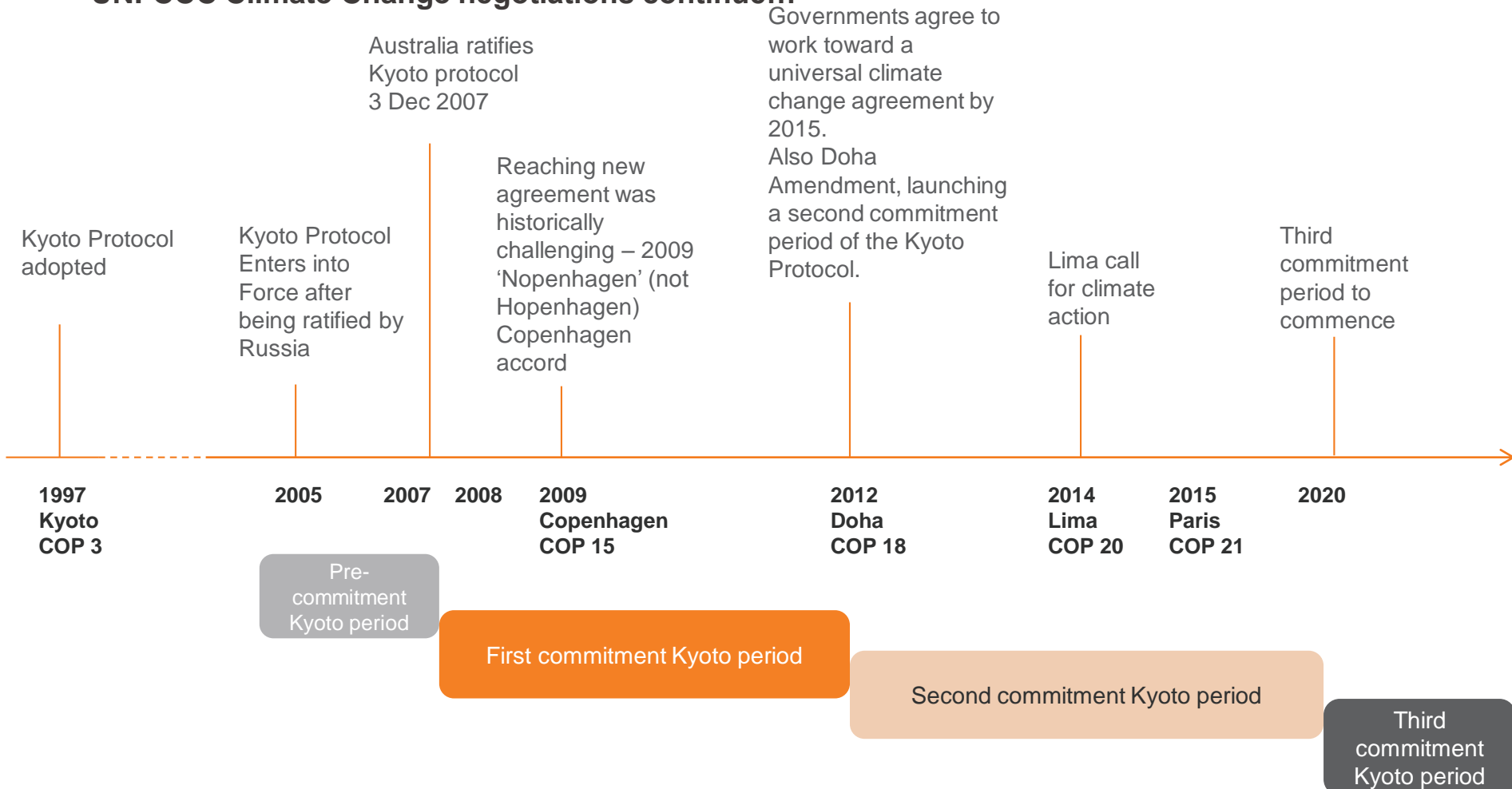
The road to Paris  
COP 21 - 2015



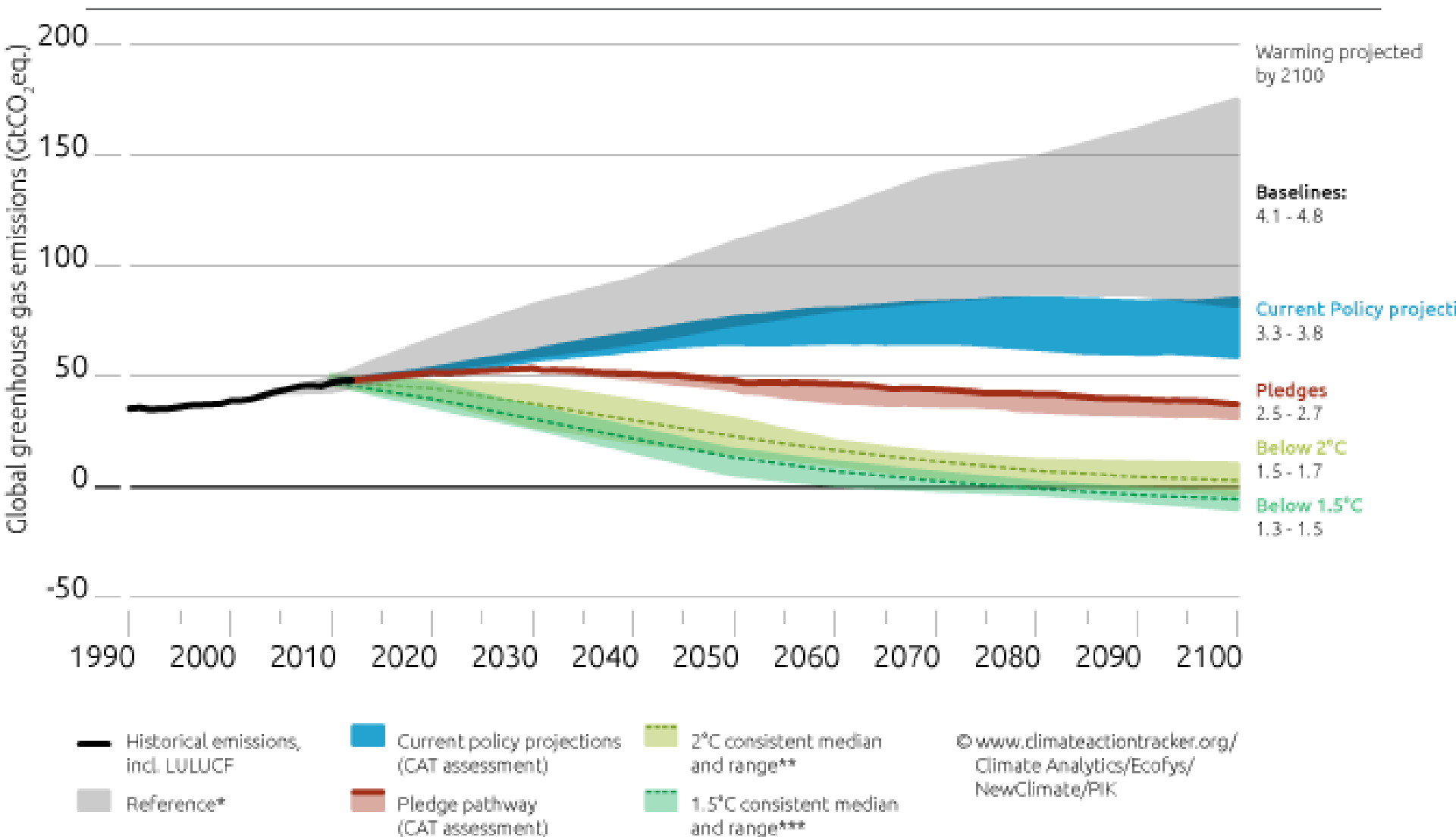
# International climate change policies



## UNFCCC Climate Change negotiations continue...



# Paris – current commitments



# Paris – commitments

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**State of Play: 18 November 2015**

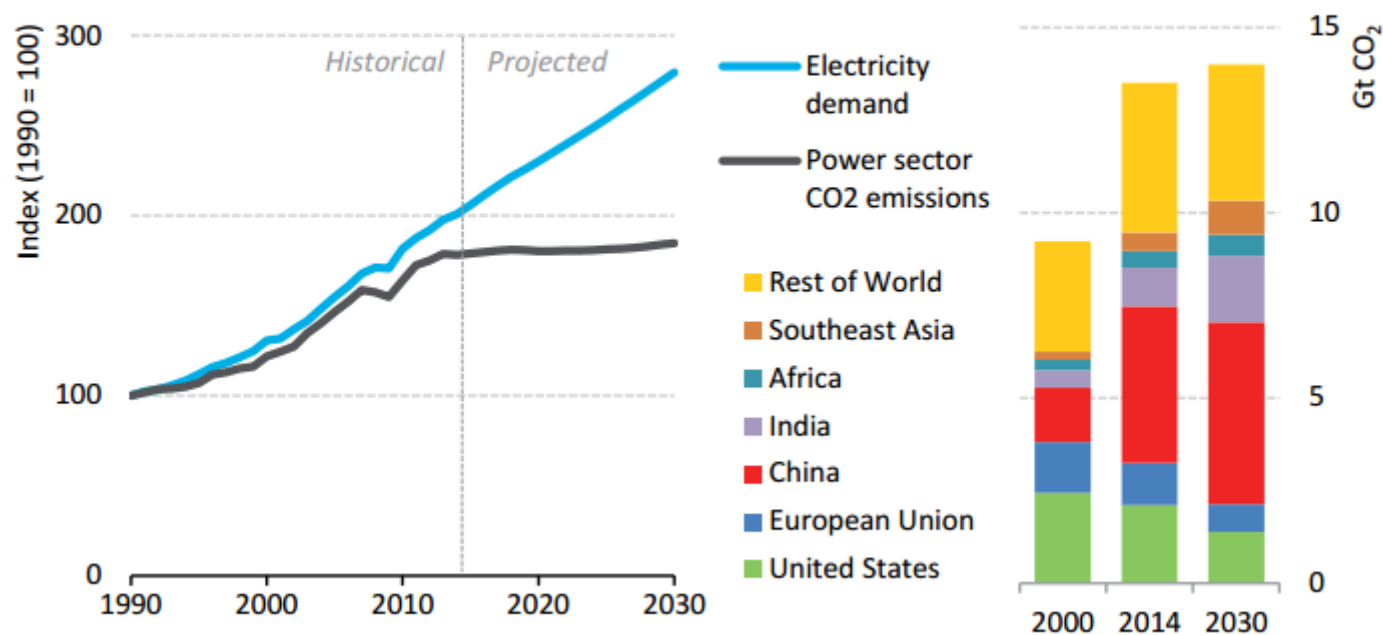
**Submitted to UNFCCC:**

- 137 submissions, reflecting 164 countries (including the European Union member states), and covering around 91% of global emissions in 2010 (excluding LULUCF\*) and 92% of global population.

\* land-use, land-use change and forestry

# Growth in electricity

**Figure 2** ▶ **Growth in world electricity demand and related CO<sub>2</sub> emissions since 1990 (left) and related CO<sub>2</sub> emissions by region (right)**





# China and the United States

## China - United States joint climate change agreement:

- World's two largest emitters commit to lower emissions (~38%)
- Provides a signal for emission reductions – countries and businesses

China	United States
<i>China has committed to a peak in emissions by 2030, an increase in the share of non-fossil fuels in its energy mix by about 20 percent by 2030, and a reduction in carbon dioxide emissions per unit of GDP by 60-65% by 2030, from 2005 levels.</i>	<i>The United States intends to achieve an economy-wide target of reducing its emissions by 26%-28% below its 2005 level in 2025 and to make best efforts to reduce its emissions by 28%</i>

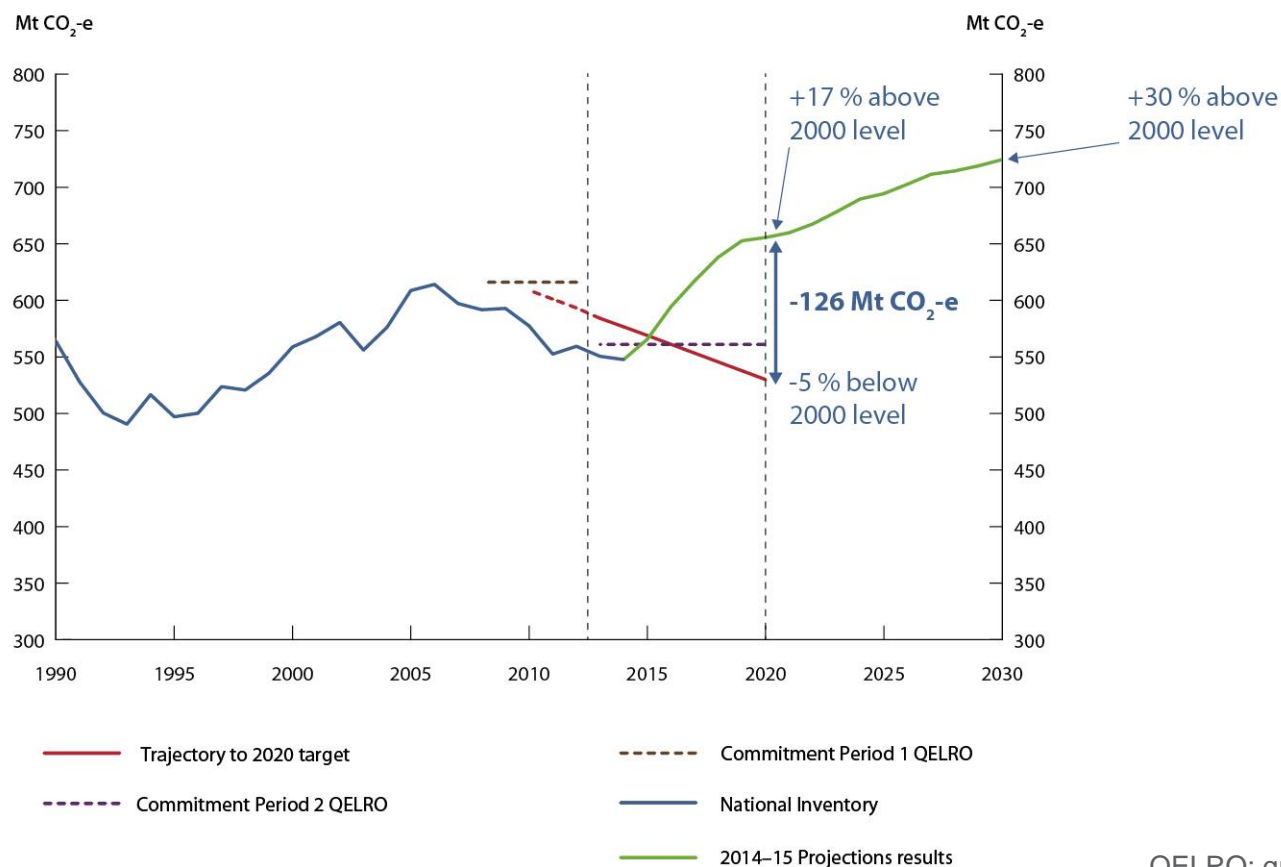




# Australia's position

## Current position

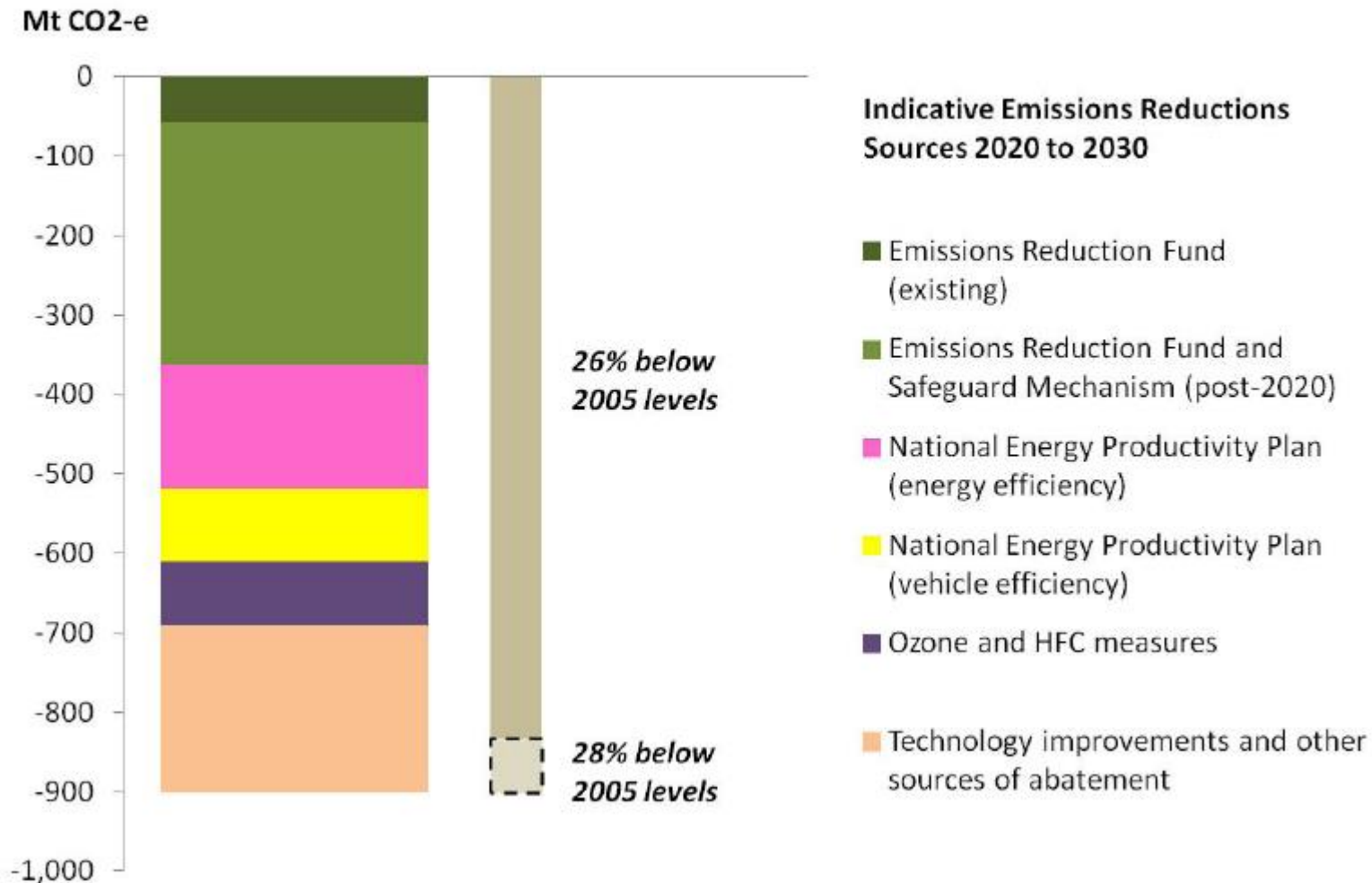
- 5% emissions reduction by 2020 from 2000 levels



Source: Department of the Environment (DoE) 2015a; DoE estimates.

QELRO: quantified emission limitation or reduction objective

# Australia's target to 2030



# Direct Action

- Emission reduction fund
- Safeguard mechanism

# Direct Action Plan



Direct industry action through an Emissions Reduction Fund (ERF)

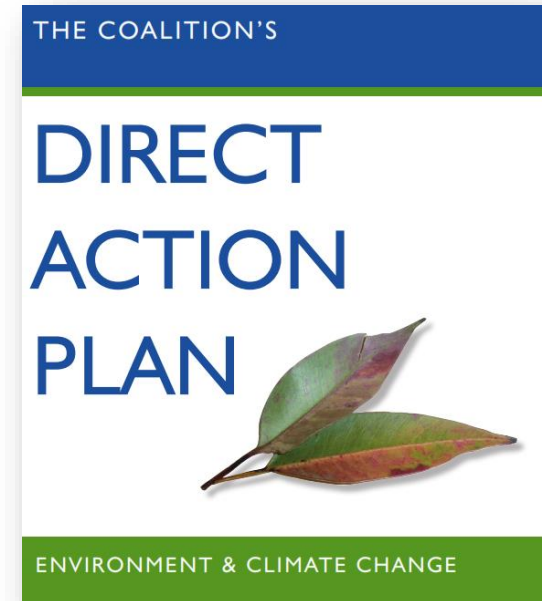
- Safeguard mechanism a component

Repealing the carbon tax

Reducing CO<sub>2</sub> emissions in the electricity sector

Boosting renewable energy especially solar – Solar Towns project

Creation of the Green Army







... ACCU's and the  
Emissions Reduction Fund?

# The Emission Reduction Fund



## Legislation to enact the ERF has three main components:

1. The Carbon Farming Initiative has been expanded to include new methodologies and regulatory processes for the creation of ACCUs
2. A process has been established for the Government to purchase up to \$2.55 billion ACCUs through an reverse tender/bidding process
3. A Safeguard Mechanism has been incorporated which will require major emitters with net emissions above a baseline to buy ACCUs

Emissions Reduction Fund	Safeguard mechanism
<ul style="list-style-type: none"><li>• \$2.55B to fund emission reductions</li><li>• Bid emission reduction projects through a reverse auction</li><li>• Minimum bid 2,000 tCO<sub>2</sub>e per year</li><li>• Access through approved methods</li><li>• Two auctions held in 2015 (avg prices: \$13.95 and \$12.25 per ACCU)</li></ul>	<p>Safeguard mechanism will:</p> <ul style="list-style-type: none"><li>• Penalise facilities for exceeding baseline</li><li>• Apply to facilities greater than 100 ktCO<sub>2</sub>e</li><li>• Commence 1 July 2016</li></ul>

# Abatement creation vs ERF contract



- 
- Registration of a project and creation of ACCUs is independent of the auction and contracting process
  - Audits are associated with ACCU creation (i.e. they happen even if you haven't sold your ACCUs)
  - ACCUs don't have to be sold to the ERF – can be saved to use against your own Safeguard Mechanism baseline or sold on the secondary market



# Total auction results April & November 2015

## Emissions Reduction Fund

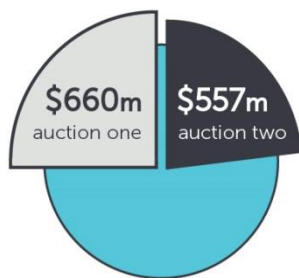


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Contracted **abatement**

**92.8 million tonnes**

**\$2.55 billion**  
Emissions Reduction Fund

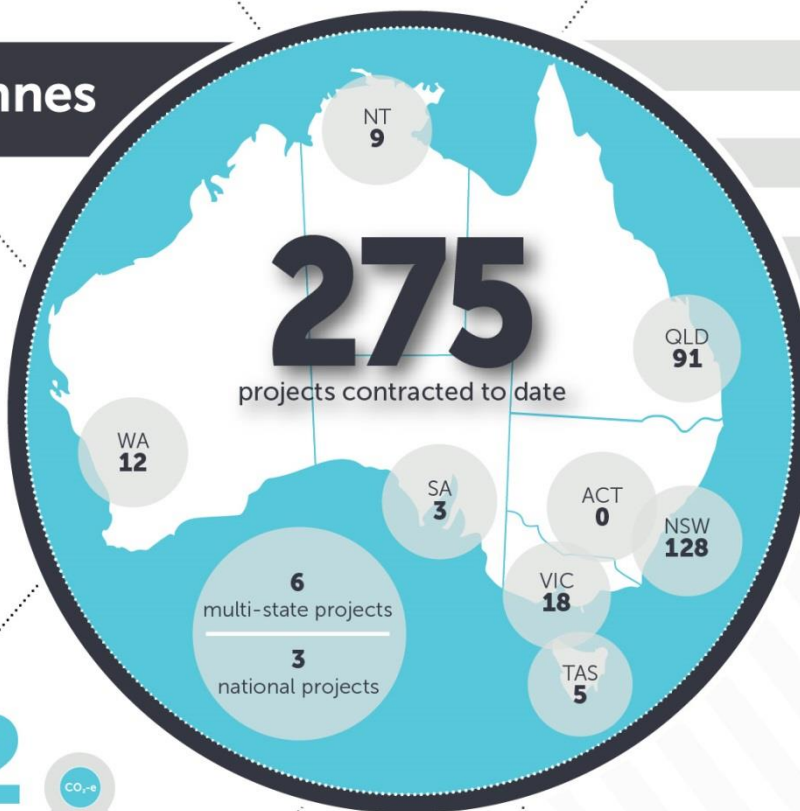


amount contracted

**\$13.12**

\$13.95 in April / \$12.25 in November

**Average price**  
per tonne of abatement



**Volume of abatement**  
by method

	Vegetation	51.3 million tonnes
	Landfill and waste	20.4 million tonnes
	Agriculture	8.3 million tonnes
	Savanna burning	7.1 million tonnes
	Energy efficiency	3.7 million tonnes
	Transport	1.2 million tonnes
	Industrial fugitives	0.8 million tonnes



**236**  
total

Contracts **awarded**

# Options for participation

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## **1. Direct participation**

- You manage all projects and bidding in-house

## **2. Participate through an aggregator**

- Various models for aggregation e.g. for specific methods, for corporates and their businesses
- Can access wider pools and hence have a longer “reach” e.g. smaller projects can be bundled
- Can mitigate delivery risks

## **3. Incorporate ACCU into projects and assign ERF revenue to supplier**

- Sign over ACCUs from projects to reduce cost – either upfront or ongoing - similar to NSW ESC or RET renewable energy certificates

# Risks to participation



Risk	1. Direct	2. Aggregator	3. Assign to supplier
Price – uncertainty in bid price	Unknown – will be determined at bid	Final decision to proceed with project can be made after the auction	Not necessarily transparent
Compliance requirements	Incorporate into ongoing reporting plan. Will require corporate knowledge to be developed.	Managed by aggregator	Managed by outsourced partner
Change in core business resulting in non-delivery	Liable for ACCU provision	Flexibility in delivery and could be sourced elsewhere	Locked into single service provider

What about the safeguard mechanism?

**Risk & Reward**

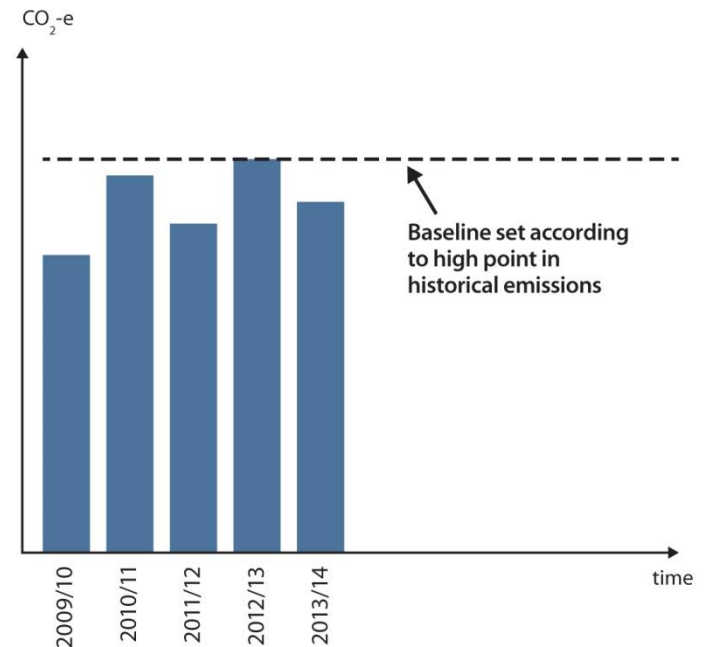
# The safeguard mechanism

## The missing link in the Direct Action policies

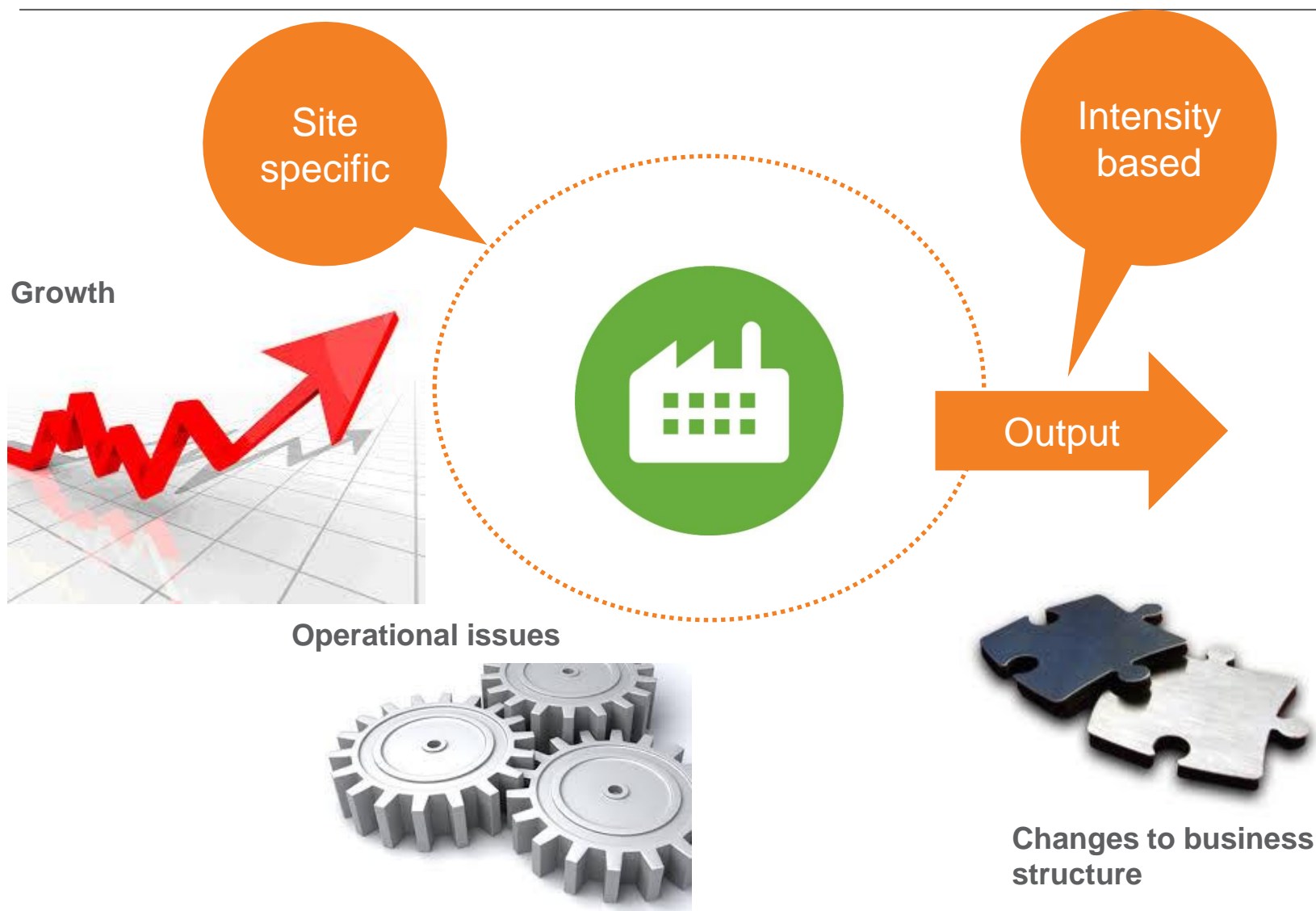
- Penalise facilities for exceeding baseline
- Apply to facilities greater than 100 ktCO<sub>2</sub>e
- Commence 1 July 2016

**Bridge to a baseline and credit trading scheme?**

Figure 4.1: Setting safeguard baselines



# Baseline – catering for changes?



# Bridging the gap – a baseline and credit scheme?



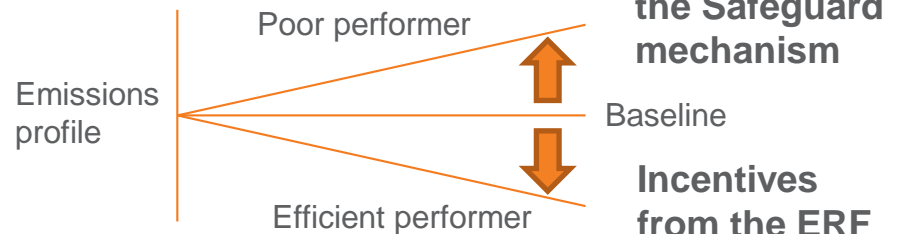
## Safeguard mechanism penalties

- Can they be acquitted by ACCUs? **yes**
- Can we “bank” our ACCUs for future liability? **yes**
- Can we access international offsets? **no**

## Combined with the Emissions Reduction Fund

- Effectively a baseline and credit scheme
- Baselines subject to change e.g. with new national targets

Baseline and incentives  
.... with penalties



Emissions trading?

Maybe...



# Adjusting baselines

- **Baseline calculated based on highest annual emissions between FY09/10 and FY13/14**
- **New investments pre-2020 baseline from audited emissions forecast**
- **New investments post-2020 require best practice**
- **Legislation allows for adjustment of baseline due to economic growth, natural resource variability – non BAU**
- **Electricity generators have a sector wide baseline**

Does the  
safeguard  
mechanism have  
any teeth?



# A “disallowable instrument”

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**What is the linkage to  
the rest of the world?**

**Potential impact  
from global targets**



- The minister can alter the Safeguard Mechanism at his or her discretion
- Reducing baselines could be a means of better meeting our international targets

# Watch this space

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- Expect a global agreement from Paris
- Australia will probably need to play “catch up”
- Safeguard mechanism is likely to be a key part of this
- Supporting policies, programs and regulation will need to evolve rapidly (“you ain’t seen nothing yet”)

# Some of our long term clients



## MANUFACTURING



## MINING



## RETAIL / COMMERCIAL



## GOVERNMENT



## TRANSPORT



**Simplot**

  
**bhpbilliton**

**Woolworths**   
*the fresh food people*

  
Australian Government  
Department of Defence

 **QANTAS**  
*Spirit of Australia*

 **ARNOTT'S**

**RioTinto**

**coles**

 **NSW**  
GOVERNMENT | **The Treasury**

**TOLL**

  
**xstrata**

  
**Stockland**

**Sydney**  
**WATER**

  
**BARRICK**

 **VALE**

# Track record of delivering value



## 2014

Winners of BRW Client Choice Awards:

- Best Professional Services Firm (revenue < \$50M)
- Best Consulting Engineering Firm (revenue < \$50M)
- Best value

Finalists: BRW Client Choice Awards for Best Client Service, Most Friendly and Most Innovative



## 2013

- Finalist: BRW Client Choice Award for Best Client Relationship Management
- Finalist: Leading in Sustainability Banksia Award



## 2012




- Winner: Australian Business Award for Recommended Employer
- Winner: Australian Business Award for Service Excellence



## 2011

- Winner: BRW Client Choice Award for Best Value
- Finalists: BRW Client Choice Awards for Exceptional Service, Most Innovative, Outstanding Client Care and Best Consulting Engineering Firm (revenue <\$50 Million)



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