

FIRST YEAR OF THE AUSTRALIAN CARBON MARKET

LESSONS LEARNT

A survey of liable entities



**CARBON MARKET
INSTITUTE**

**Presentation to BPMR Seoul, Korea
27 September 2013**



**CARBON MARKET
INSTITUTE**

AGENDA

- **Aims of the survey**
- **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**
- **Discussion**



AIMS OF THE SURVEY

- **Capture the key issues faced by liable entities in the first year of the scheme.**
- **Use the results to inform policy makers, the Clean Energy Regulator and CMI of 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.**
- **Initiate an annual survey.**
- **Deepen CMI's connection with liable entities.**



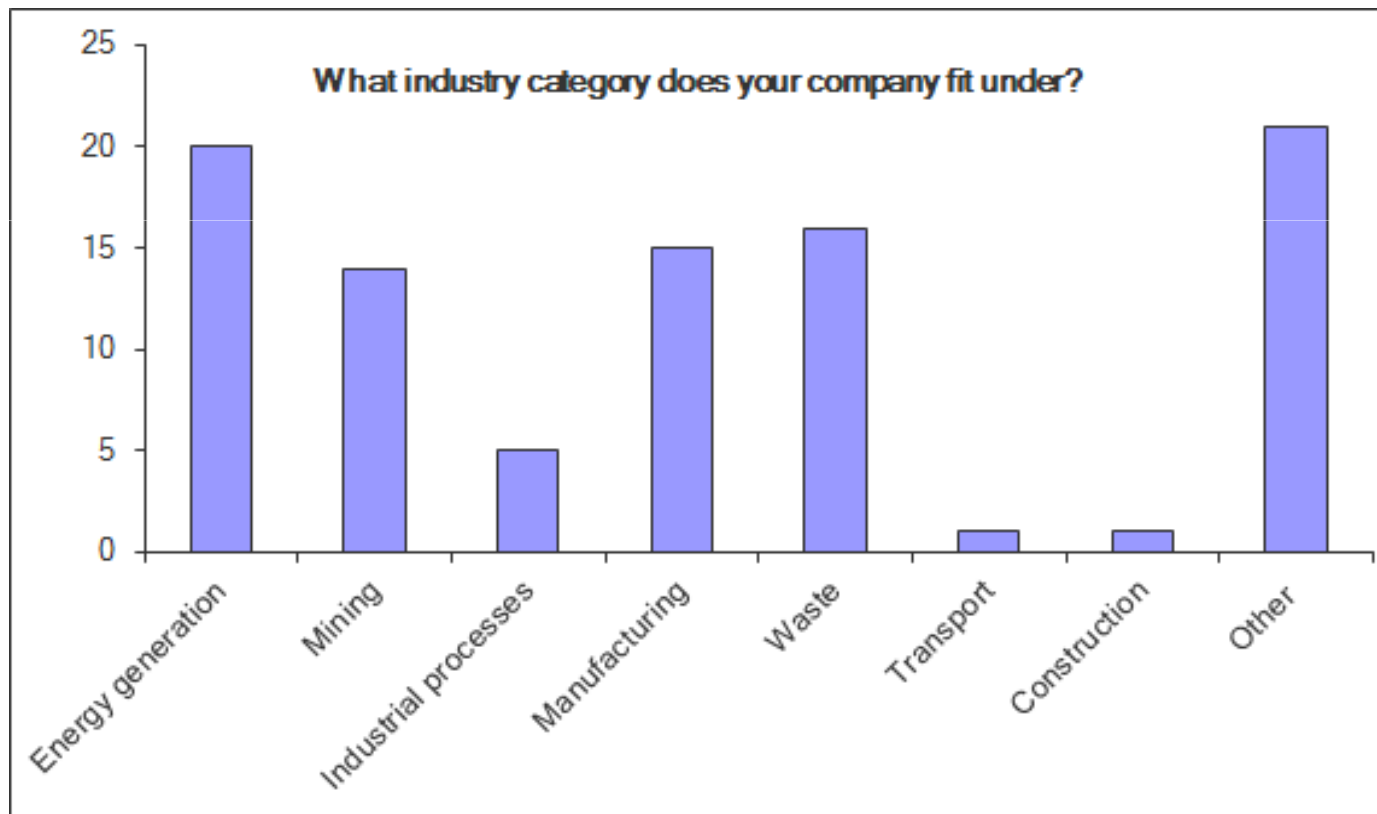
METHODOLOGY

- **Design survey.**
- **Research key contacts in liable entities.**
- **Send survey – 1 July 2013.**
- **Undertake consultations – July.**
- **Analyse results.**
- **Write report – August 2103.**



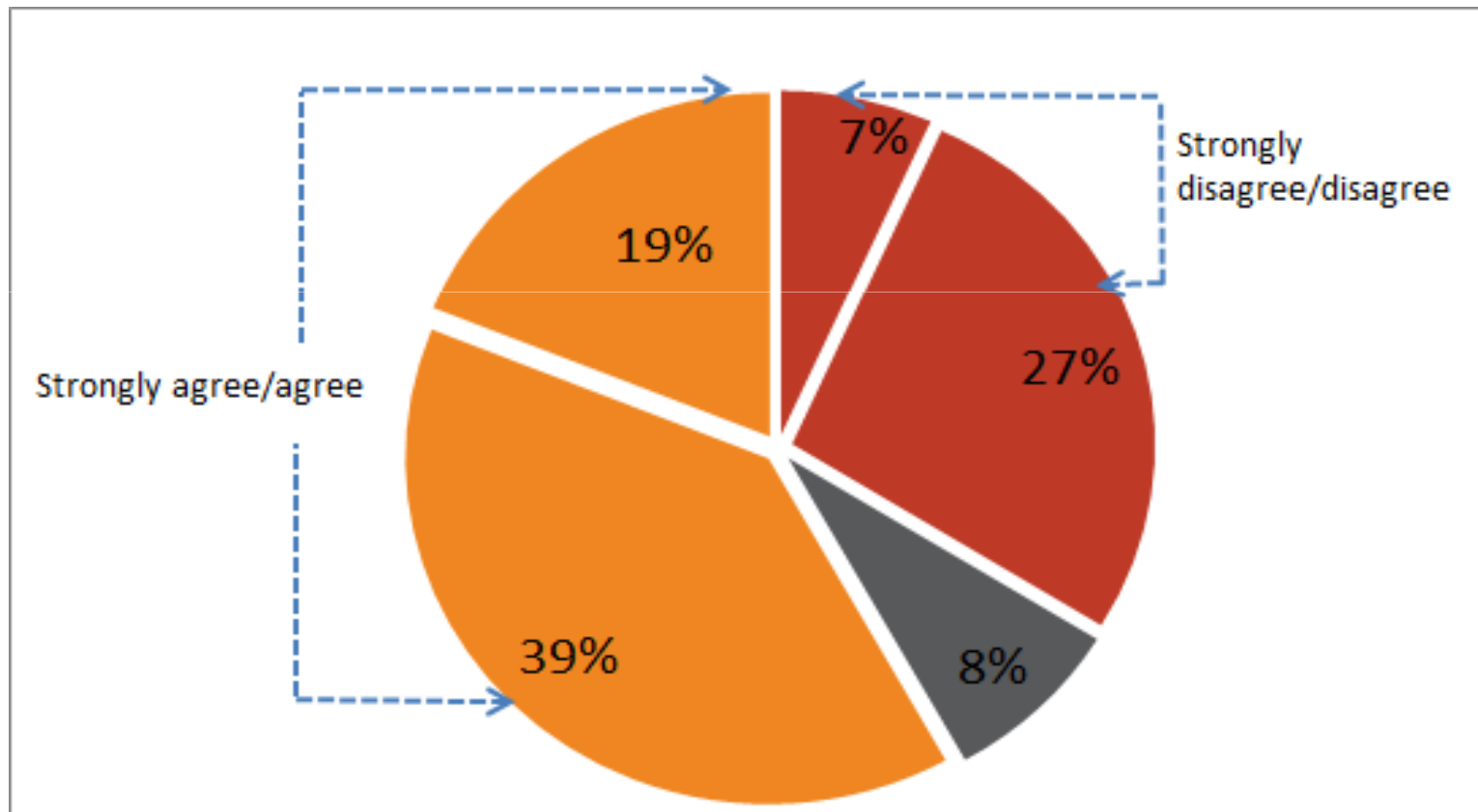
RESULTS

- **Survey Respondents – 82**
- **Liabe Entities – 200+**
- **Consultations – 15**



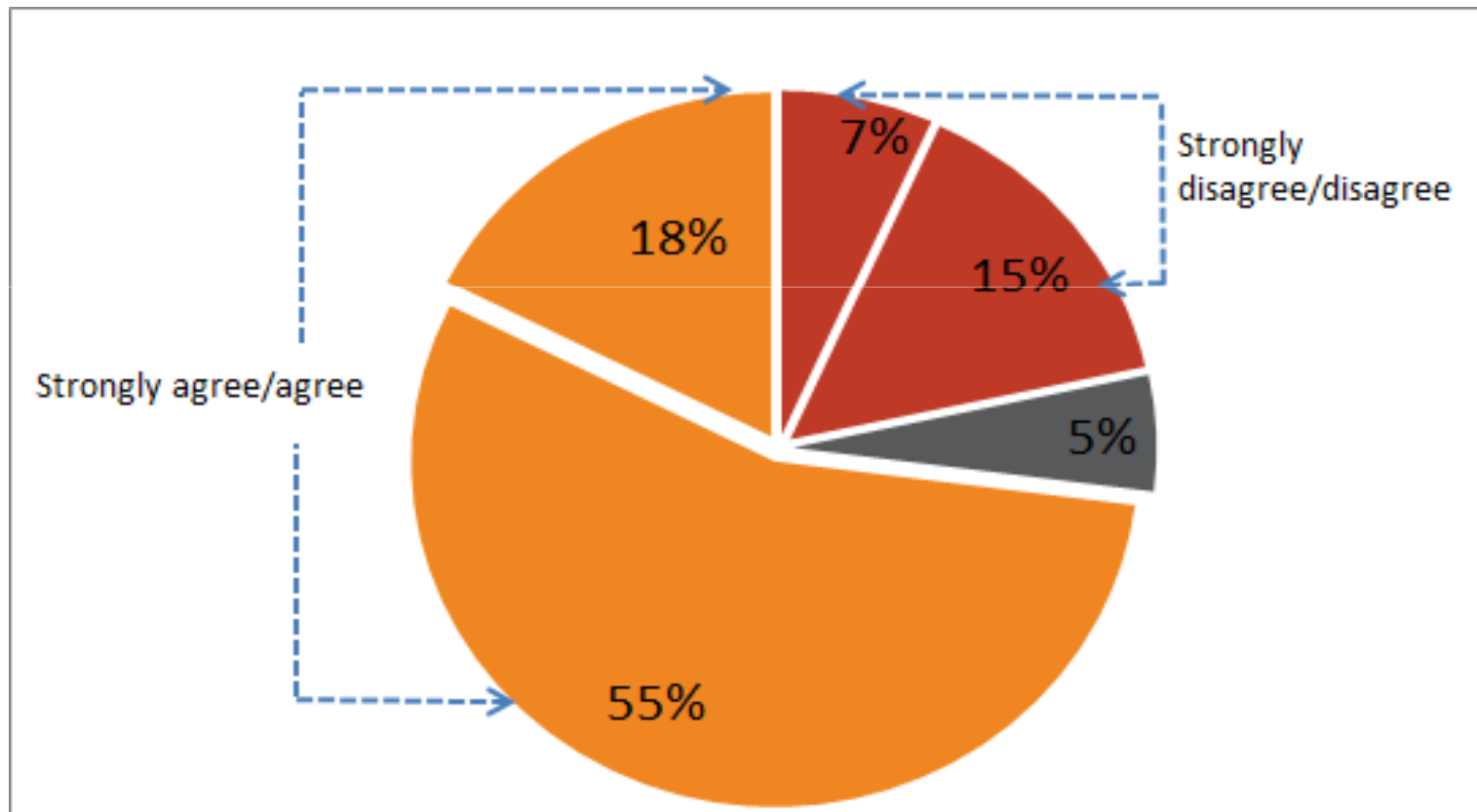
INTERNAL CAPACITY

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



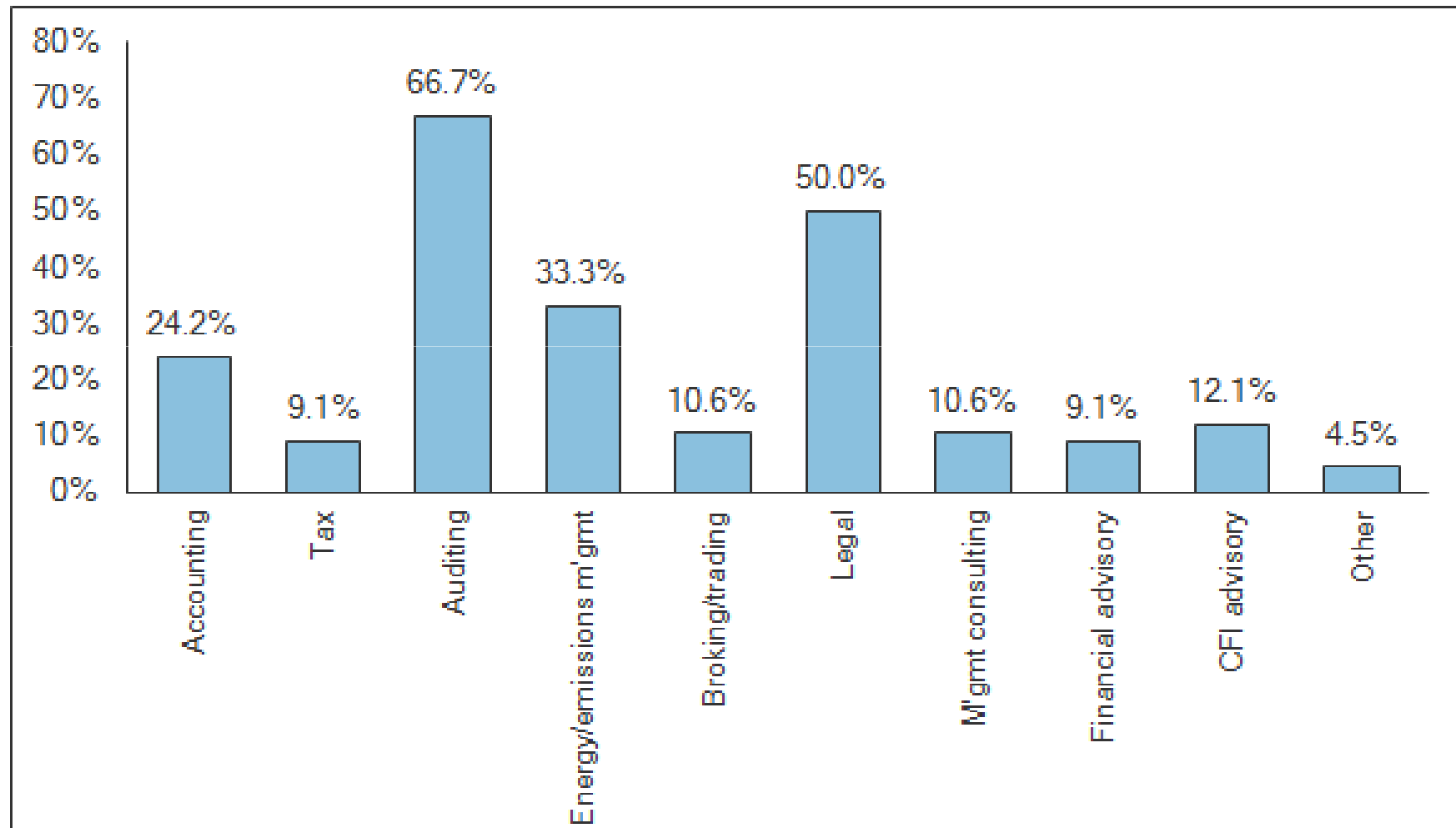
INTERNAL CAPACITY

- 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?



INTERNAL CAPACITY

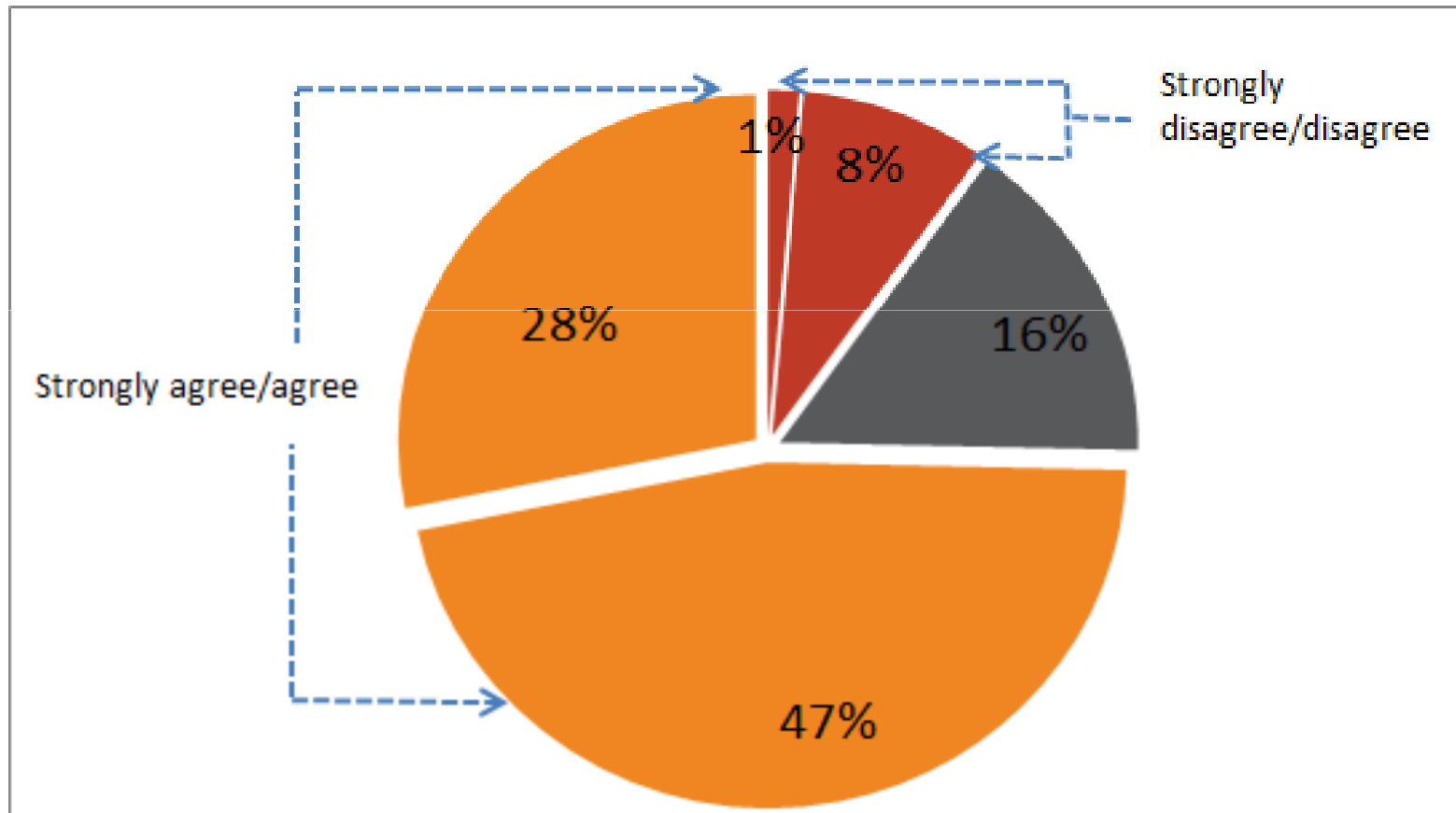
KEY FINDINGS

- **There were two tiers of internal capacity amongst liable entities**
 - One tier had pre-existing internal capacity and previous engagement with the CPRS, 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.
- **Policy uncertainty is impacting the commitment of liable entities to invest in internal capacity.**
- **It was acknowledged that the internal capacity required for a fixed price period is different than what will be required under a flexible price period.**
- **External service providers were used extensively by liable entities to assist in meeting CPM requirements.**



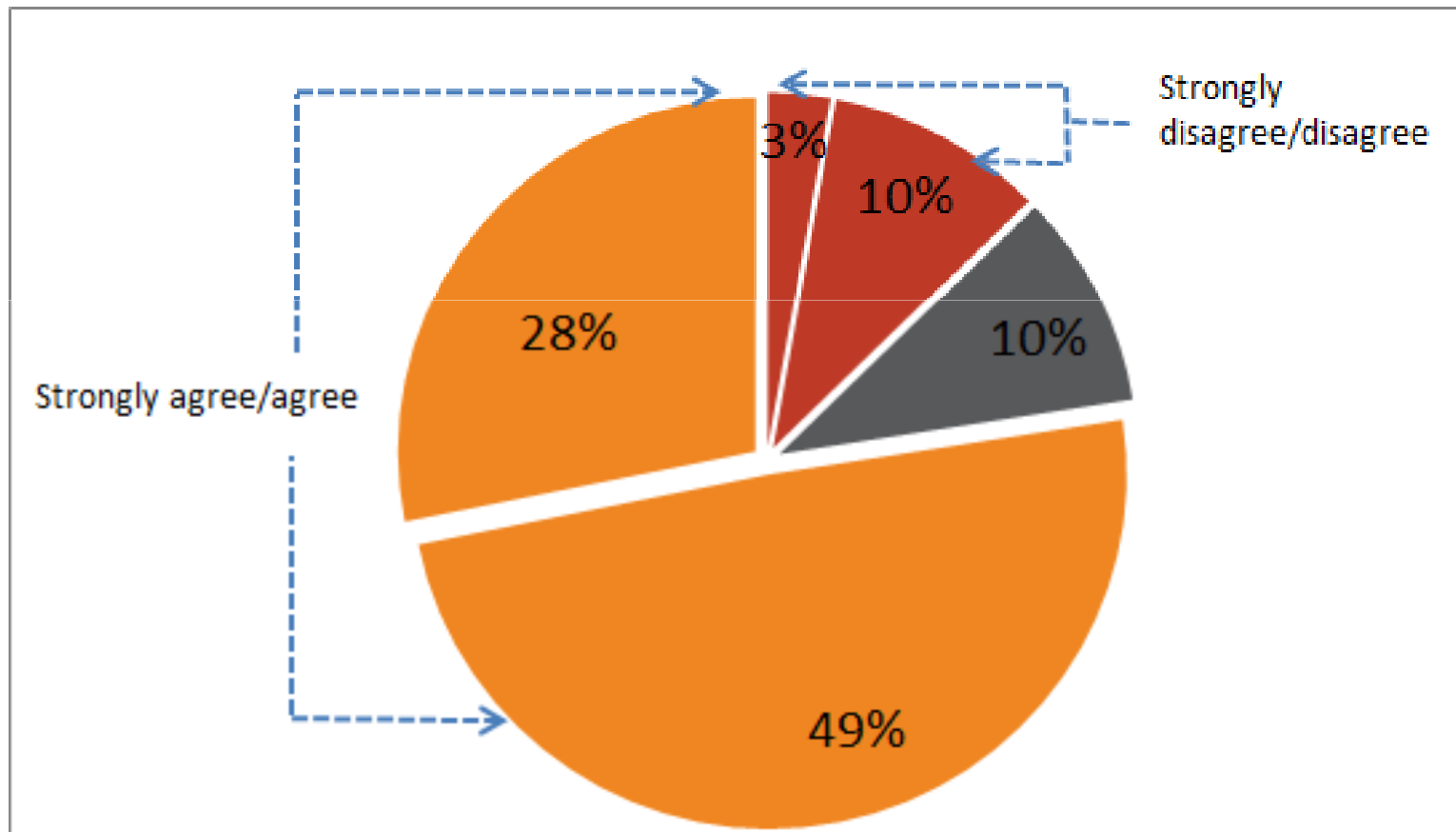
ADMINISTRATION/COMPLIANCE

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



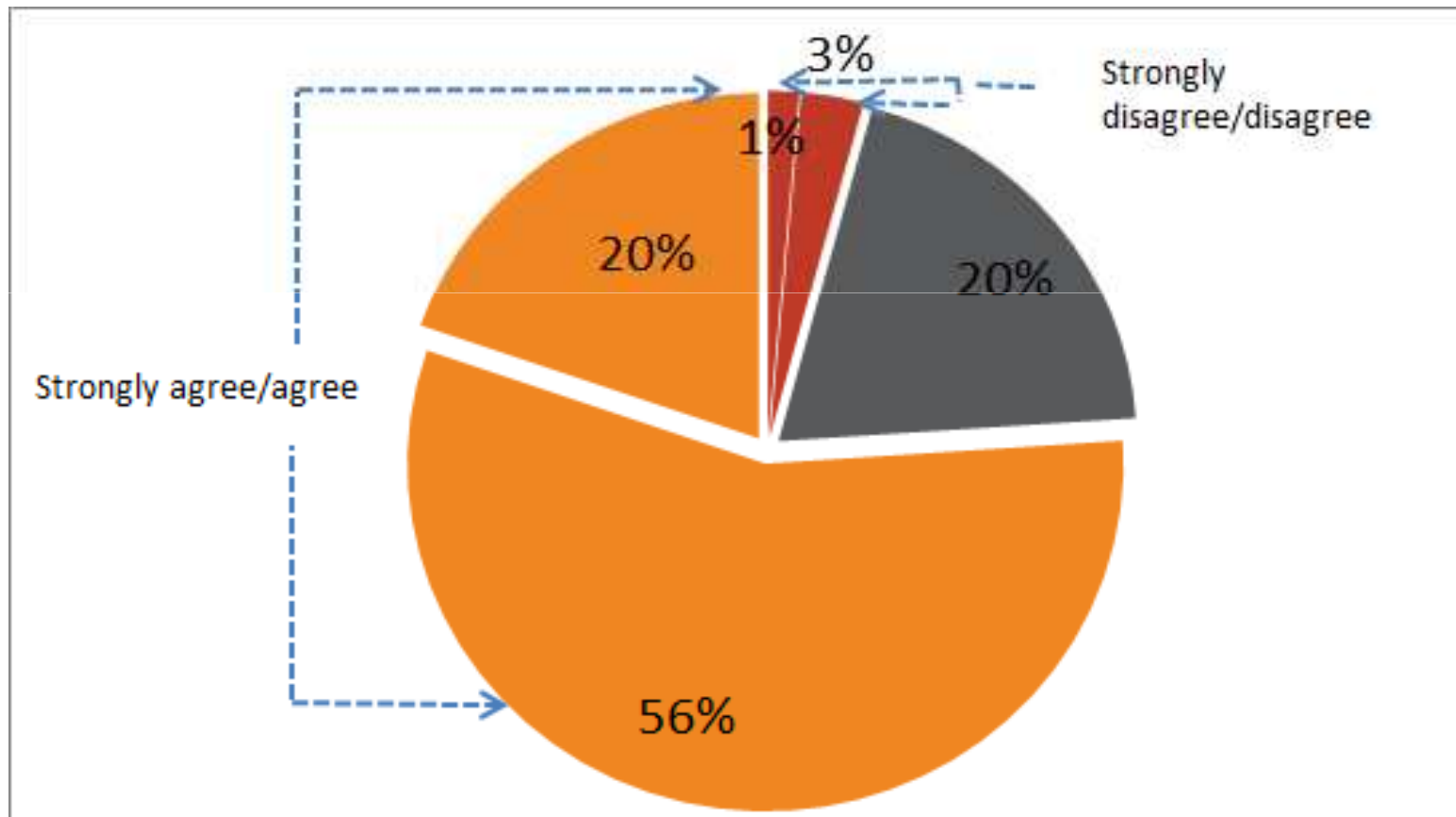
ADMINISTRATION/COMPLIANCE

- 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.



ADMINISTRATION/COMPLIANCE

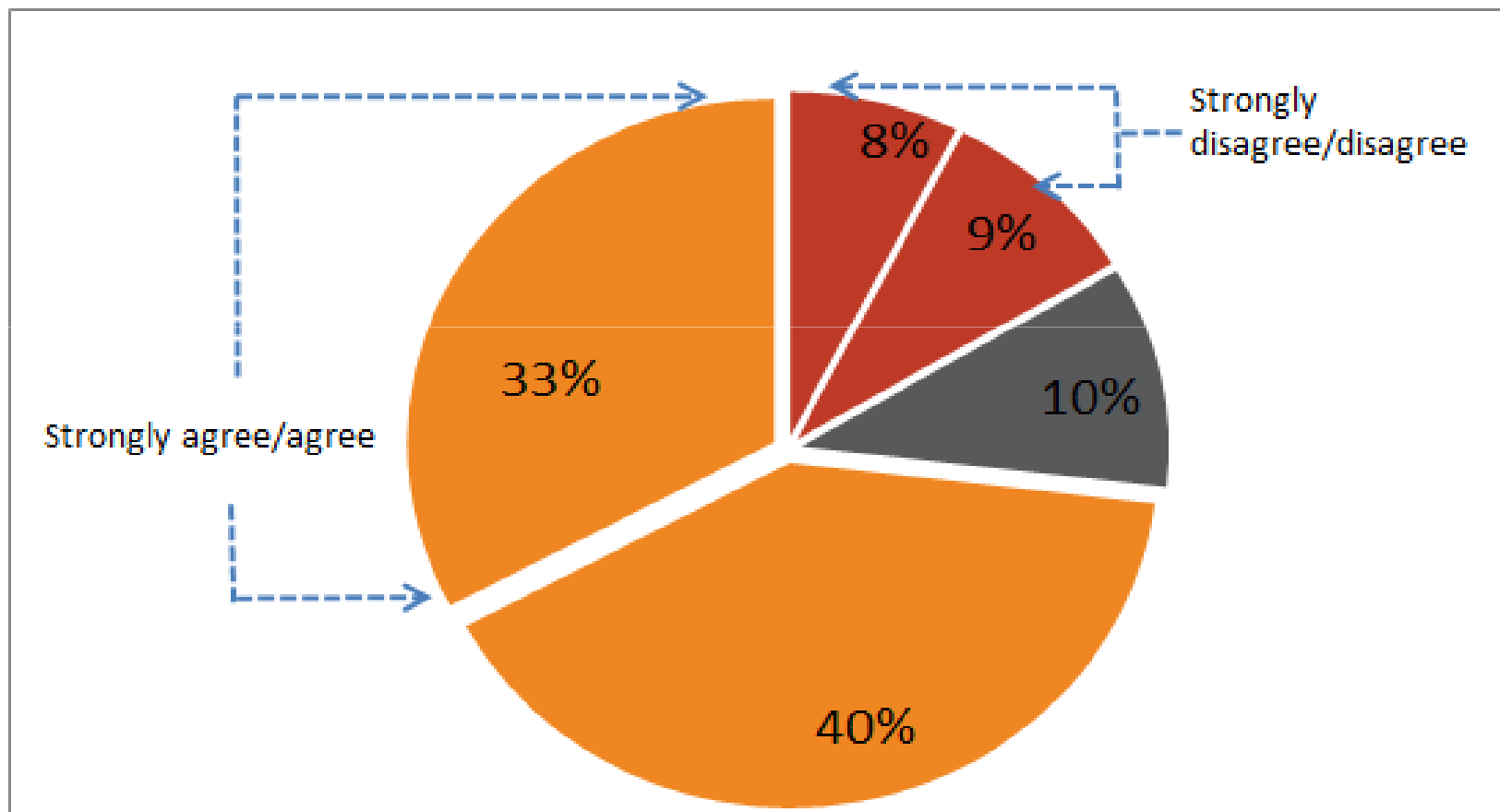
KEY FINDINGS

- The history of NGRS reporting 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 with the CFO's office.
- 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.
- Compliance investment has been made, more changes would be costly.



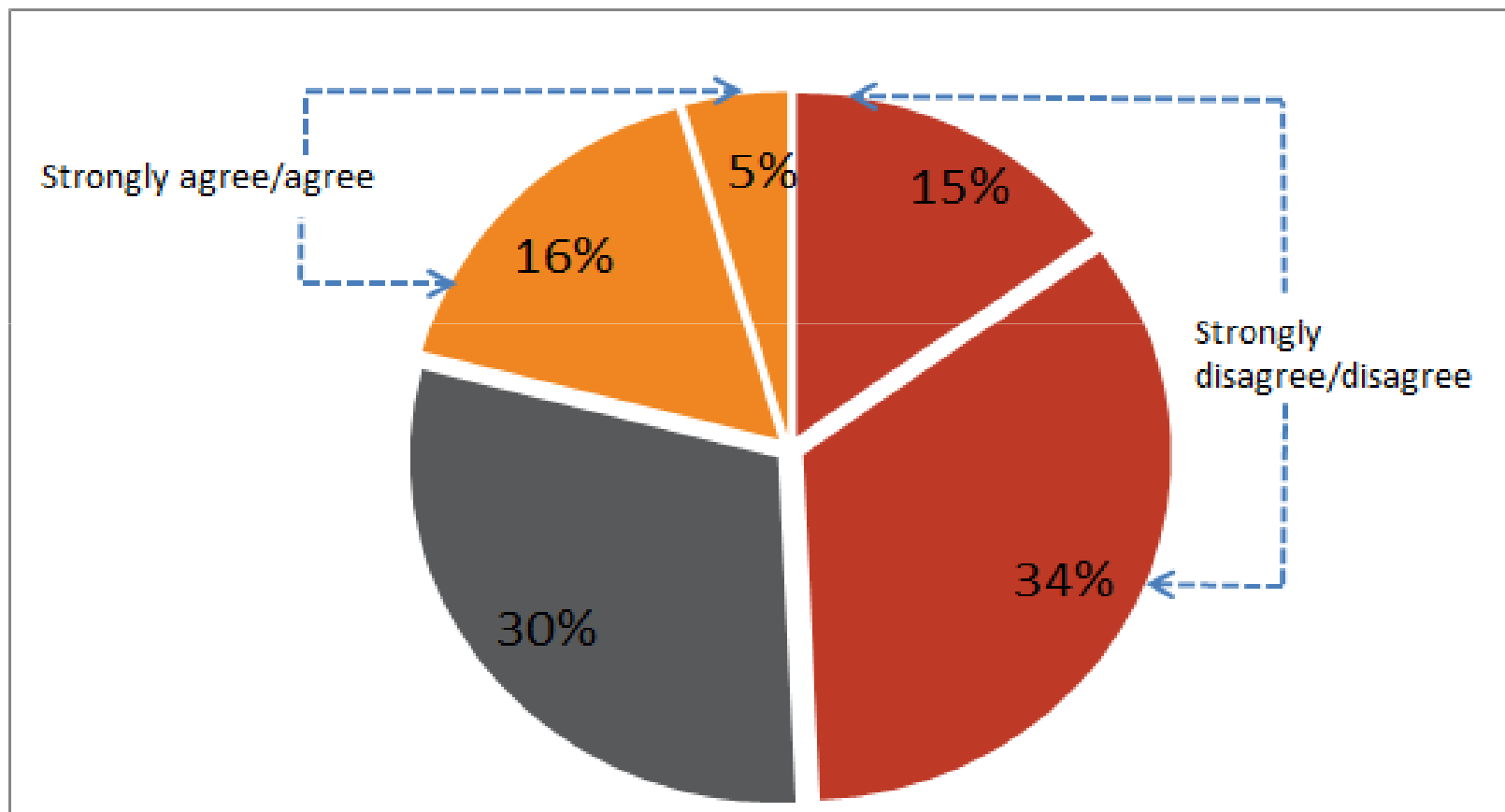
CARBON PRICE IMPACTS

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



CARBON PRICE IMPACTS

- The introduction of the CPM has created new commercial business opportunities for my organisation.



CARBON PRICE IMPACTS

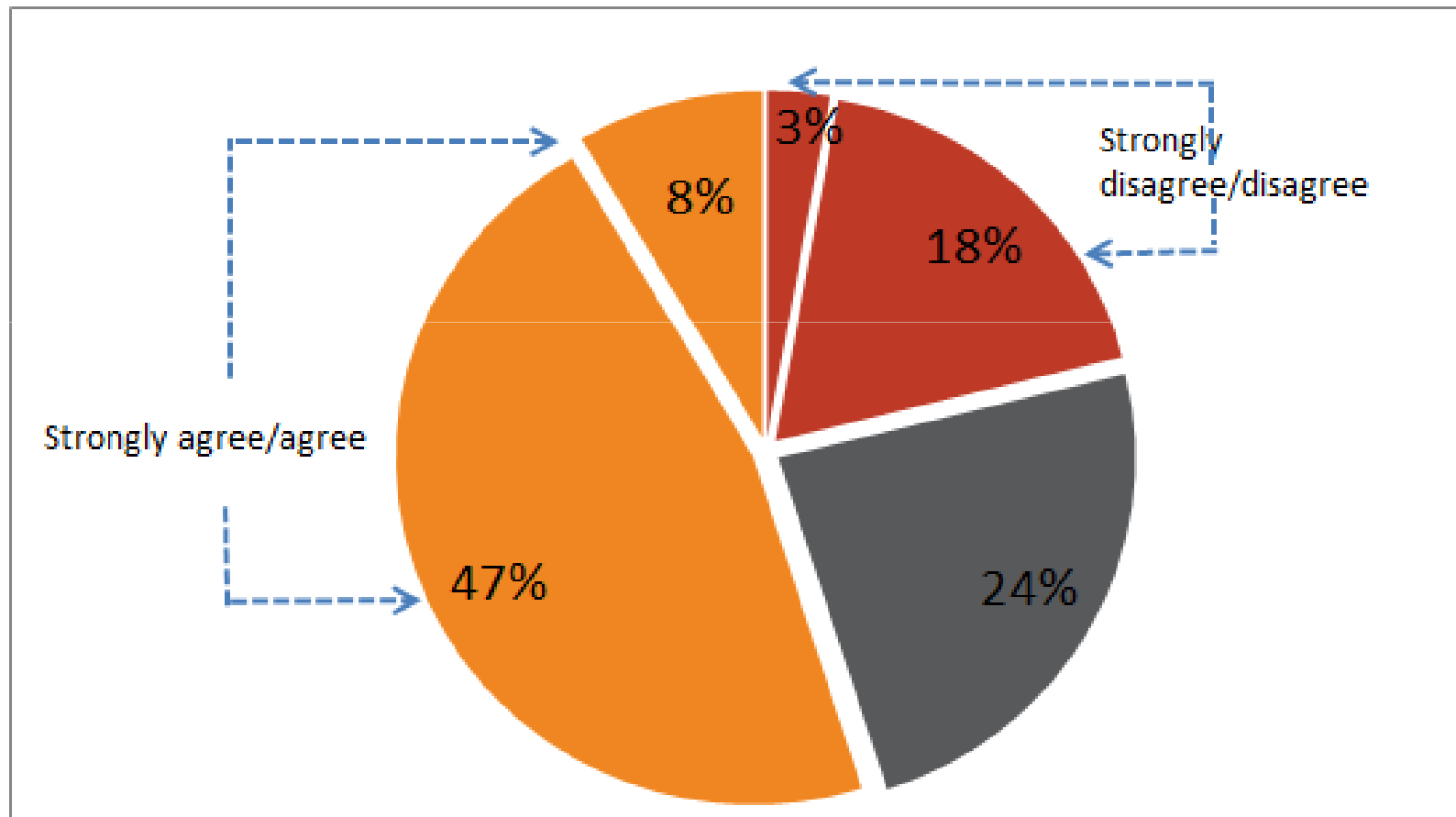
KEY FINDINGS

- **Carbon costs impacts were modelled and pass through costs determined as a priority.**
 - Supplier/customer contracts were revised.
 - Strategies to communicate pass through costs were developed.
- **Policy uncertainty has impacted the ability to model future carbon price scenarios and their impacts.**
- **Factors other than the carbon price have a greater impact on competitiveness.**
- **The identification of commercial opportunities by liable entities has been limited.**



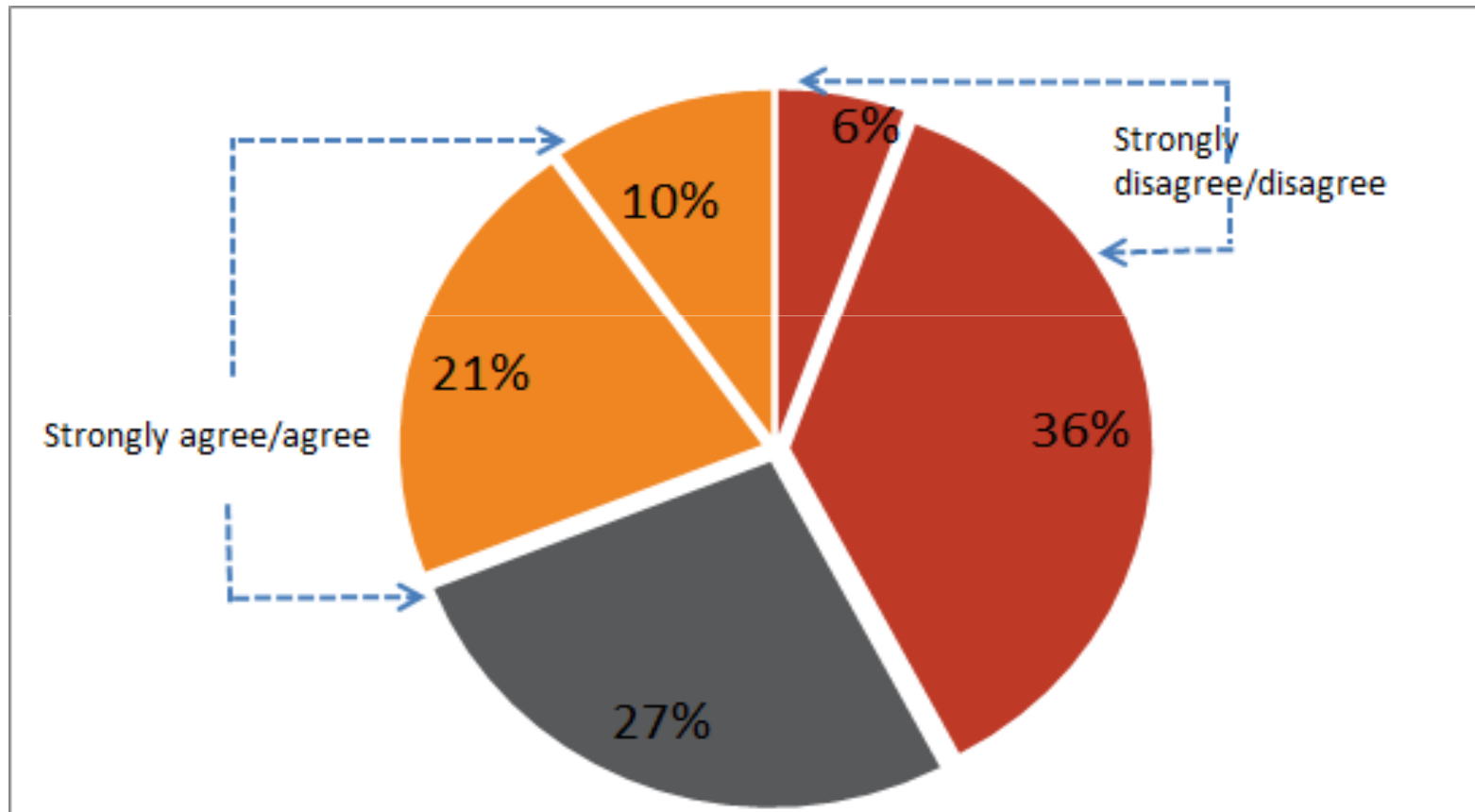
INVESTMENT IN ABATEMENT

- Having a carbon liability elevated the priority to assess internal emissions abatement options.



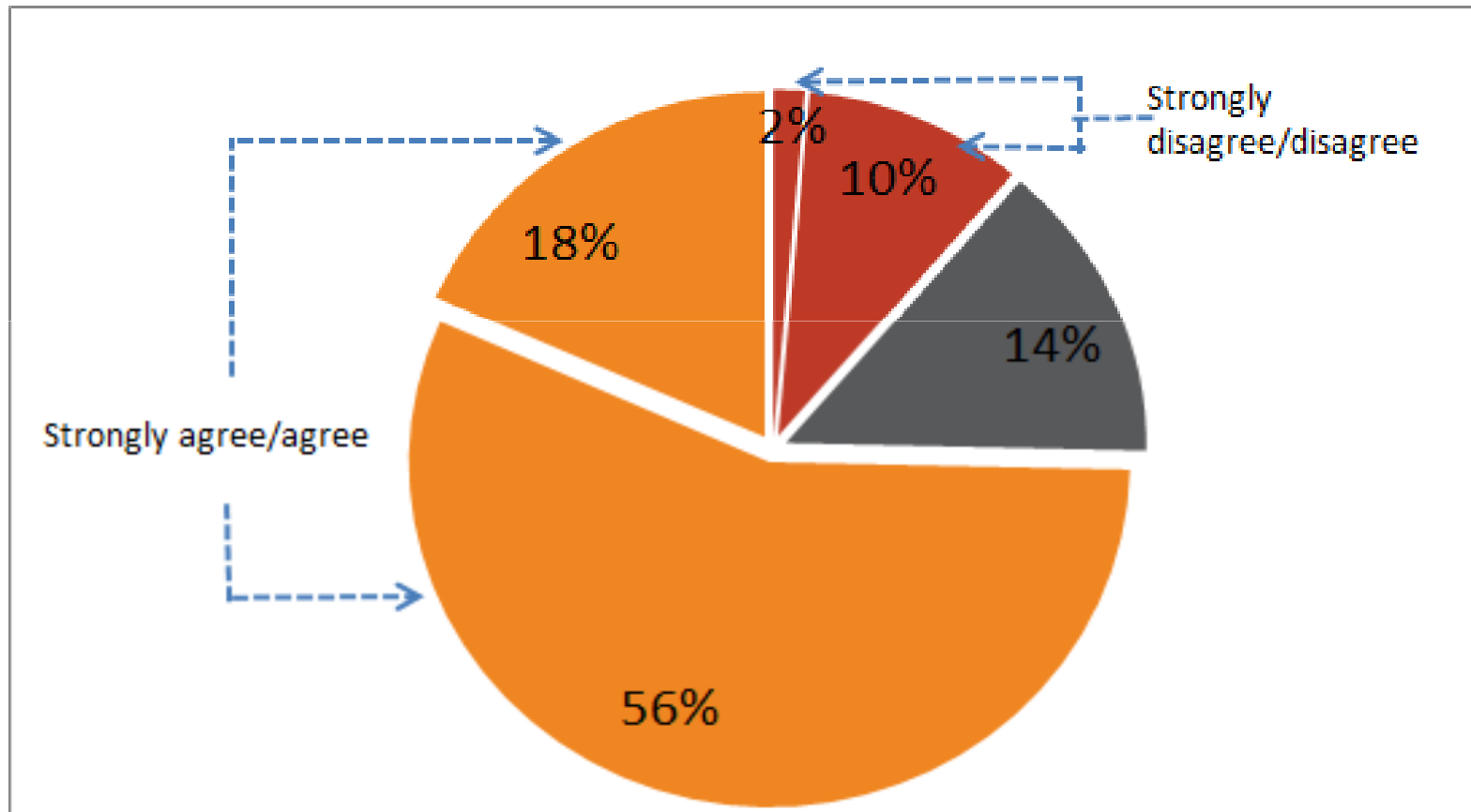
INVESTMENT IN ABATEMENT

- 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.



INVESTMENT IN ABATEMENT

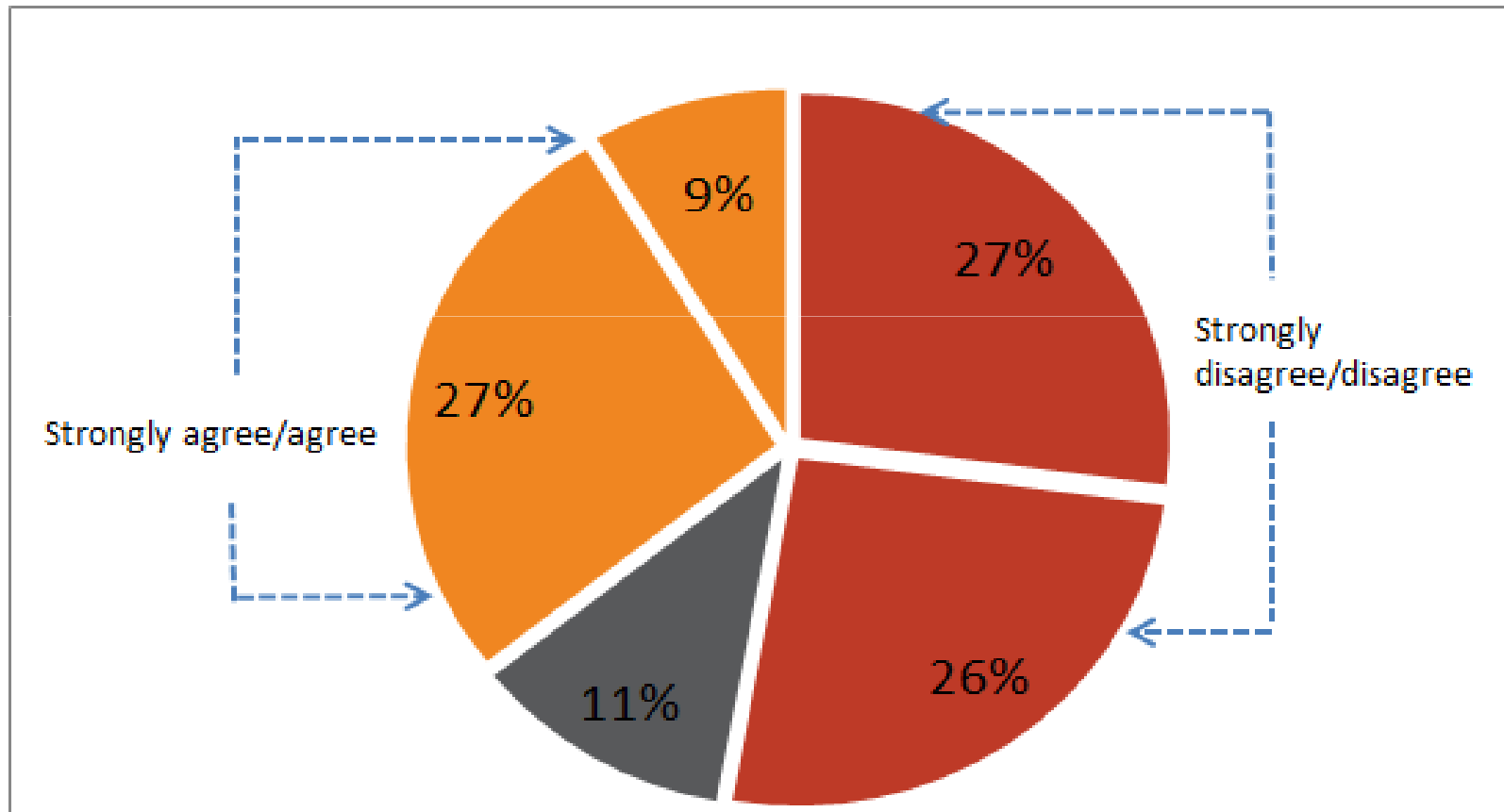
KEY FINDINGS

- **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 focus is on energy savings rather than emission reductions.**
- **Policy uncertainty is limiting the appetite of liable entities to invest in internal abatement projects, particularly for projects requiring large capital outlays or medium to long term pay back periods.**
- **The long term expectation is that there will be some form of carbon pricing.**



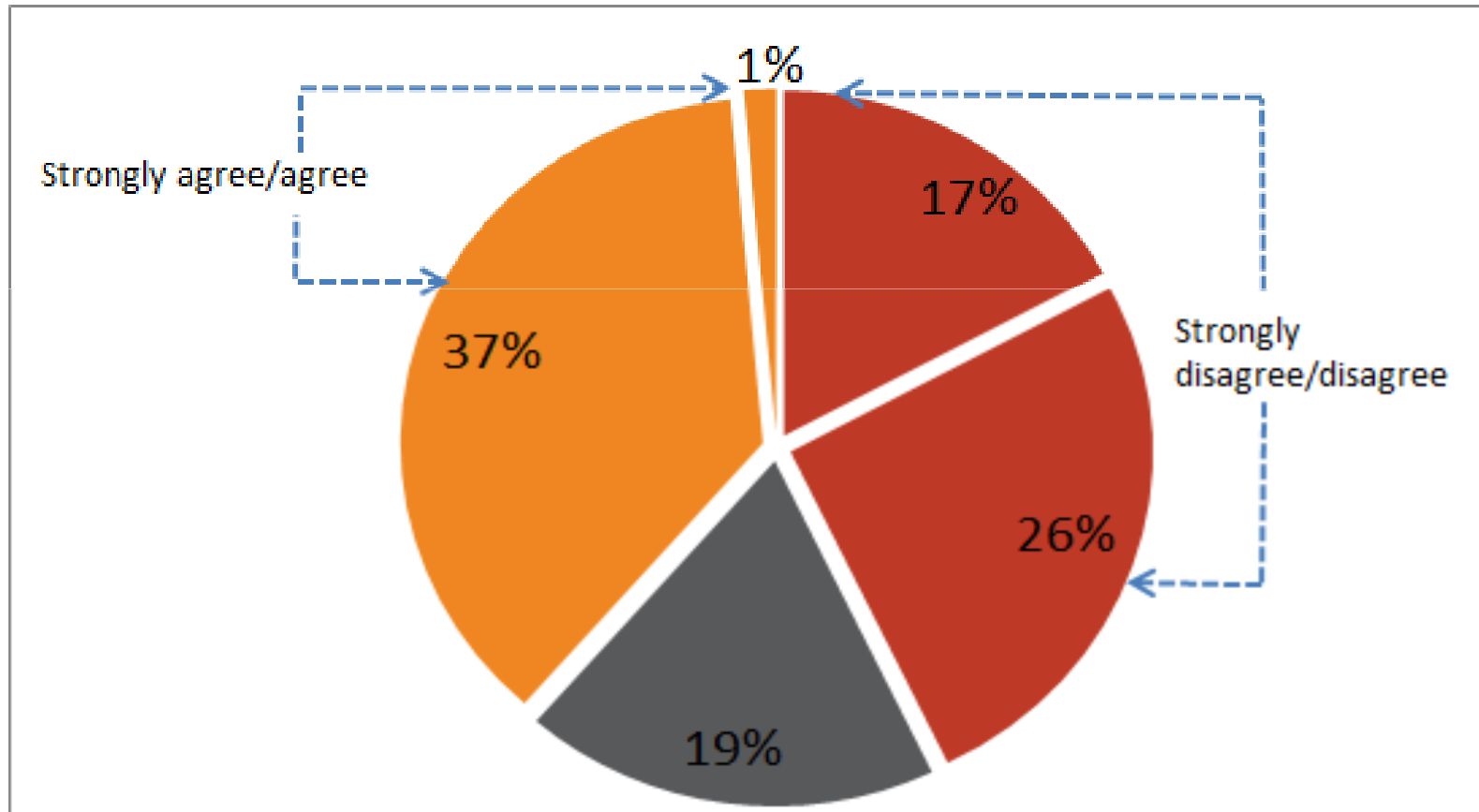
TRADING STRATEGY

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



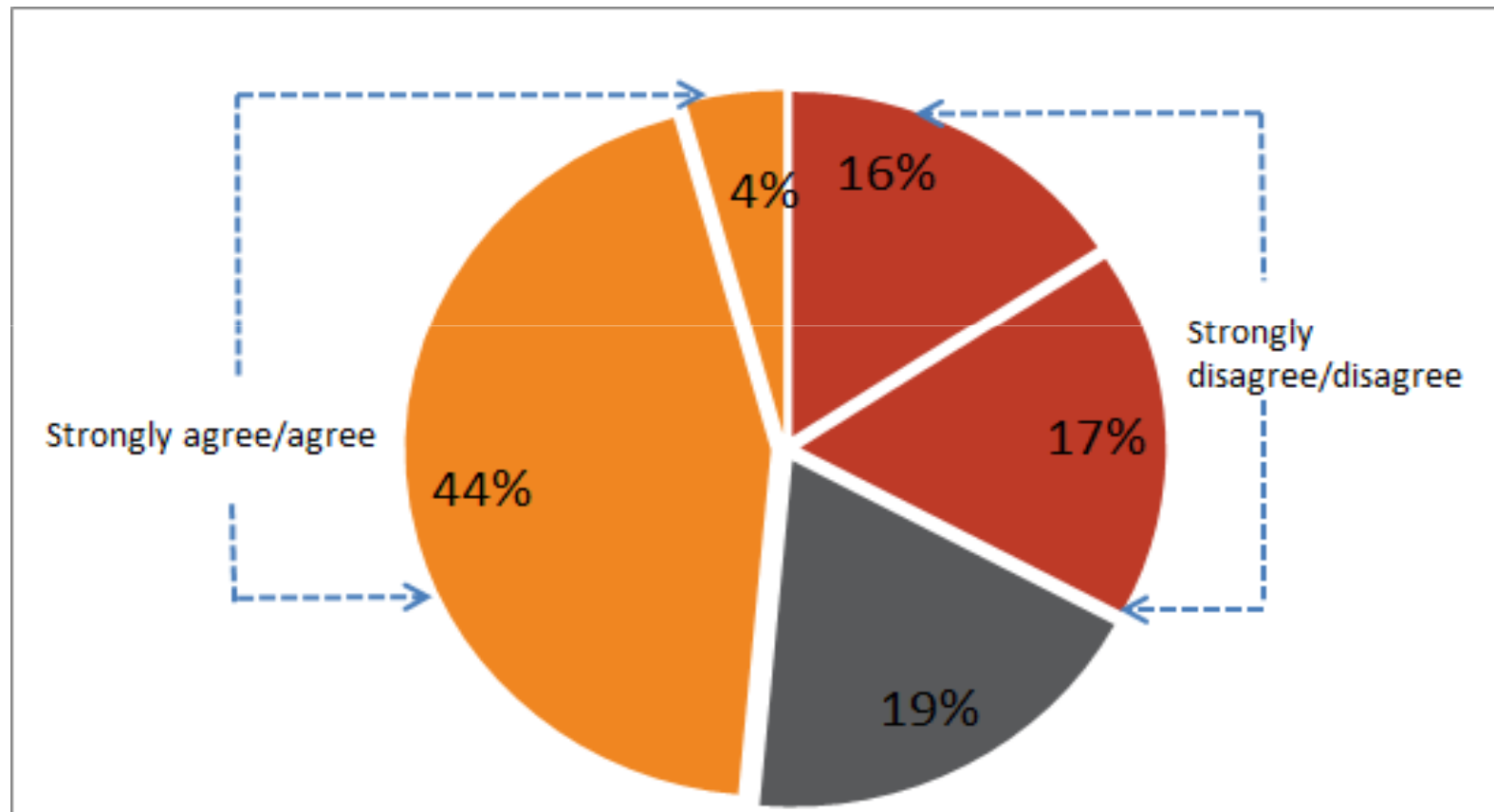
TRADING STRATEGY

- 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.



TRADING STRATEGY

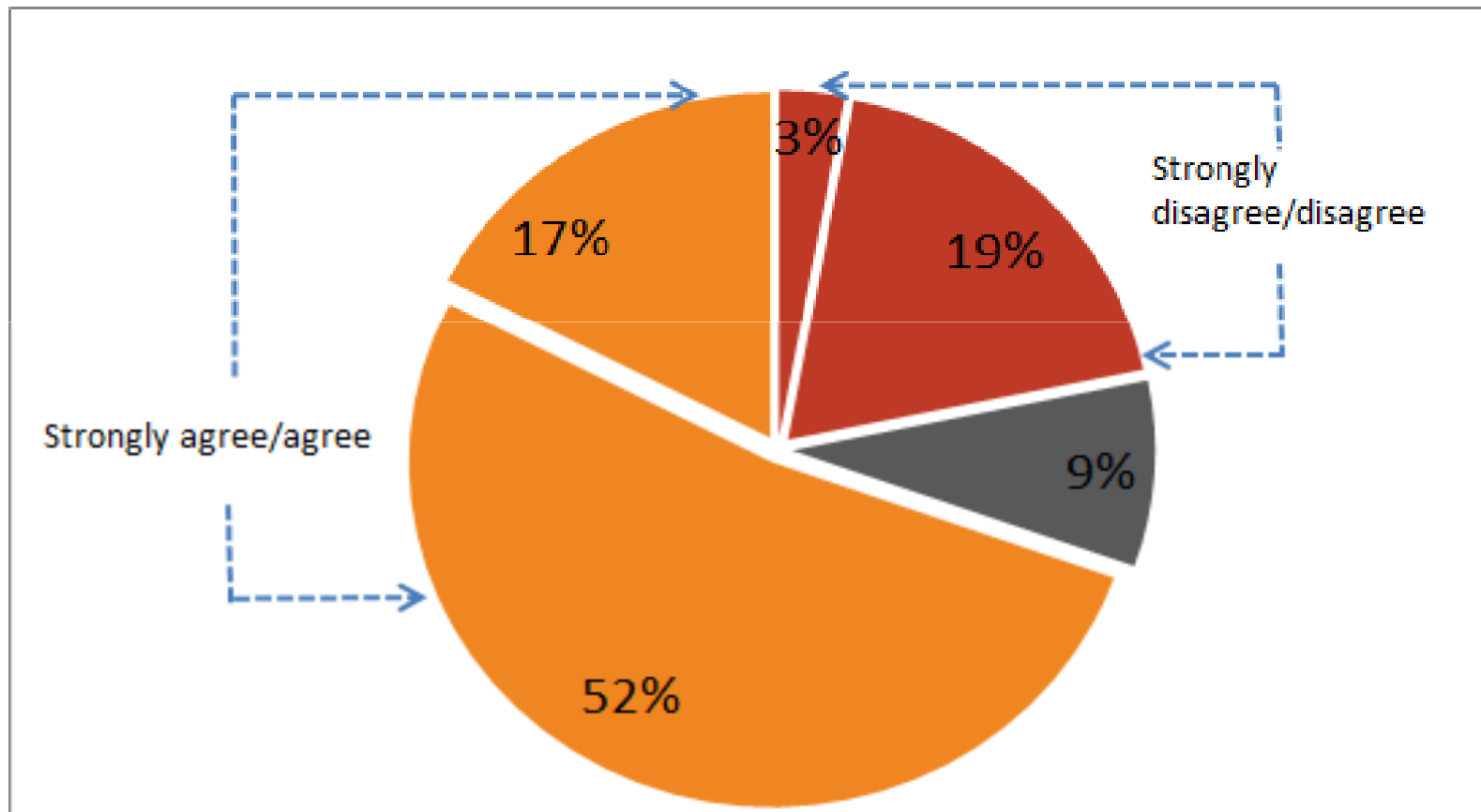
KEY FINDINGS

- **The majority of liable entities have not looked closely at the CFI.**
- **Companies with larger liabilities had the scale to justify procurement of ACCUs.**
- **Liable entities were focussed on compliance, not portfolio optimisation.**
- **For companies with large exposures, trading strategies are being developed but not executed.**



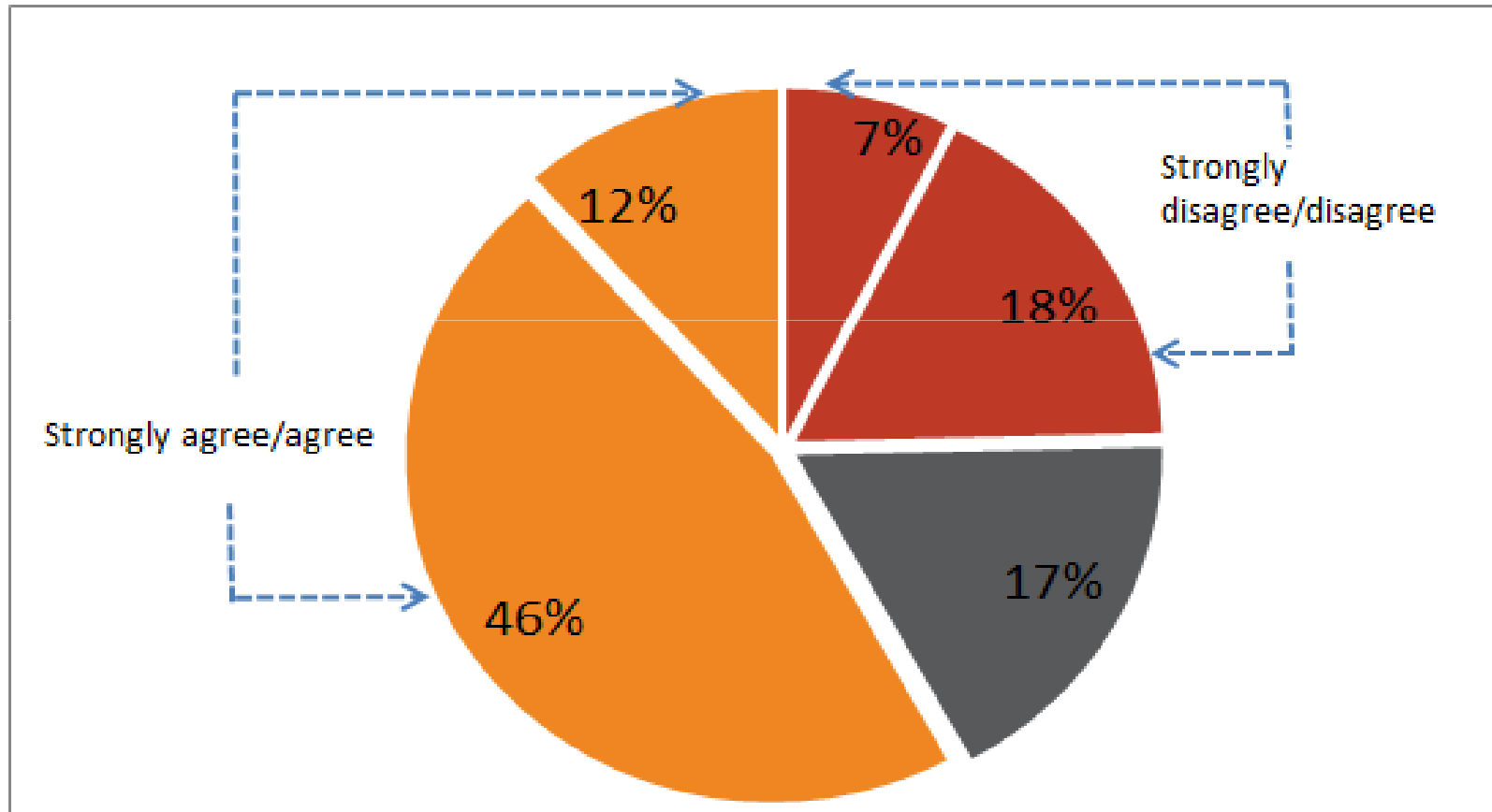
INTERACTION WITH THE CLEAN ENERGY REGULATOR

- Our organisation had a clear understanding of expectations from the Clean Energy Regulator in relation to compliance and timelines.



INTERACTION WITH THE CLEAN ENERGY REGULATOR

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



INTERACTION WITH THE CLEAN ENERGY REGULATOR

KEY FINDINGS

- Overall experience very positive and appreciated the client focussed approach.
- Initial teething problems, but eventually built up a good relationship and response to queries was prompt.
- Workshops and stakeholder engagement was very important.



Questions



Thank You

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