FIRST YEAR OF THE AUSTRALIAN CARBON MARKET

LESSONS LEARNT

A survey of liable entities

Presentation to BPMR Seoul, Korea
27 September 2013
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.
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METHODOLOGY

• Design survey.

• Research key contacts in liable entities.

• Send survey – 1 July 2013.

• Undertake consultations – July.

• Analyse results.

• Write report – August 2013.
RESULTS

- Survey Respondents – 82
- Liable 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?
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.
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.
• Our corporate board was involved and aware of our strategy to meet compliance and manage our liability.
ADMINISTRATION/COMPLIANCE

KEY FINDINGS

• The history of NGERS 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.
• A strategy was developed to adequately pass through carbon price cost impacts to customers.
• 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.
NEW 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.
• 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.
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
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Thank You

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