



DCCEEW Safeguard Mechanism reforms: Determining the Default Prescribed Unit Price

CMI submission

The Carbon Market Institute (**CMI**) welcomes the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water's (**DCCEEW**) Default Prescribed Unit Price Consultation Paper, April 2024, that elaborates the proposed approach to determining the annual 'Default Prescribed Unit Price', an input to calculations required under section 36 of the Safeguard Rule for those applying for trade-exposed baseline-adjusted (**TEBA**) (**DPUP Consultation Paper**).

CMI provides feedback below in response to the three proposals contained in the DPUP Consultation Paper.

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

CMI supports proposal 1. As we have previously highlighted, provided there is sufficient market liquidity, the spot price should be reflective of the current market price. We also agree that spot ACCU prices are 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 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.

CMI is broadly supportive of proposal 2. To future-proof the approach from misuse, we recommend DCCEEW utilise the same sources each year rather than selecting different sources in different years. We also recommend DCCEEW specify that the government will always draw upon a range of sources to support a balanced and robust view. To support the provision of information from a range of sources, DCCEEW should clearly define which entities would be characterised as *market intermediaries* that can provide spot price data. Guidance should specify expected legal qualification of entities, including Australian Financial Service licence requirements to support probity.

CMI also notes the intention to utilise data from the Australian Carbon Exchange (ACX) when this becomes available. CMI supports this proposal and considers this would be a useful source, as ACX data would be relatively active, providing more dynamic insights on price.

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.

CMI would caution against the proposed approach of applying an average of the previous three months to estimate prices at the end of the compliance year, as this may not provide an accurate estimate of the price in the final month. CMI recommends DCCEEW consider alternative options, including:

- Amending the regulations so that the final month could be included in the estimate of prices; and/or
- Specifying in the regulations that DCCEEW will publish a live estimate on the DCCEEW website according to a formula. The estimate could be a rolling figure, changing in accordance with the price on the day it is published. We note that such an approach is being actively considered in the context of the Nature Positive reforms with respect to the treatment of restoration contributions.

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CMI also notes the intention to integrate Safeguard Mechanism Credit (SMC) prices into the estimate when this information becomes available. CMI recommends DCCEE develop an alternative approach to estimating an average price for SMCs, as there is unlikely to be sufficient liquidity volumes in the short term to support an approach that is based on averaging spot prices. In particular, CMI recommends DCCEE consider:

- Whether a volume weighted average approach could be developed for SMCs; and/or
- Whether it would be appropriate to rely on ACCU prices until such time as there is comprehensive spot price data for SMCs.

Should you have any questions about CMI's feedback or wish to discuss, please contact me at kurt.winter@carbonmarketinstitute.org.

Yours sincerely

A handwritten signature in black ink that reads "Kurt Winter". The signature is written in a cursive, slightly slanted style.

Kurt Winter

Director, Corporate Transition