



Safeguard Mechanism

Methodology for estimating the default prescribed unit price

June 2024

Purpose of this document

This document sets out the Department of Climate Change, Energy, the Environment and Water's (the department's) methodology for estimating the annual default prescribed unit price. The methodology was finalised following a public consultation process in April 2024.

Background

The Safeguard Mechanism reforms¹, which commenced on 1 July 2023, include measures to ensure that the competitiveness of trade-exposed industries is appropriately supported during the transition to net zero. Trade-exposed facilities can apply to the Clean Energy Regulator for trade-exposed baseline-adjusted (TEBA) status, which provides a reduced baseline decline rate for eligible facilities. Facilities are eligible for TEBA support if their assessed scheme cost is above prescribed thresholds. A facility's scheme cost is calculated by multiplying excess emissions in a given financial year by the default prescribed unit price for that year.

The default prescribed unit price is an estimate of the average price of a prescribed carbon unit² for a financial year, and provides a standard basis for calculating the cost of managing excess emissions.

The methodology to determine the default prescribed unit price is based on the following principles:

- robust and consistent with legislative requirements,
- simple, transparent and replicable to provide facilities and market participants with greater certainty for decision making, and
- adaptable to the evolving domestic carbon market and include new data that may become available in future.

The default described unit price will be determined annually by the department and published on the department's website before 30 June each year, in accordance with the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* (the Safeguard Rules).

¹ A factsheet on the Safeguard Mechanism reforms can be found at <https://www.dcceew.gov.au/sites/default/files/documents/safeguard-mechanism-reforms-factsheet-2023.pdf>

² Prescribed Carbon Units are defined in section 22XM of the *National Greenhouse and Energy Reporting Act 2007* and include Australian Carbon Credit Units and Safeguard Mechanism Credits.



Estimating the default prescribed unit price

Spot prices will be used to estimate the default prescribed unit price

In a given financial year, the default prescribed unit price estimate will be based on the average spot price data from all available prescribed carbon unit trades for that year, weighted by trade volume.

The use of spot prices to determine the default prescribed unit price estimate provides a transparent and robust approach that makes best use of the available data. While spot transactions account for only a part of the broader carbon market, as market participants may also engage in direct transactions with ACCU project proponents and intermediaries, 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.

The Safeguard Rules require the default prescribed unit price value to be published before 30 June each year. Analysis and publication lead times means that complete trade data from the last month of each compliance year will not be available to calculate the default prescribed unit price. As a result, the department will estimate a value for June each year through the use of prices and volumes from the previous two months of trade data (April and May). These months occur after the 31 March Safeguard compliance deadline and are expected to be a reasonable proxy for June each year.

For the default prescribed unit price estimate in the first Safeguard Mechanism compliance year (2023-24), spot price data will only be available for ACCUs. From the second compliance year (2024-25), the default prescribed unit price methodology will incorporate data for Safeguard Mechanism Credits (SMCs) traded on the spot market, with the first issuance of SMCs scheduled for February 2025.

Market data availability and sources

The department will survey the available ACCU and SMC data suppliers each year and ensure the department obtains sufficient information about the spot transactions in that year.

The suppliers used each year will be published along with the default prescribed unit price.

Interim quarterly estimates

To enhance visibility and assist facilities with planning, the department will publish on a quarterly basis an indicative year-to-date estimate of average spot prices from all available prescribed carbon unit trades, weighted by trade volume.

Stakeholders should note that the quarterly updates will have no legal effect and should consider these as indicative estimates only.

The end of year default prescribed unit price process may identify additional data sources that mean the final price differs from what was suggested by the published quarterly estimates.