



Statement of reasons under s 22XS(1B) of the *National Greenhouse and Energy Reporting Act 2007* (NGER Act) – How the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* as amended by the *Production Variables Update* delivers the legislated safeguard outcomes

1. In accordance with section 22XS(1A) and (1B) of the NGER Act, this statement sets out my reasons for being satisfied that the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 (Safeguard Rules)* as amended by the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Production Variables Update) Rules 2023 (Production Variables Update)* are consistent with each of the safeguard outcomes in paragraphs 3(2)(b), (c) and (d), and that they take into account the safeguard outcomes in paragraphs 3(2)(e) and (f), of the NGER Act.

Summary

2. The Production Variables Update makes technical changes to the Safeguard Rules by adding new production variables (PVs), updating existing PVs and setting industry average emission intensities (also referred to as default emissions intensities (EIs)) to ensure a comprehensive set of suitable PVs are in place for setting Safeguard Mechanism baselines, while incentivising low emissions production.
3. The Safeguard Rules as amended by the Production Variables Update deliver the required emission reductions consistent with safeguard outcomes 3(2)(b), (c) and (d), while providing strong incentives to reduce onsite emissions at each designated large facility and supporting the competitiveness of trade exposed industries in accounting for safeguard outcomes 3(2)(e) and (f), of the NGER Act. The Safeguard Rules as amended ensure that:
 - a. Enforceable baselines are set for the net emissions of each designated large facility (relevant to safeguard outcome (a) - but noting that this safeguard outcome is not engaged by the requirement in section 22XS(1A) of the NGER Act)
 - b. Baselines will decline and are reasonably expected to achieve the 1,233 million tonne 10-year limit on total net safeguard emissions (referred to as the 'net emissions budget'), including with an appropriate reserve for uncertainty about future emissions (relevant to safeguard outcome (b))
 - c. The baseline decline is reasonably expected to result in less than 100 million tonnes of net safeguard emissions in 2029-30, and baselines will be set at zero from 30 June 2049 (relevant to safeguard outcome (c))

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- d. The incentives created are reasonably expected to result in emissions declining consistent with the 5-year rolling average for each financial year that begins after 30 June 2024 (relevant to safeguard outcome (d))
 - e. Strong incentives from baseline decline and Safeguard Mechanism Credits continue to provide a material incentive for the responsible emitter for each designated large facility to invest in reducing covered emissions from the operation of their facilities (relevant to safeguard outcome (e))
 - f. Competitiveness of trade-exposed industries is supported, including through trade exposed baseline adjusted provisions (relevant to safeguard outcome (f)).
4. The Production Variables Update amends the Safeguard Rules to provide greater certainty for facilities in understanding the PVs and EIs determined for each facility, so they are able to better manage their emissions reporting and other requirements under the Safeguard Mechanism. It does this by confirming that the PVs and EIs the subject of the Production Variables Update have undergone review to ensure the PVs are technically correct and the EIs represent industry average emissions intensities. Taken together, the amended PVs and EIs better support incentives for decarbonisation by providing a suitable basis for setting baselines that reflect emissions per unit of production.

Definitions

Abbreviation	Definition
ACCU	Australian Carbon Credit Unit, which has the same meaning as in the <i>Carbon Credits (Carbon Farming Initiative) Act 2011</i> .
Baseline	The baseline emissions number for a facility, as specified in section 22XL of the NGER Act.
CO ₂ -e	Abbreviation for carbon dioxide equivalent, a way of quantifying greenhouse gases to reflect their contribution to climate change compared to a unit of carbon dioxide equivalent. In the NGER Act, the carbon dioxide equivalence of an amount of greenhouse gas, means the amount of the gas multiplied by a value specified in the regulations in relation to that kind of greenhouse gas.
Covered emissions	Has the meaning given by section 22XI of the NGER Act i.e. scope 1 emissions of one or more greenhouse gases, other than emissions of a kind specified in the Safeguard Rules.
Department	Department of Climate Change, Energy, the Environment and Water
Default emissions reduction contribution	For a financial year, has the meaning given by section 31 of the Safeguard Rules.
Designated large facility	A facility covered by the Safeguard Mechanism, as defined in section 22XJ of the NGER Act.
Default Emissions Intensity (EI)	For a production variable for a financial year, means the default emissions intensity specified, in t CO ₂ -e per unit of the production variable, in relation to the production variable in Schedule 1 as in force at the start of that financial year, as defined in section 4 of the Safeguard Rules.
Facility	An activity or a series of activities that involve greenhouse gas emissions, the production of energy or the consumption of energy, as defined in section 9 of the NGER Act.

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Abbreviation	Definition
Mt	Million tonnes
NDC	Nationally Determined Contribution under the Paris Agreement
Net covered emissions	Means the total amount, in tonnes of carbon dioxide equivalence, of covered emissions for a particular designated large facility adjusted for the total amount of prescribed carbon units (ACCUs or SMCs) surrendered. The NGER Act established the Safeguard Mechanism to ensure that net covered emissions of greenhouse gases from the operation of a designated large facility do not exceed the baseline applicable to the facility.
Net emissions budget	The 1,233 million tonne limit on net safeguard emissions for all of the financial years between 1 July 2020 and 30 June 2030 referred to in safeguard outcome (b).
Net emissions number	Has the meaning given by section 22XD of the NGER Act, i.e., the number of tonnes of carbon dioxide equivalence of the total amount of covered emissions of greenhouse gases from the operation of the facility during the period: <ul style="list-style-type: none"> (a) reduced by surrendered prescribed carbon units; and (b) increased by Australian carbon credit units that were issued in relation to the facility.
Net safeguard emissions	For a financial year, means the total amount, in tonnes of carbon dioxide equivalence, of net covered emissions from the operation, during the financial year, of all designated large facilities in the financial year, as defined in section 7 of the NGER Act.
NGER Act	<i>National Greenhouse and Energy Reporting Act 2007</i>
Prescribed carbon unit	Has the meaning given by section 22XM of the NGER Act, namely ACCUs and SMCs.
Production Variable (PV)	For a facility, means a production variable that is applicable to the facility in accordance with Schedule 1 of the Safeguard Rules, as defined in section 4 of the Safeguard Rules.
Production Variables Update	<i>The National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Production Variables Update) Rules 2023</i>
Regulator	Clean Energy Regulator
Responsible emitter	The person with operational control of a facility (see further section 22XH of the NGER Act).
Safeguard Mechanism	A mechanism to ensure the net covered emissions of greenhouse gases from the operation of a designated large facility do not exceed the baseline applicable to the facility and ensure that aggregate net covered emissions from the operation of designated large facilities decline. The mechanism is established under Part 3H of the NGER Act.
Safeguard Mechanism Act	<i>Safeguard Mechanism (Crediting) Amendment Act 2023</i>
Safeguard Reforms Amendment Rules	<i>The National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Reforms) Rules 2023</i>
Safeguard Rules	<i>National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015</i>
Safeguard emissions	For a financial year, means the total amount in tonnes of carbon dioxide equivalence, of covered emissions from the operation, during the financial year, of

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Abbreviation	Definition
	all designated large facilities for the financial year, as defined in section 7 of the NGER Act.
Scope 1 emissions	Emissions released to the atmosphere as a direct result of an activity, or series of activities at a facility level (sometimes referred to as direct emissions).
SMCs	Safeguard Mechanism Credit units, which are units issued under section 22XNA of the NGER Act.
TEBA facilities	Trade-exposed baseline-adjusted facilities
Trade exposed facilities	Designated large facilities for which the primary production variable is listed in Schedule 2 of the Safeguard Rules, as amended. The primary production variable for a facility is the production variable that is most significant for its operation, having primary regard to the share of revenue and covered emissions attributable to that production variable.
Transitional facility	A facility that undertakes commercial production of a production variable in the financial year beginning on 1 July 2022 but not during any historical production years. A transitional production variable is used for calculating the facility's baseline, and the facility-specific emissions intensity number is set to be equal to the default emissions intensity number for that production variable.

5. Note that numbers in this document designated with an * have been rounded to a whole number.

Key legislative provisions

6. Section 22XS of the NGER Act relevantly provides:
- (1A) The Minister must not make safeguard rules unless the Minister is satisfied that those rules:
 - (a) are consistent with each of the safeguard outcomes in paragraphs 3(2)(b), (c) and (d); and
 - (b) take into account the safeguard outcomes in paragraphs 3(2)(e) and (f).
 - (1B) If the Minister makes safeguard rules, the Minister must publish on the Department's website the Minister's reasons for being satisfied that the safeguard rules:
 - (c) are consistent with each of the safeguard outcomes in paragraphs 3(2)(b), (c) and (d); and
 - (d) take into account the safeguard outcomes in paragraphs 3(2)(e) and (f).
7. Section 3(2) of the NGER Act sets out the safeguard outcomes as follows:
- (2) The second object of this Act is to contribute to the achievement of Australia's greenhouse gas emissions reduction targets by ensuring that each of the following outcomes (the *safeguard outcomes*) are achieved:
 - (a) net covered emissions of greenhouse gases from the operation of a designated large facility do not exceed the baseline applicable to the facility;
 - (b) total net safeguard emissions for all of the financial years between 1 July 2020 and 30 June 2030 do not exceed a total of 1,233 million tonnes of carbon dioxide equivalence;
 - (c) net safeguard emissions decline to:
 - (i) no more than 100 million tonnes of carbon dioxide equivalence for the financial year beginning on 1 July 2029; and
 - (ii) zero for any financial year to begin after 30 June 2049;
 - (d) the 5-year rolling average safeguard emissions for each financial year that begins after 30 June 2024 are lower than the past 5-year rolling average safeguard emissions for that financial year;
 - (e) the responsible emitter for each designated large facility has a material incentive to invest in reducing covered emissions from the operation of the facility;
 - (f) the competitiveness of trade-exposed industries is appropriately supported as Australia and its regions seize the opportunities of the move to a global net zero economy.

Background

Reform to the Safeguard Mechanism

8. The NGER Act establishes a single national framework for reporting and disseminating company information about greenhouse gas emissions, energy production, energy consumption and other information. The Safeguard Mechanism is established under Part 3H of the Act. Together with the reporting obligations under the Act, the Safeguard Mechanism provides a framework for Australia's largest industrial emitters to measure, report and manage their emissions.
9. The Safeguard Mechanism provides a legislated framework that limits the net emissions of around 215 large industrial facilities—those with more than 100,000 tonnes of scope 1 (direct) carbon dioxide equivalent (CO₂-e) emissions each year ('designated large facilities' under s 22XJ of the NGER Act). Each year, every designated large facility needs to prove that their net emissions for that year are equal to or below their baseline. Each designated large facility reports their emissions to the Regulator, which publishes the results on its website.
10. Since the Safeguard Mechanism commenced on 1 July 2016, reported covered emissions from designated large facilities have grown over 4 per cent from 131.3 Mt CO₂-e in 2016-17 to 137.5 Mt CO₂-e in 2021-22.¹
11. Under the Paris Agreement, to which Australia is a Party, Parties are required to communicate their Nationally Determined Contribution (NDC) which sets out their emissions reduction commitments. On 16 June 2022, Australia communicated its updated NDC under Article 4 of the Paris Agreement to the United Nations.² This updated NDC included confirmation of Australia's commitment to achieve net zero emissions by 2050, and a new, increased 2030 target of 43 per cent below 2005 levels by 2030. The *Climate Change Act 2022* prescribes these commitments into Australian law.
12. On 30 March 2023, Parliament passed the Safeguard Mechanism (Crediting) Amendment Bill 2023. It amended the NGER Act and other legislation, to establish the framework to give effect to key elements of the reforms, such as introducing Safeguard Mechanism Credits (SMCs) to the scheme to provide an incentive to facilities to go beyond their baselines. Much of the detail of the Safeguard Mechanism is set out in legislative rules, primarily the Safeguard Rules.
13. On 3 May 2023, I amended the Safeguard Rules to reduce emissions consistent with the legislated targets. The amendments made by the Safeguard Reforms Amendment Rules were

¹ Designated large facility emissions are published by the Clean Energy Regulator at:

<https://www.cleanenergyregulator.gov.au/NGER/The-safeguard-mechanism/safeguard-data/safeguard-facility-reported-emissions>

² Australia's Nationally Determined Contribution, available at: [https://unfccc.int/sites/default/files/NDC/2022-06/Australias NDC June 2022 Update %283%29.pdf](https://unfccc.int/sites/default/files/NDC/2022-06/Australias%20NDC%20June%202022%20Update%283%29.pdf)

to support industry to reduce emissions efficiently, and to help them maintain competitiveness as the global economy decarbonises. On 3 May 2023, I set out my reasons for being satisfied that the Safeguard Rules as amended by Safeguard Reforms Amendment Rules are consistent with each of the safeguard outcomes in paragraphs 3(2)(b), (c) and (d), and that they take into account the safeguard outcomes in paragraphs 3(2)(e) and (f), of the NGER Act. Those reasons are published on the Department's website in accordance with section 22XS(1B) of the NGER Act.

14. The Safeguard Reforms Amendment Rules, and the reforms made by those rules, commenced on 1 July 2023.
15. As part of the reform to the Safeguard Mechanism, the Government committed to reviewing PVs to ensure they are effective in meeting the emissions reduction objectives of the reforms, including by encouraging facilities to reduce their emissions as well as incentivising production to occur where it is least emissions intensive. As part of the review, the Government has also recalculated certain EI values associated with PVs to ensure relevance and consistency with the reforms. These PVs and EIs are an input to the calculations for determining the baseline emissions number for each facility. The Production Variables Update is the first tranche of changes. A second tranche of reviewed PVs and EIs is expected at the end of 2023.

Amendments to the Safeguard Rules

16. Section 22XS of the NGER Act empowers me to make rules to implement the Safeguard Mechanism by legislative instrument. These rules may prescribe matters required or permitted by the NGER Act and matters necessary or convenient to be prescribed for carrying out or giving effect to the Safeguard provisions in the NGER Act. The Safeguard Rules are a legislative instrument made under section 22XS(1) of the NGER Act. The Production Variables Update amends the Safeguard Rules.
17. The Production Variables Update updates published PVs and EIs within Schedule 1 of the Safeguard Rules. This includes redefining or creating new PVs, resulting in the following amendments to definitions or additional definitions: 'monoammonium phosphate' and 'diammonium phosphate' (replacing a PV that defined both outputs); 'COD removed from wastewater' and 'nitrogen removed from wastewater' (replacing a PV that defined both outputs); 'run of mine coal' (which encompasses the emissions previously addressed by the now superseded coal mine waste gas PV); 'natural gas throughput' (to replace 'work of compression applied to natural gas or plant condensate' PV); 'lithium hydroxide' (new PV); 'iron ore' (redefining the PV to apply to run of mine iron ore); 'cement production from clinker and supplementary cementitious material' (including supplementary cementitious material in the PV definition); 'copper anode' (clarifying the measurement basis and inputs); and, the integrated iron and steel manufacturing activity is updated to cover a broader range of intermediate and final products to reflect industry conditions.
18. The Production Variables Update adds new EIs for the new 'run-of-mine coal' and 'natural gas throughput' PVs and updates the EIs of 'reservoir carbon dioxide from existing gas fields' and 'aluminium' to better reflect current industry conditions.

19. It also adds three PVs to the trade exposed list in Schedule 2 of the Safeguard Rules (silicomanganese alloy, ferromanganese alloy, and lithium hydroxide).

Consultation

20. In February 2023, the Department commenced consultation directly with impacted stakeholders on options to amend certain PVs and EIs. Consultation has been undertaken to understand the best approach to setting PVs and EIs in a way that will encourage, recognise and reward emissions abatement, and appropriately incentivise low emissions production.
21. On 21 July 2023, the Government released for consultation an exposure draft of the Production Variables Update, with the consultation period being open until 5pm on 11 August 2023.
22. Eighteen formal submissions were received, comprising eight submissions from designated large facilities or businesses, four from industry associations and the remaining from individuals and non-government organisations. The Department will publish non-confidential submissions on its website. Most submissions concerned the run-of-mine coal PV and expressed diverse views, including that the amended run of mine coal PV would impact underground coal mines more than opencut mines. In relation to this concern, I note that the run of mine coal PV is defined to include all emissions associated with mining coal, including fugitive emissions. Accordingly, it represents an average emissions intensity of coal production and on balance I consider it is suitable for setting baselines. Submissions on other PVs and EIs were broadly supportive of the Production Variables Update.

Material on which my decision was based

23. My decision that I was satisfied that the Safeguard Rules as amended are consistent with each of the outcomes in paragraphs 3(2)(b), (c) and (d), and take into account the safeguard outcomes in paragraphs 3(2)(e) and (f) was made after considering a brief from the Department (MS23-900844), which contained the following attachments relevant to this decision:
- a. National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Production Variables Update) Rules 2023
 - b. Explanatory Document: National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Production Variables Update) Rules 2023
 - c. Safeguard Mechanism: Prescribed production variables and default emissions intensities
 - d. The following Departmental analysis – including calculations that contain Cabinet-in-Confidence information:
 - i. Decline rate analysis – Calculations from the Department relating to the safeguard emissions budget and total baseline emissions.
 - ii. Gross emissions analysis – Calculations from the Department relating to projected emissions without reforms and from the Production Variables Update, potential uptake of on-site abatement and historical emissions data, relating to 5 year rolling average emissions outcomes. Some of the data

underlying these calculations is classified Cabinet in Confidence and in addition, the information could be market sensitive. This has consequently been covered by public interest immunity claims tabled to the Senate Environment and Communications Legislation Committee (1 March 2023) and provided to the Senate on 9 March 2023 under a Senate Order of 7 March 2023.

- e. A summary of the stakeholder consultations

Reasons

I am satisfied that the Safeguard Rules as amended are consistent with safeguard outcome (b): that total net safeguard emissions for all of the financial years between 1 July 2020 and 30 June 2030 do not exceed a total of 1,233 million tonnes of carbon dioxide equivalence.

24. The Production Variables Update updates certain PVs and EIs in Schedule 1 of the Safeguard Rules. These updates better reflect the emissions sources that contribute to the calculation of an EI value associated with each PV. Updated PVs and EIs in Schedule 1 of the Safeguard Rules contribute to updated baseline emission numbers for existing facilities as set out in Division 2, Part 3 of the Safeguard Rules.
25. This engages safeguard outcome (b) because default EIs and PV definitions affect Safeguard baselines, which affect net Safeguard emissions, given that the Safeguard Mechanism requires designated large facilities to have net emissions below their baseline.
26. The Department has updated its decline rate analysis to reflect the effect of the Production Variables Update. I have taken the Department's updated decline rate analysis, which is described below, into account to be satisfied that the Safeguard Rules as amended are consistent with safeguard outcome (b). In summary, the updated total baseline emission number will be lowered because of the changes to PVs and EIs in the Production Variables Update. This remains the case when allowing for Trade Exposed Baseline Adjusted (TEBA) facilities. Designated large facilities must keep their net emissions below their baseline, so a lower total baseline number means baseline analysis continues to show that net safeguard emissions for all designated large facilities will remain under the maximum of 1,233 tonnes of CO₂e in safeguard outcome (b).
27. The 1,233 Mt CO₂-e safeguard net emissions budget for the period 1 July 2020 and 30 June 2030 corresponds to a 815* Mt CO₂-e net emissions budget for the period between 2023-24 to 2029-30.³ My Department's original decline rate analysis underpinning the 3 May 2023 amendments, projected baselines to add up to net emissions of 800* Mt CO₂-e between 2023-24 to 2029-30 having regard to the changes made by the Safeguard Reforms

³ See paragraph 23 of the statement of reasons of 3 May 2023 for the Safeguard Reforms Amendment Rules which details the basis of these calculations.

Amendment Rules.⁴ My Department has updated this decline rate analysis to reflect the Production Variables Update and a revised calculation approach to the underlying analysis related to emissions from new gas fields supplying existing liquefied natural gas facilities and now projects baselines to add up to net emissions of 793* Mt CO₂-e between 2023-24 to 2029-30.

28. The decline rate analysis I considered in relation to the Safeguard Reforms Amendment Rules allowed for a reserve, to account for uncertainty about future emissions, of 15* Mt CO₂-e.⁵ The reduction in aggregate baselines now means that the reserve is 22* Mt CO₂-e.
29. The approach to setting baselines for new entrants under the Safeguard Rules, as amended by the Safeguard Reforms Amendment Rules, at international best practice (as outlined in Part 3, Division 3, Section 29 of the Safeguard Rules) led to net emissions from new entrants being estimated at 15* Mt to 2030, compared to estimated emissions of 38* Mt to 2030 without the Safeguard Reforms Amendment Rules reforms.⁶ The update to my Department's decline rate analysis now indicates that emissions from new entrants are expected to be 13* Mt to 2030. This reflects changes to the PVs and EIs and a revised calculation approach that takes into account the minimum baselines for new facilities. Apart from shale gas extraction facilities, designated large facilities have a minimum baseline of 100,000 t CO₂-e.
30. My Department's decline rate analysis accounts for the impact of likely trade-exposed baseline-adjusted (TEBA) facilities, which get a lower baseline decline rate. The Production Variables Update adds silicomanganese alloy, ferromanganese alloy and lithium hydroxide to trade exposed production variables listed in Schedule 2 of the Safeguard Rules. Facilities that have silicomanganese alloy, ferromanganese alloy or lithium hydroxide as their primary PV may be eligible for TEBA status. For the case of silicomanganese alloy and ferromanganese alloys, this addition does not change the expected emissions outcomes calculated as they are used by a facility already assumed to have TEBA status in the Department's decline rate analysis. The addition of lithium hydroxide will only apply to facilities that are not yet designated large facilities. The potential future access to TEBA arrangements by operations which are not yet designated large facilities is mitigated by the existence of the reserve.
31. I am satisfied that the Safeguard Rules as amended are consistent with safeguard outcome (b), for the reasons outlined in paragraphs 29-35 of my 3 May 2023 statement of reasons, having regard to my Department's updated decline rate analysis setting out expected net covered emissions as a result of the Production Variable Update and the 815 Mt CO₂-e net

⁴ See paragraph 28 of the statement of reasons of 3 May 2023 for the Safeguard Reforms Amendment Rules which details the basis of these calculations.

⁵ See paragraph 26 of the statement of reasons of 3 May 2023 for the Safeguard Reforms Amendment Rules which details the basis of these calculations.

⁶ See paragraph 26.a.iii. of the statement of reasons of 3 May 2023 for the Safeguard Reforms Amendment Rules which details the basis of these calculations.

emissions budget for the period between 2023-24 to 2029-30, described in paragraphs 24-30 above.

I am satisfied that the Safeguard Rules as amended are consistent with safeguard outcome (c): that net safeguard emissions decline to (i) no more than 100 million tonnes of carbon dioxide equivalence for the financial year beginning on 1 July 2029; and (ii) zero for any financial year to begin after 30 June 2049

32. My Department's decline rate analysis based on the Safeguard Rules as amended by the Safeguard Reforms Amendment Rule forecasted that net Safeguard emissions would decline to 96.0 Mt CO₂-e in the financial year 2029-30, taking into account the reserve allowance, which is below 100 Mt CO₂-e.
33. My Department's update to the decline rate analysis to reflect the Production Variable Update forecasts that net Safeguard emissions would decline to 95.9 Mt CO₂-e in the financial year 2029-30, taking into account the reserve allowance. As this is below 100 Mt CO₂-e, I am satisfied that the Safeguard Rules as amended are consistent with safeguard outcome (c)(i).
34. As set out in paragraphs 37 and 38 of my reasons of 3 May 2023, the default decline rate detailed within Part 3, Division 5 of the Safeguard Rules for a financial year beginning 1 July 2030 or later is a rate that reduces to zero over the 20 years 2030-31 to 2049-50, ensuring that aggregate baselines for designated large facilities reach net zero by 2049-50. Part 3, Division 1 of the Safeguard Rules requires that baselines for facilities for a financial year that begins after 30 June 2049 must be zero. The Production Variables Update does not specifically amend Part 3 and the PV amendments will not directly impact Part 3 Division 5. Having regard to Part 3 of the Safeguard Rules, I am satisfied the Safeguard Rules, as amended by the Production Variables Update, are consistent with safeguard outcome (c)(ii).

I am satisfied that the Safeguard Rules as amended are consistent with safeguard outcome (d): that the 5-year rolling average safeguard emissions for each financial year that begins after 30 June 2024 are lower than the past 5-year rolling average safeguard emissions for that financial year.

35. Safeguard outcome (d) requires the 5-year rolling average safeguard emissions for each financial year that begins after 30 June 2024 to be lower than the past 5-year rolling average safeguard emissions for that financial year, where the past 5-year rolling average Safeguard emissions is defined as one fifth of the total amount of safeguard emissions for the 5 financial years previous to the financial year that ended 3 years before the start of the current financial year (for financial years that begin before 1 July 2027), and from the 2027-28 financial year onwards, for the 5 financial years that ended 2 years before the start of the current financial year.
36. The Department, alongside the Department of the Treasury, undertook analysis of the abatement and carbon market opportunities and the resulting safeguard emissions under policy elements, including borrowing, reflected in Safeguard Rules, to inform Cabinet deliberations. A summary of this analysis, on which I relied, was included in the Department's gross emissions analysis for the statement of reasons of 3 May 2023 for the Safeguard Reforms Amendment Rules.
37. The amendments made by the Production Variables Update will incentivise efficiencies and investments in measures to reduce emissions, in particular in relation to the 'work of compression applied to natural gas or plant condensate' PV and EI, the definition of

‘integrated iron and steel manufacturing’, the definition of the ‘run of mine coal’ PV and EI, the ‘reservoir carbon dioxide from existing gas fields’ EI and ‘cement produced from clinker and supplementary cementitious material’ PV and EI. These amendments engage safeguard outcome (d) by making it more likely that the 5-year rolling average safeguard emissions for each financial year that begins after 30 June 2024 will be lower than the past 5-year rolling average safeguard emissions for that financial year, to the extent that opportunities are taken up.

38. The Department’s updated gross emissions analysis for the Production Variable Update, on which I am now relying, indicates the 5-year rolling average safeguard emissions for each financial year that begins after 30 June 2024 are estimated to be lower than the past 5-year rolling average safeguard emissions for that financial year, which is consistent with outcome (d). I am satisfied the Safeguard Rules, as amended by the Production Variables Update, are consistent with safeguard outcome (d).

I am satisfied the Safeguard Rules as amended take into account safeguard outcome (e): that the responsible emitter for each designated large facility has a material incentive to invest in reducing covered emissions from the operation of the facility.

39. The amendments made by the Production Variables Update to the ‘work of compression applied to natural gas or plant condensate’ PV and the definition of ‘integrated iron and steel manufacturing’ activity will incentivise more opportunities for emissions reductions. This engages safeguard outcome (e) by providing material incentives to take advantage of new opportunities for emissions reductions. It will also engage safeguard outcome (d) by making it more likely that the 5-year rolling average safeguard emissions for each financial year that begins after 30 June 2024 will be lower than the past 5-year rolling average safeguard emissions for that financial year, to the extent that opportunities are taken up.
40. The Production Variables Update replaces the ‘work of compression applied to natural gas or plant condensate’ PV with a ‘natural gas throughput’ PV for gas transmission pipelines. These PVs relate to the operation of compressors that are used to maintain the pressure inside gas transmission pipelines and transport the gas through the pipeline. The ‘work of compression applied to natural gas or plant condensate’ PV measured how much energy was added to the gas by increasing its pressure, and incentivised pipelines to operate their compressors more efficiently. The ‘natural gas throughput’ PV also incentivises pipelines to operate their compressors more efficiently, but also incentivises measures that can reduce the amount of work that compressors need to do to operate the pipeline, though activities like pipeline looping, and reducing the amount that compressors operate in recycle mode, which also result in emissions reductions.
41. The Production Variables Update also updates the definition of ‘integrated iron and steel manufacturing’ activity to account for hot briquetted iron. Hot briquetted iron is produced by direct reduced iron (DRI) technology, which is a lower emission form of producing iron. The change facilitates investment in DRI as a way to reduce Safeguard covered emissions. My Department is engaging in further consultation on PVs related to steel manufacturing, which I expect to be reflected in a subsequent update to the Safeguard Rules.
42. The changes to the cement PV will enable the Safeguard Mechanism to recognise lower emissions cement made with supplementary cementitious materials (SCMs). A way of

reducing the emissions of cement is to blend SCMs, such as fly ash and slag, into cement. This reduces the amount of emissions-intensive clinker required to make cement. The PV changes strengthen the incentives for designated large facilities to invest in using SCMs in cement production.

43. The definition of the 'run of mine coal' PV to encompass coal mine waste gas and other fugitives will encourage both the reduction of fugitive emissions and more efficient use of fossil fuel energy sources, like diesel.
44. Other changes to PVs are more technical in nature, such as clarifying the measurement point of the 'copper anode' and 'iron ore' PVs, and splitting the COD removed and nitrogen PVs and monoammonium and diammonium phosphate PVs into respective components to better enable the calculation of baselines. The calculation of the EIs for the existing PVs 'aluminium' and 'reservoir carbon dioxide from existing gas fields' is to better represent the average emissions intensity of the respective sectors.
45. I am satisfied that the Safeguard Rules as amended take into account safeguard outcome (e), because of the reasons outlined in paragraphs 50-53 of my 3 May 2023 statement of reasons, and because this outcome was taken into account during development of the amendments including in the Production Variables Update as described in paragraphs 41-44 above.

I am satisfied the Safeguard Rules as amended take into account safeguard outcome (f): the competitiveness of trade-exposed industries is appropriately supported as Australia and its regions seize the opportunities of the move to a global net zero economy.

46. Currently, two categories of trade exposed facilities receive assistance to manage competitiveness issues and carbon leakage risks. These categories are 'trade exposed' facilities and TEBA facilities, which are defined in section 4 of the Safeguard Rules⁷. As provided by Part 3, Division 5, Subdivision D, of the Safeguard Rules, the responsible emitter for a facility can apply to the Regulator for the facility to be a TEBA facility, which will be eligible for a discounted decline rate based on a scheme impact metric.
47. The Production Variables Update includes the addition of silicomanganese alloy, ferromanganese alloy and lithium hydroxide PVs as trade exposed in Schedule 2 of the Safeguard Rules. This means facilities that have silicomanganese alloy, ferromanganese alloy or lithium hydroxide as their primary PV may be able to apply to be a TEBA facility, and have their competitiveness be appropriately supported as Australia and its regions seize the opportunities of the move to a global net zero economy.
48. In making the amendments concerning silicomanganese alloy, ferromanganese alloy and lithium hydroxide PVs in Schedule 2, I have taken into account safeguard outcome (f). For this reason, along with the reasons outlined in paragraphs 54-61 of my 3 May 2023 statement of

⁷ Trade exposed facilities and TEBA facilities are eligible to access funding under the Powering the Regions Fund.


OFFICIAL

reasons, I am satisfied the Safeguard Rules as amended take into account safeguard outcome (f).

Other provisions

- 49. I have had regard to other parts of the Safeguard Rules that support the effective operation of the Safeguard Mechanism regulatory scheme, but which do not otherwise directly relate to the safeguard outcomes. These include Parts 1, 2, 5 and 6 of the Safeguard Rules.
- 50. The Production Variables Update adds a new Division 6 to Part 6 of the Safeguard Rules. This Division includes an application and transitional provision that ensures that default EIs set in the Production Variables Update apply to Safeguard Mechanism baselines for the financial year 2023-24 and subsequent financial years.

For the reasons above, I, the Hon Chris Bowen MP, Minister for Climate Change and Energy, am satisfied that Safeguard Rules as amended are consistent with the safeguard outcomes in paragraphs 3(2)(b), (c) and (d), and take into account the safeguard outcomes in paragraphs 3(2)(e) and (f), of the NGER Act.

Name and position	Hon Chris Bowen MP, Minister for Climate Change and Energy
Signature	
Date of decision	24/09/23