



Australian Government  
Clean Energy Regulator

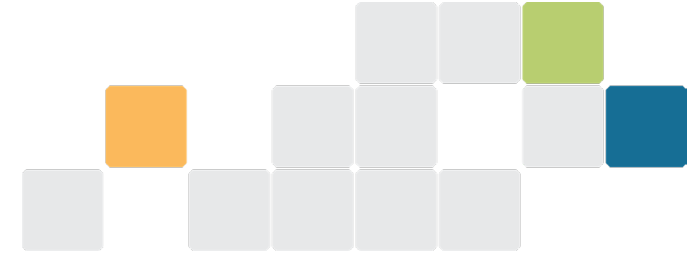
# Changes to administration of carbon abatement contracts in response to a maturing carbon market

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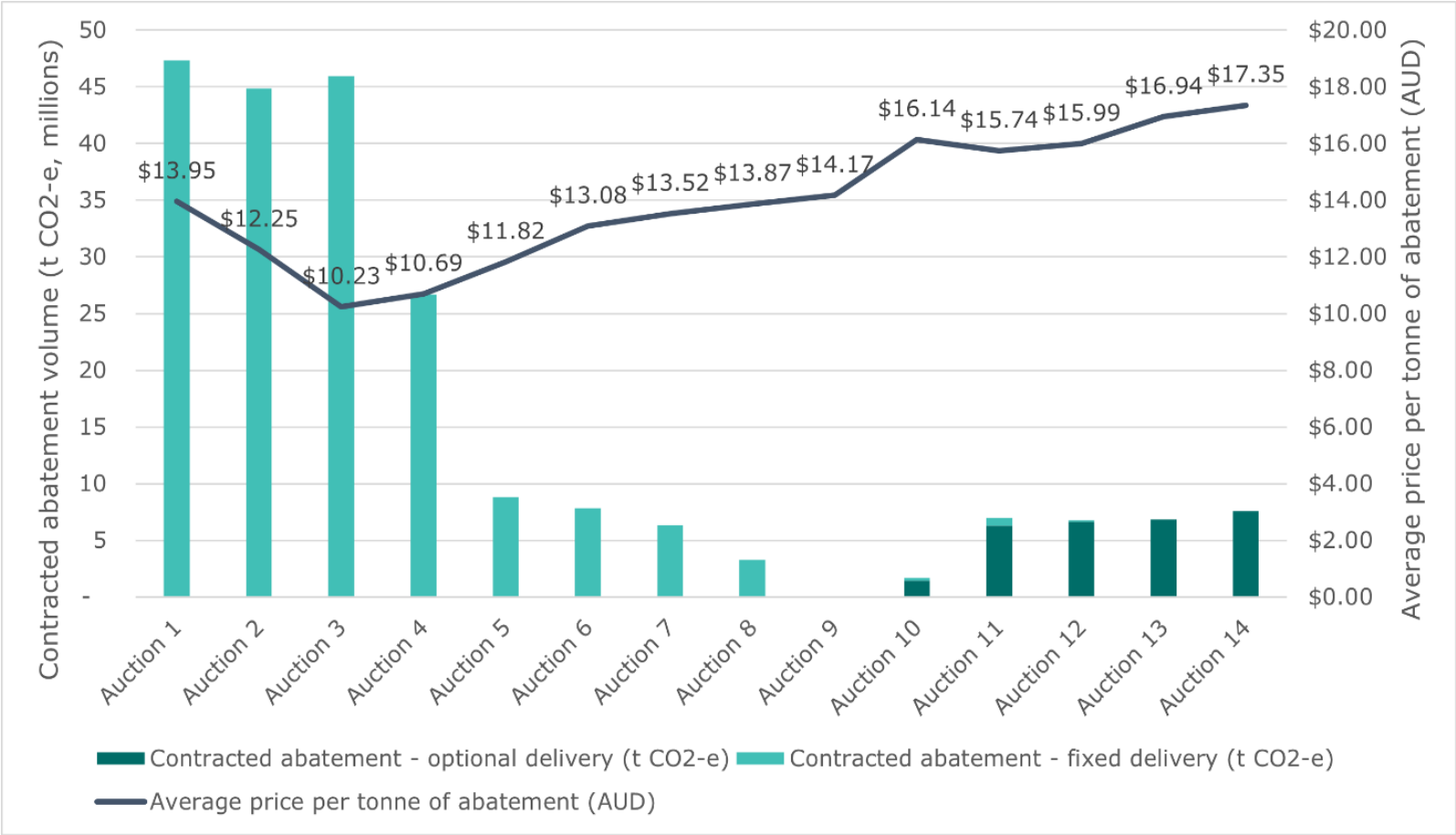


# Origin of ERF Auctions and Contracts



- The ERF facilitates the creation of carbon credits to incentivise carbon abatement activities that otherwise would not have occurred.
- The Australian Government purchases carbon credits through ERF Auctions.
- The first ERF auction was held in April of 2015, with over one hundred fixed delivery contracts being entered into for the delivery of 47 million tonnes of abatement.
- Further auctions were then held about every six months from this point, with auction number 14 being conducted most recently in April 2022. The result to date is that over 500 contracts have been entered into for the purchase of over 200 million tonnes of abatement.

# ERF Auction results



# Interaction with the private carbon market

- The original form of contract offered was the Fixed Delivery (or FD)
  - FD contracts require the delivery of a set number of ACCUs at a set price for the duration of the contract.
- Private carbon market saw growth and maturation since 2015 and by early 2020 it became clear that that the role of the Government could change.
- This led to the introduction of optional delivery (OD) contracts.



# Introduction of the optional delivery contract

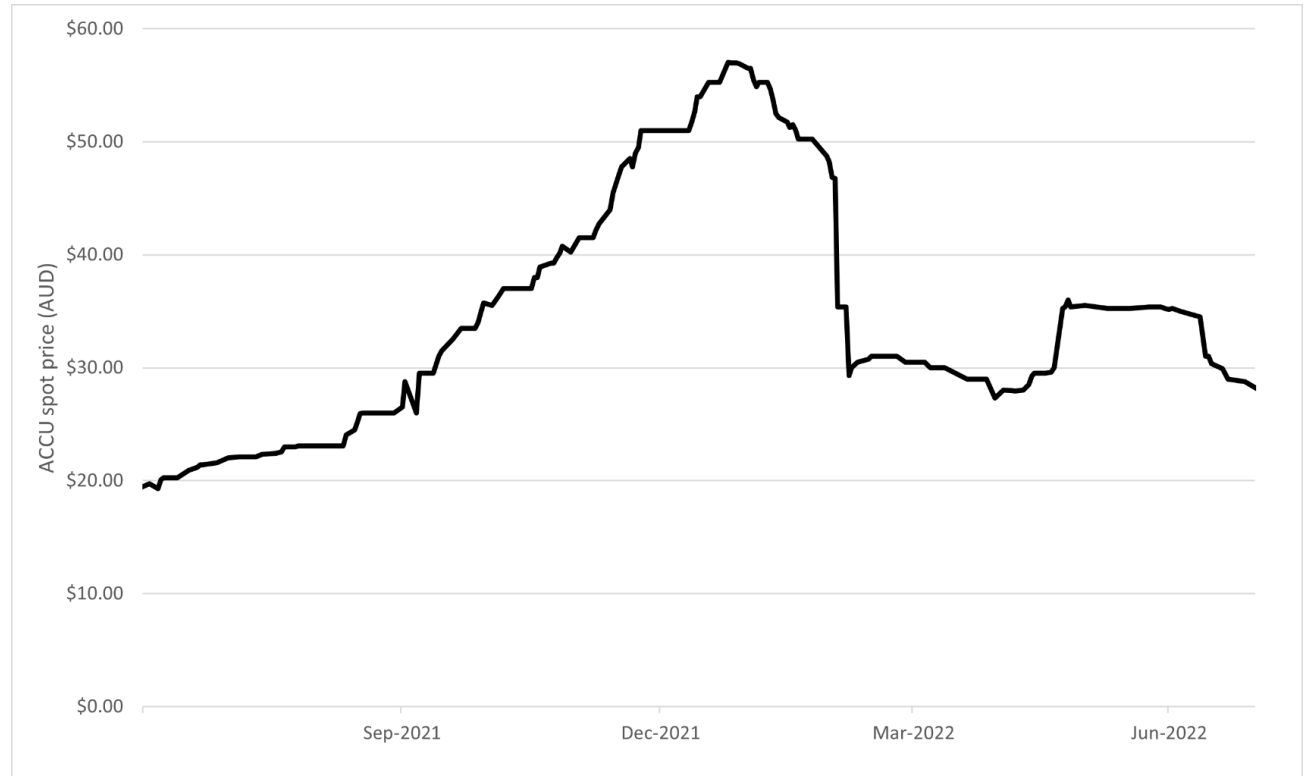


- The Optional Delivery (OD) contract was first offered in March of 2020.
  - OD contracts provide the right but not the obligation to sell carbon abatement to the Commonwealth at an agreed price within a set time.
  - This allows contract holders to better manage their price and supply risks with a view to encourage more carbon abatement projects as a result.
  - OD contracts may be used in negotiations with lenders or other parties to demonstrate what the Commonwealth will pay for abatement from a specified project, with no contractual barrier to seeking more lucrative contracts from other buyers.
- Since auction 14 only OD contracts have been offered.

# Rapid growth in the private carbon market

## Generic ACCU spot price highlights:

- The price of ACCUs on the private market increased from \$17 in 2021 to \$50 in March 2022 - approximately a 200% increase.
- Voluntary demand for ACCUs has increased by more than 40% in the 2021-22 financial year relative to 2020-21.
- This led to the introduction of the exit arrangement to prevent a disorderly exit from FD contracts using existing buyers market damages provisions.



# Introduction of the fixed delivery exit arrangement



- Streamlines existing contract provisions into an administrative pathway to satisfy contractual obligations for fixed delivery contracts
- Sellers can pay an exit payment instead of delivering ACCUs
- Exit payment = contract price \* no. of ACCUs for a given milestone

# Benefit Sharing



- Sellers must comply with the benefit sharing framework to be eligible
- The arrangement recognises that the exit arrangement may result in a windfall gain to the Seller
- This windfall gain must be allocated between relevant parties such as the landholder of an ERF project associated with the contract
- Outcomes of first window to be announced soon



# Questions





# Thank you

## Contact

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