



## THE SAFEGUARD MECHANISM: CARBON OFFSETS AND AVOIDING DOUBLE COUNTING OF EMISSIONS REDUCTIONS

### *Using carbon offsets to manage emissions*

A number of businesses already participate in voluntary carbon neutral programmes and use carbon offsets to reduce their net emissions. Providing a similar option under the safeguard mechanism gives businesses flexibility in managing their emissions.

Under the safeguard mechanism, covered facilities must keep net emissions—defined as actual emissions less offsets—below baseline levels. Facility operators can surrender eligible carbon offsets at any time to remain below their baseline.

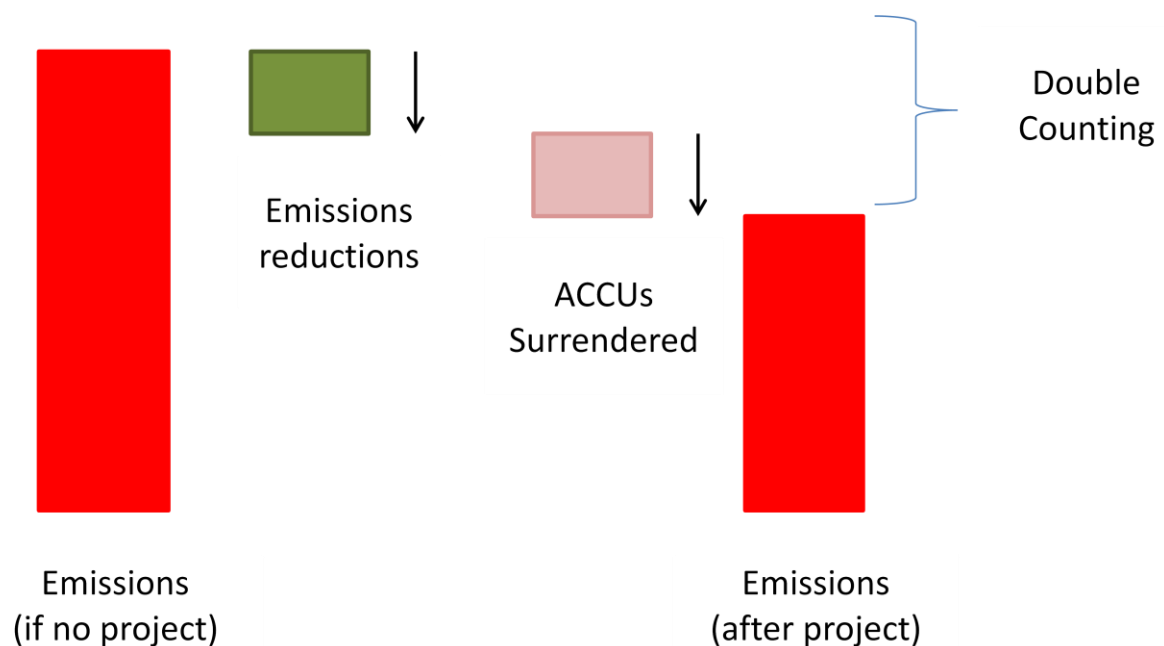
Credits issued under the Emissions Reduction Fund—also known as Australian Carbon Credit Units or ACCUs—are eligible offsets under the safeguard mechanism.

### *What is ‘double counting’?*

Safeguard entities are eligible to participate in the Emissions Reduction Fund crediting and purchasing mechanisms in the same way as other businesses. They can create ACCUs from eligible emissions reduction projects, and they can bid for funding in an Emissions Reduction Fund auction or sell their ACCUs to other parties. This raises the possibility that emissions reductions could be counted twice (‘double counted’).

Double counting could occur if a safeguard facility receives ACCUs for reducing its emissions, then surrenders these ACCUs to further reduce its net emissions under the safeguard mechanism.

**Figure 1: Double counting problem**



In this way, each tonne of emissions reduction could be counted twice. First, when the actual reduction in emissions occurs. Then again when the ACCUs are surrendered and deducted from the net emissions number of the facility.

Double counting could also occur if a safeguard facility receives ACCUs for reducing emissions and sells them to another safeguard entity for use as an offset. The emissions reduction is counted twice, because it reduces emissions at both facilities—the first facility’s actual emissions fall, while the second facility uses the ACCUs to offset its emissions.

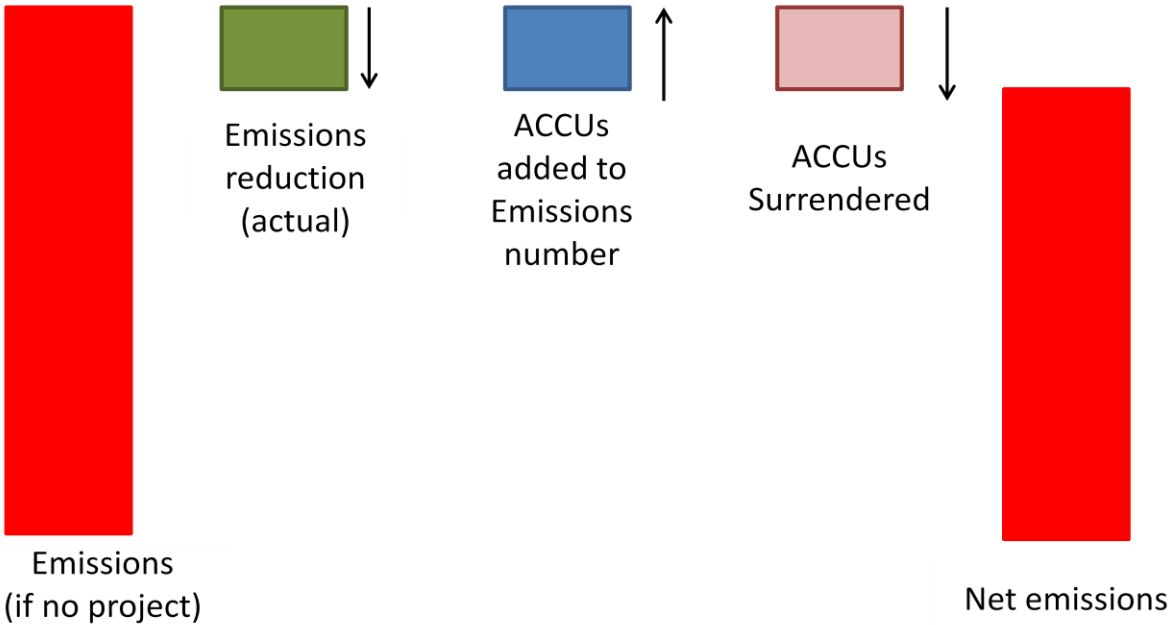
*How is ‘double counting’ prevented?*

To ensure that facilities covered by the safeguard mechanism can participate in the Emissions Reduction Fund, the potential double counting issue has been addressed.

The Emissions Reduction Fund legislation ensures that emissions reductions are not counted more than once by adding ACCU’s issued for emissions reductions at a facility back on to that facility’s net emissions.

If the facility uses the ACCUs as an offset under the safeguard mechanism, the facility’s net emissions are correspondingly reduced.

**Figure 2: Double counting solution**



ACCUs issued are added to the emissions number in the relevant financial year.

The emissions number is then reduced when the ACCUs are surrendered or sold to the Government under an ERF contract.

There are two ways that ACCUs can be used as offsets to reduce the net emissions at a facility.

1. A facility can **surrender** ACCUs to the Government as an offset under the safeguard mechanism. The reduction in net emissions will occur at the facility that surrenders the ACCUs. For example, if the ACCUs are sold to a second facility covered by the safeguard

mechanism and that facility surrenders them to the Government, the ACCUs would offset the net emissions from the facility that surrendered them, not the facility that generated them.

2. Alternatively, ACCUs can be **sold to the Government under an Emissions Reduction Fund contract**. The reduction in net emissions will occur at the facility that generated the ACCUs, regardless of whether the ACCUs were sold to the Government by the facility itself or by another party.

## *Examples*

### **Scenario 1:** *Safeguard facility undertakes Emissions Reduction Fund project to return emissions to baseline levels*

Safeguard facility A has a baseline of 205,000 t CO<sub>2</sub>-e and emissions of 210,000 t CO<sub>2</sub>-e.

Facility A decides to undertake an Emissions Reduction Fund project to return its emissions to baseline levels and successfully bids for funding in an Emissions Reduction Fund auction. The project reduces facility emissions by 5,000 t CO<sub>2</sub>-e and the Clean Energy Regulator issues 5,000 ACCUs to the operator.

Facility A's actual emissions have fallen to 205,000 t CO<sub>2</sub>-e. To avoid double counting, facility A's net emission number is increased by 5,000 when the ACCUs are issued. This means that facility A's net emissions number remains at 210,000 until the ACCUs are sold to the Government.

Facility A sells the 5,000 ACCUs to the Government and its net emissions number is reduced by 5,000, returning it to baseline levels of 205,000.

### **Scenario 2:** *Safeguard facility sells ACCUs to another safeguard facility*

Facility A has an emissions reduction opportunity, but its emissions are below baseline. It could implement the project and sell the ACCUs to another safeguard facility that is above baseline. For example, let's assume that:

- Facility A has a baseline of 205,000 t CO<sub>2</sub>-e and emissions of 190,000 t CO<sub>2</sub>-e.
- Facility B has a baseline of 150,000 t CO<sub>2</sub>-e and emissions of 155,000 t CO<sub>2</sub>-e.

Facility A undertakes the project and reduces its emissions by 5,000 t CO<sub>2</sub>-e. To avoid double counting, facility A's net emissions number is increased by 5,000 when the ACCUs are issued. This means that Facility A's actual emissions have fallen to 185,000 t CO<sub>2</sub>-e, but its net emissions number is unchanged at 190,000 t CO<sub>2</sub>-e.

As facility A's emissions remain below baseline, it sells the ACCUs to facility B, rather than surrendering them under the safeguard.

Facility B surrenders the 5,000 ACCUs to the Government under the safeguard mechanism, reducing its net emissions number by 5,000 and returning it to baseline levels of 150,000 t CO<sub>2</sub>-e.

### Summary of final outcomes for facility A and facility B

Facility A		Facility B	
Baseline	205,000	Baseline	150,000
Actual emissions	185,000	Actual emissions	155,000
Net emissions number	190,000	Net emissions number	150,000

#### **Scenario 3:** *Safeguard facility sells ACCUs to an Emissions Reduction Fund project proponent*

Facility A chooses to sell ACCUs to an Emissions Reduction Fund project proponent that needs additional ACCUs to fulfil an Emissions Reduction Fund contract, as its project has delivered less than expected. Let's assume that:

- Facility A has a baseline of 205,000 t CO<sub>2</sub>-e and emissions of 190,000 t CO<sub>2</sub>-e.
- A project proponent has an Emissions Reduction Fund contract to deliver 100,000 ACCUs to the Government, but its project has only generated 95,000 ACCUs to date.

Facility A undertakes an emissions reduction project and reduces emissions by 5,000 t CO<sub>2</sub>-e. To avoid double counting, facility A's net emissions number is increased by 5,000 when the ACCUs are issued. This means that Facility A's actual emissions have fallen to 185,000 t CO<sub>2</sub>-e, but its net emissions number is unchanged at 190,000 t CO<sub>2</sub>-e.

Facility A sells the 5,000 ACCUs to the project aggregator.

The project aggregator sells the 5,000 ACCUs to the Government under contract. As the ACCUs are being sold to the Government under an Emissions Reduction Fund contract, the ACCUs are deducted from the net emissions number of the facility that generated them. Facility A's net emissions number is reduced to 185,000 t CO<sub>2</sub>-e.

#### **Scenario 4:** *Safeguard facility reduces electricity use*

Facility A has an energy efficiency project under the Emissions Reduction Fund which reduces their electricity use. Let's assume that:

- facility A has a baseline of 205,000 t CO<sub>2</sub>-e and emissions of 190,000 t CO<sub>2</sub>-e.

Facility A undertakes the project and reduces indirect emissions from electricity use by 5,000 t CO<sub>2</sub>-e. The safeguard mechanism only covers direct emissions, so facility A's actual emissions do not change, however, demand for electricity falls, reducing the direct emissions of one or more electricity generators by 5,000 t CO<sub>2</sub>-e.

To avoid double counting, facility A's net emissions number is increased by 5,000 when the ACCUs are issued. Facility A's net emissions number increases to 195,000 t CO<sub>2</sub>-e.

Facility A sells the 5,000 ACCUs to the Government, thereby obtaining a direct financial benefit for improving energy efficiency. Facility A's net emissions number is reduced by 5,000 once the ACCUs are received by the Government, returning its net emissions number to 190,000 t CO<sub>2</sub>-e.

## *Legislative reference*

Double counting is addressed through provisions 22XK and 22XN of the *Carbon Farming Initiative Amendment Act 2014*.

### **More information**

Details about the Emissions Reduction Fund are available at [www.environment.gov.au/climate-change/emissions-reduction-fund](http://www.environment.gov.au/climate-change/emissions-reduction-fund).

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