

**28 February 2013**

Dear Members

### **Estimating Direct CPM Cost Impacts at landfills**

On 15 May 2012, ALOA published a briefing note for members which set out a methodology for estimating the direct cost impacts arising under the Carbon Pricing Mechanism (**CPM**).

This note suggested that the following factors should be considered by landfill owners when estimating the direct CPM impact:

1. Determine if the landfill's emissions are or will soon exceed the CPM threshold<sup>1</sup> of 25,000 tonnes CO<sub>2</sub>-e per annum<sup>2</sup>.
2. Establish what waste types are received at the landfill – for example, Domestic, Dry Commercial, Wet Commercial, Construction, Special or Inert.
3. Determine the climatic zone where the landfill is located.
4. Determine the landfill's gas collection efficiency<sup>3</sup> against the landfill's 'NGER' gas generation estimate.
5. Select an appropriate cash discount rate and tax position, taking into account the landfill owner's circumstances.
6. Select the future carbon price scenario on which to base the landfill's future carbon cost estimation. ALOA notes that one resource to which members may have regard is the Treasury modeling of the Carbon Price which was updated on 21 September 2011 and is accessible via the following link:

<http://archive.treasury.gov.au/carbonpricemodelling>

7. Calculate the total carbon liability for waste received from 1 July 2012 using the following formula:

Liability = waste emission estimate x (1 – gas collection efficiency) x future carbon cost

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<sup>1</sup> To determine whether the threshold of 25,000 tonnes CO<sub>2</sub>-e is exceeded, emissions from both legacy waste (pre 1 July 2012 waste) and non-legacy waste (post 1 July 2012 waste) must be counted.

<sup>2</sup> The current threshold for coverage of landfills under the CPM is 25,000 CO<sub>2</sub>-e. The Government will review in 2015 whether this threshold should be lowered to 10,000 CO<sub>2</sub>-e. The Government has confirmed that if the threshold is lowered, there will be no retrospective liability <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/10/FactSheet-Emissions-from-landfill-facilities.pdf>

<sup>3</sup> To ensure consistency between the waste emission estimates and the gas collection efficiency it is necessary to adjust the gas collected for oxidation:

Gas Collected x 0.9  
NGER gas emission

The briefing note stated that as components of the above methodology may change over time (e.g waste composition and volume, abatement initiatives, gas capture efficiency, future carbon prices), it will be important for members to regularly review, and if necessary, update their direct CPM liabilities.

Since this briefing note was published in May 2012, the Government has decided to link the CPM with the European Union Emissions Trading Scheme (**EU ETS**) and drop the planned floor price for Australian carbon units of \$15. The legislation which implemented the first part of the linking arrangement was passed in November 2012. This will allow those entities with obligations under the CPM to use EU ETS units<sup>4</sup> for compliance. Negotiations on a formal agreement for two-way linking are intended to be concluded by mid-2015 with a view to commencing on 1 July 2018.

In addition to removing the proposed floor price, the Government made changes to the emissions units which can be used for compliance purposes under the CPM. In particular, an overall limit of 50% applies to the use of international units (including EU ETS units) and a specific limit of 12.5% applies to Kyoto units<sup>5</sup>. Landfills can still use 100% of Carbon Farming Initiative units<sup>6</sup> to satisfy their liability.

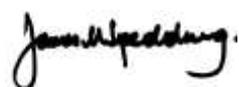
The result of the linking arrangement and other changes is that it is possible that the Australian carbon unit price will follow the price of the EU ETS units, when the CPM moves to the flexible price period in 2015. Treasury had estimated that the Australian carbon price would be around \$29 in 2015. The European carbon price is currently trading at around €4.40 (\$5.65)<sup>7</sup>, and the futures market for 2015 units is currently trading at around €5.56 (\$7.15)<sup>8</sup>.

The European Commission is currently contemplating changes to the EU ETS aimed at driving the European carbon price higher. One of these proposals is known as “backloading”. The current proposal would involve holding back the auctioning of 900 million EUAs until 2019 and 2020 in order to reduce the volume of supply now and thereby make the issued units more valuable. This proposal is currently making its way through the parliamentary and related processes in Europe and its success is therefore uncertain.

The Government has recently confirmed that it proposes to update the Treasury modeling that was used in support of the CPM and that the updated modeling will be included in the budget which is due to be released in May. It is understood that the Climate Change Authority used a figure of \$10.72 for the 2015 price when it undertook its recent review of the Renewable Energy Target.

Given the above, we reconfirm to members that a regular review of the inputs into a landfill’s carbon liability should be undertaken in light of the changing circumstances. Members should also consider the need to obtain appropriate legal and financial advice to assist them in determining their landfill’s carbon liability.

Yours sincerely



Max Spedding  
Secretary  
Australian Landfill Owners Association

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<sup>4</sup> The units issued under the EU ETS are known as European Union Allowances (EUAs).

<sup>5</sup> Kyoto units include Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs) generated from Clean Development Mechanism and Joint Implementation projects, respectively.

<sup>6</sup> Units issued under the Carbon Farming Initiative are known as Australian Carbon Credit Units (ACCUs).

<sup>7</sup> These prices are based on the quoted EUA price and exchange rate applicable on 28 February 2013.

<sup>8</sup> These prices are based on the quoted EUA price and exchange rate applicable on 28 February 2013.