

14 May 2012

Dear Members

Estimating Direct CPM Cost Impacts at landfills

As you are well aware, the Carbon Pricing Mechanism (**CPM**) (which comes into effect on 1 July 2012) involves particular complexities for the waste management sector as methane emissions are generated over a long time frame – up to forty years - from when waste is landfilled.

The need for members to overcome these complexities and accurately estimate the current and future costs to their businesses that are, or will be, attributable to the CPM (whether directly or indirectly) is intensified by the prohibitions against false, misleading or deceptive carbon pricing claims under the Australian Consumer Law (**ACL**).

ALOA has consulted widely over the past six months with government, regulators, private and local government landfill owners and landfill users with a view to providing its members with guidance on how to estimate the current and future costs to their businesses that are, or will be, attributable to the CPM.

We are now pleased to provide members with the following guidance as a consequence of those discussions.

A methodology for estimating the direct CPM impact

ALOA offers members the following methodology for estimating the direct CPM impact on the price of its goods and services:

1. Determine if the landfill's emissions are or will soon exceed the CPM threshold¹ of 25,000 tonnes CO₂-e per annum².
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 efficiency³ against the landfill's 'NGER' gas generation estimate.

¹ To determine whether the threshold of 25,000 tonnes CO₂-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.

² The current threshold for coverage of landfills under the CPM is 25,000 CO₂-e. The Government will review in 2015 whether this threshold should be lowered to 10,000 CO₂-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>

³ 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

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 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

The above methodology may be used by members as *one of the tools* at their disposal in independently estimating the direct CPM impact on their respective businesses.

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 cost estimates.

Accurately representing the carbon liability

In light of the ACL's prohibition of false, misleading or deceptive representations, members must ensure that they communicate the impact of the carbon price on the price of their goods and services accurately and truthfully. Further, the carbon price claim must be able to be substantiated.

In circumstances where members have incorporated the future carbon cost into the price of its landfill services, it is important that they accurately attribute the source of that estimation.

For example, if a member bases its landfill's future carbon cost estimation on the Treasury modeling referred to above, it should clearly attribute the estimation to that source.

ALOA encourages its members to keep records of the basis upon which they estimate the impact of a carbon price on their direct and indirect costs. Those records will, amongst other things, assist you in substantiating your communication of those costs if necessary.


Avoid discussing the CPM impact with your competitors

Finally, and importantly, it is prudent that ALOA reminds its members that the *Competition and Consumer Act 2010* prohibits agreements or understandings between competitors involving prices.

The Australian Competition and Consumer Commission's recent "*Business Snapshot*" entitled "*Carbon price claims: dealing with your suppliers and competitors*"

<http://www.accc.gov.au/content/item.phtml?itemId=1040847&nodeId=67aa0fe115dd0136b64a3ce4b2dd238&fn=Carbon%20price%20claims:%20Dealing%20with%20suppliers.pdf> provides some helpful guidance on the topic.

Yours sincerely



Max Spedding
Secretary
Australian Landfill Owners Association

Australian Landfill Owners Association
ACN 134 694 956

Level 6, 50 Queen Street, Melbourne VIC 3000

M GPO BOX 1398 Melbourne VIC 3001

T (03) 8399 9514 **F** (03) 8399 9501

E info@aloa.com.au **W** www.aloa.com.au