



Mr Jason Lange
Executive Director
Office of Best Practice Regulation
Department of the Prime Minister and Cabinet
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BARTON ACT 2600

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Dear Mr Lange

Regulation Impact Statement - Final Assessment Second Pass - Amendments to the Emissions Reduction Fund Safeguard Mechanism

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for the proposed amendments to the Safeguard Mechanism.

I am satisfied that the RIS is consistent with the ten principles for Australian Government policy makers, and adequately addresses each of the seven RIS questions:

1. *What is the problem?* - Through the 2017 Climate Change Policy Review, businesses told Government that they support the Safeguard Mechanism, but suggested improvements. The focus of suggested improvements was on making the Safeguard Mechanism: fairer, to more evenly apply the incentive to manage emissions within and across sectors and avoid arbitrarily placing costs on business growth; and simpler, to lower administrative costs.
2. *Why is Government action necessary?* – Government action is needed to better align the Safeguard Mechanism with the policy intent to accommodate business growth and allow businesses to continue normal operations. The problems identified by businesses cannot be self-corrected. The legislative framework underpinning the Safeguard Mechanism must be amended to avoid arbitrarily placing costs on growing businesses and to reduce costs of emissions baseline applications.
3. *What policy options are you considering?* – Options considered are:
 - Option 1 - Maintain the status quo.
 - Option 2 - Bring baselines up-to-date:
 - bring all baselines up-to-date over 2018-19 and 2019-20
 - simplify applications.
 - Option 3 - Bring baselines up-to-date and allow for annual updates:
 - bring all baselines up-to-date over 2018-19 and 2019-20

- simplify applications
- update baselines annually so they remain up-to-date.

4. *What is the likely net benefit of each option?* – Option 2 would make the policy fairer by bringing all baselines up-to-date. It provides options that simplify application processes. It would address the objectives of refining the Safeguard Mechanism but only in the short term. Option 3 retains and builds on the benefits of Option 2. Option 3 allows baselines to better reflect business-as-usual operations. It supports business growth while encouraging businesses to maintain their efficiency. By including the option for annual baseline updates, Option 3 prevents the identified problems from re-emerging. Options 2 and 3 are estimated to reduce regulatory costs for businesses compared to business-as-usual (Option 1). Annual average regulatory savings are estimated to be \$19,000 for Option 2 and \$117,000 for Option 3 over a ten year period.
5. *Who will you consult and how will you consult them?* – In addition to extensive consultation as part of the 2017 Climate Change Policy Review, the Department has consulted widely on proposed changes to the Safeguard Mechanism throughout 2018, including through two separate public consultation processes, and associated workshops targeting affected businesses. Businesses are generally supportive of the elements proposed under Options 2 and 3.
6. *What is the best option from those you have considered?* – Option 3 is the recommended option. It best achieves the objective of bringing baselines up-to-date and making the Safeguard Mechanism fairer and simpler. This option would continue to provide an incentive for businesses to manage facility emissions over the long term, regardless of changes in production.
7. *How will you implement and evaluate your chosen option?* – Changes proposed under Option 3 would be achieved primarily through changes to the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* and implemented by the Clean Energy Regulator. Further consultation is planned to finalise technical details associated with preferred Option 3, so that changes can be in place for the 2018-19 compliance year.

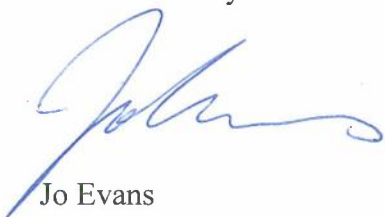
I am also satisfied this revised RIS for second pass assessment addresses the first pass assessment comments provided by the Office of Best Practice Regulation on 1 November 2018.

Specifically, we have included additional information about the likely emissions outcomes for each of the three options considered. This includes discussing the impact on total baselines for all options, and emphasising the increased incentive on businesses to avoid a deteriorating emissions intensity under Option 3.

I note that regulatory cost estimates have been agreed with your office.

Consistent with best practice, I submit the certified RIS to the Office of Best Practice Regulation for the second pass of the final assessment.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jo Evans', written over the printed name.

Jo Evans

Deputy Secretary

Climate Change and Energy Innovation

Department of the Environment and Energy

5 November 2018