Clean Energy (Reference Price Method) Determination 2013

I, Greg Combet AM, Minister for Climate Change, Industry and Innovation, make the following determination under subsection 196A(6) of the Clean Energy Act 2011.

Dated: 25 June 2013

Greg Combet AM
Minister for Climate Change, Industry and Innovation
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Part 1—Preliminary

1 Name of determination

This determination is the Clean Energy (Reference Price Method) Determination 2013.

2 Commencement

This determination commences on the day after it is registered.

3 Authority

This determination is made under subsection 196A(6) of the Clean Energy Act 2011.

4 Definitions

Note: Section 5 of the Act defines certain terms used in this regulation, including eligible international emissions unit for example.

In this determination:

appropiate market: see section 6.

certified emission reduction has the same meaning as in the Australian National Registry of Emissions Units Act 2011.

daily price: see section 5.

listed unit has the same meaning as in the subsection 123A(8) of the Clean Energy Act 2011.

RBA exchange rate is the exchange rate for that currency that is published by the Reserve Bank of Australia.

Note: At the commencement of this section, the exchange rates were accessible at http://www.rba.gov.au/statistics/hist-exchange-rates/index.html.

trade day: see section 7.

Part 2—Basic concepts

5 Meaning of daily price

The daily price of an eligible international emissions unit, for a trade day, at the appropriate market is:

(a) if the market reports the volume weighted average price of the unit for the trade day:
Section 6

(i) if the appropriate market is a spot market—the volume weighted average price of the unit on the trade day; or

(ii) if the appropriate market is a futures market—the volume weighted average price of a futures contract made on the trade day, with a delivery date, chosen by the Regulator, that is before the surrender deadline for the particular financial year for which the reference price is being worked out; or

(b) if the market does not report the volume weighted average price of the unit for the trade day:

(i) if the appropriate market is a spot market—the closing price of the unit on the trade day; or

(ii) if the appropriate market is a futures market—the closing price of a futures contract made on the trade day, with a delivery date, chosen by the Regulator, that is before the surrender deadline for the particular financial year for which the reference price is being worked out.

6 Meaning of appropriate market

(1) The appropriate market is:

(a) a sufficiently liquid Australian spot market; or

(b) if there is more than one sufficiently liquid Australian spot market—the most liquid of those spot markets; or

(c) if there is not a sufficiently liquid Australian spot market:

(i) a sufficiently liquid Australian futures market; or

(ii) if there is more than one sufficiently liquid Australian futures market—the most liquid of those futures markets.

(2) However, if there is not a sufficiently liquid Australian spot market or futures market, the appropriate market is:

(a) a sufficiently liquid overseas spot market; or

(b) if there is more than one sufficiently liquid overseas spot market—the most liquid of those spot markets; or

(c) if there is not a sufficiently liquid overseas spot market—the overseas futures market that has the highest trading volume of eligible international emissions units over the designated 6-month period.

(3) A market is a sufficiently liquid market if the Regulator considers, on reasonable grounds, that:

(a) there has been frequent trade in the eligible international emission unit on the market during the designated 6-month period; and

(b) the volume of trade in the eligible international emissions unit, and the open interest in the unit, on the market, has been sufficiently high during the relevant designated 6-month period.

(4) In this section:

Australian futures market means a financial market:
Basic concepts Part 2

Section 7

(a) that, in accordance with the Corporations Act 2001:
   (i) operates under an Australian market licence; and
   (ii) is not exempt from the requirement to comply with the market integrity rules; and
(b) in which eligible international emissions units are traded for delivery more than 5 days after the trade.

**Australian spot market** means a financial market:
(a) that, in accordance with the Corporations Act 2001:
   (i) operates under an Australian market licence; and
   (ii) is not exempt from the requirement to comply with the market integrity rules; and
(b) in which eligible international emissions units are traded for delivery within 5 days after the trade.

**Overseas futures market** means a financial market:
(a) that operates overseas; and
(b) in which eligible international emissions units are traded for delivery more than 5 days after the trade.

**Overseas spot market** means a financial market:
(a) that operates overseas; and
(b) in which eligible international emissions units are traded for delivery within 5 days after the trade.

7 **Meaning of trade day**

A **trade day** is a day on which:
(a) an eligible international emissions unit was traded on a financial market; and
(b) the financial market reports the price at which the unit was traded.
Part 3—Reference price method

8 Purpose of Part

This Part sets out the method that is to be used by the Regulator when declaring that a specified amount is the reference price for a class of eligible international emissions units for a designated 6-month period.

9 Reference price for 2015 and 2016

The reference price of listed units, before 2017, is to be worked out in accordance with the following method:

Method statement

Step 1A For each trade day during the designated 6-month period, identify the daily price of a certified emission reduction (CER) on the appropriate market.

Step 1B If the daily price is taken from an overseas market, multiply the daily price by the RBA exchange rate for the trade day, to convert the price to Australian dollars.

Step 1C If the daily price is taken from a futures market (whether in Australia or overseas), adjust the amount worked out under step 1A or 1B by using the following formula:

\[
\text{Daily price in AUD} \quad \frac{(\text{Return} + 1)^{\text{time}}}{(\text{Return} + 1)^{\text{time}}} 
\]

where:

- **daily price in AUD** is the daily price in Australian dollars.
- **return** is the “yields per cent per annum” for corporate bonds with 1 to 5 years maturity and a BBB rating, as published by the Reserve Bank of Australia, on the day that is closest to the date when the reference price is being worked out.

Note: At the commencement of this section, the annual yield were accessible at [http://www.rba.gov.au/statistics/tables/](http://www.rba.gov.au/statistics/tables/) under the heading “Capital Market Yields and Spreads—Non-government Instruments—F3”.

**time** is the number of days between the trade day of the unit and the date for delivery of the unit, according to the contract under which the unit is traded, divided by 365.
Reference price method  Part 3

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Example: Suppose that the daily price in AUD for CERs is $10 on 3 March 2015, and that this price is taken on a futures market for the delivery of CERs on 14 December 2015. There are 286 days between 3 March 2015 and 14 December 2015, so time is equal to 286 ÷ 365. If the return, when the reference price is calculated, is 5% (i.e. 0.05), then the result of this step is $9.62 (i.e. $10 ÷ [0.05 + 1]^{286 ÷ 365} = $9.62).

Step 2  Add together the amount worked out under step 1 for each of the trade days in the designated 6-month period.

Step 3  Divide the amount worked out in step 2 by the total number of trade days for the unit in the designated 6-month period, and round the result to 2 decimal places.

The result is the reference price of an eligible international emissions unit for the designated 6-month period.

Example: In the designated 6-month period ending on June 2016, eligible international emissions units were traded on 3 different days on an Australian spot market and the daily price on those 3 trade days was $13, $14 and $15 respectively. So, the amount worked out under step 2 would be $42 (i.e. $13 + $14 + $15 = $42). As the total number of trade days is 3, the reference price of a unit for the 6-month period is $14 (i.e. $42 ÷ 3 = $14).

10 Reference price after 2016

After 2016, the reference price of a class of eligible international emissions units is to be worked out in accordance with the following method:

Method statement

Step 1A  For each class of eligible international emissions units for which a reference price must be declared, identify the daily price of the units on the appropriate market, on each trade day during the designated 6-month period.

Step 1B  If the daily price is taken from an overseas market, multiply the daily price by the RBA exchange rate for the trade day, to convert the price to Australian dollars.

Step 1C  If the daily price is taken from a futures market (whether in Australia or overseas), adjust the amount worked out under step 1A or 1B by using the following formula:

\[
\frac{\text{Daily price in AUD}}{(\text{Return} + 1)^{\text{time}}}
\]

where:
Part 3  Reference price method

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**daily price in AUD** is the daily price in Australian dollars.

**return** is the “yields per cent per annum” for corporate bonds with 1 to 5 years maturity and a BBB rating, as published by the Reserve Bank of Australia, on the day that is closest to the date when the reference price is being worked out.

Note: At the commencement of this section, the annual yield were accessible at http://www.rba.gov.au/statistics/tables/ under the heading “Capital Market Yields and Spreads—Non-government Instruments—F3”.

**time** is the number of days between the trade day of the unit and the date for delivery of the unit, according to the contract under which the unit is traded, divided by 365.

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**Step 2** Add together the amount worked out under step 1 for each of the trade days in the designated 6-month period.

**Step 3** Divide the amount worked out in step 2 by the total number of trade days for the unit in the designated 6-month period.

**Step 4A** For each type of unit, within a class of units, that were surrendered in relation to the most recent financial year for which data is available, work out the percentage share of the type of units, using the following formula:

\[ \frac{\text{Number in type}}{\text{Number in class}} \times 100\% \]

where:

**number in class** is the number of units within that class of units that were surrendered.

**number in type** is the number of units within that type of units that were surrendered.

Example: In the most recent financial year, 4 type A units, 16 type B units and 80 type C units were surrendered. The percentage share of those different types of units is 4% (i.e. \( \frac{4}{4 + 16 + 80} \times 100\% \)), 16% (i.e. \( \frac{16}{4 + 16 + 80} \times 100\% \)) and 80% (i.e. \( \frac{80}{4 + 16 + 80} \times 100\% \)).
Step 4B  Disregarding any type of units that has a percentage share of less than 5% (as worked out in step 4A), again work out the percentage share of the remaining types of units using the following formula:

\[
\frac{\text{Number in type} \times 100\%}{\text{Number in class} - \text{Number disregarded}}
\]

where:

- **number disregarded** is the number of units of any type that have a percentage share of less than 5% (as worked out under step 4A).
- **number in class** is the number of units within the class of units.
- **number in type** is the number of units within the type of units.

Example: Disregarding the type A units with the 4% share of the total number of units, the percentage share of the remaining types of units is 16.67% for type B (i.e. \(16 \times 100\% \div [100 - 4] = 16.67\%\)), and 83.33% for type C (i.e. \(80 \times 100\% \div [100 - 4] = 83.33\%\)).

Step 5  For each type of unit, multiply the amount worked out under step 3 by the percentage share worked out under step 4A or 4B.

Example: For the 16 units that were traded at $14, the result is $2.33 (i.e. \$14 \times 16.67\% = \$2.33\)). For the 80 units that were traded at $15, the result is $12.50 (i.e. \$15 \times 83.33\% = \$12.50\)).

Step 6  Add together the amount worked out under step 5 for each type of unit, and round the result to 2 decimal places.

The result is the **reference price** for the class of units for the designated 6-month period.

Example: The reference price is $14.83 (i.e. \$2.33 + \$12.50 = \$14.83\)).