SGM scenario modelling

Insights, results, and methods

Climate Change Authority

Final Report **November 2026**

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EY Parthenon Strategy

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Ernst & Young ("EY") was engaged on the instructions of the Climate Change Authority ("Client") to undertake Analysis of potential changes to Safeguard Mechanism ("SGM") settings ("Project"), in accordance with the engagement agreement and work order signed 27 May 2026.

The results of EY's work, including the assumptions and qualifications made in preparing the report, are set out in this EY report dated November 2026 ("Report"). The Report should be read in its entirety, including the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report.

EY has prepared the Report for the benefit of the Client and has considered only the interest of the Client. Accordingly, EY makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes.

Our work commenced in May 2026 and the modelling was completed in August 2026. No further modelling has been undertaken by EY since that date to update it. Therefore, our Report does not take account of events or circumstances arising after this completion date and we have no responsibility to update the Report for such events or circumstances arising after that date.

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The analysis and Report do not constitute a recommendation on a future course of action.

Readers are advised that the outcomes provided are based on many detailed assumptions underpinning the scenarios, and the key assumptions are described in the Report. The modelled scenarios represent a range of possible future options for the development and operation of the Safeguard Mechanism and Australian Carbon Credit Unit (SGM-ACCU) market, and it must be acknowledged that many alternative futures exist. Alternative futures beyond those presented have not been evaluated as part of this Report.

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- **Context**
- Summary of results and key findings
- Sensitivity analysis
- Modelling assumptions and methodology

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This report summarises the outputs from EY-PS analysis of SGM policy options using the EY-CARBON-VIEW model

Context

- The Australian Government is conducting a review of Safeguard Mechanism (SGM) settings, including:
  - The 2031-2035 decline rate for baselines
  - Whether the scheme is appropriately incentivising on-site abatement
  - Scheme coverage arrangements
- The Climate Change Authority (CCA) has been asked to provide advice on potential reforms as part of the SGM Review process
- To understand the potential impacts and effectiveness of potential reform options the CCA engaged EY-Parthenon Strategy (EY-PS) to analyse options using the EY-CARBON-VIEW model, developed by the EY Net Zero Centre
  - The specific options analysed were developed by EY-PS in consultation with the CCA to illustrate the effects of potential changes to policy settings. The options are stylised and do not seek to represent detailed policy proposals.
  - The analysis aims to capture complex interactions between long-term investment decisions made by both SGM facilities and ACCU project proponents. As with any modelling exercise, this involves a number of simplifying assumptions and limitations (see slide 6 and slides 41-47 for more details)
- This Report presents key findings and insights from that analysis under a range of scenarios, reflecting different contexts and assumptions
- The results presented are general in nature and should not be interpreted or relied on as financial advice

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This document presents modelled SGM and ACCU market outcomes from four potential policy changes

Overview of modelling approach

Four potential policy changes have been modelled relative to current policies

1. **Higher decline rates** of 5-7% to 2035 to align to Australia's 2035 and 2050 net emissions reduction targets
2. **Capping ACCUs** facilities can use to meet their SGM obligations at 30-50% of their pre-SGM facility baseline
3. **'Discounting' ACCUs** so that meeting 1 tonne above baseline obligation requires 1 SMC, but 1.25-1.5 ACCUs
4. **Effects on SGM of additional methane abatement** as a result of mandating adoption of specific methane abatement technologies

Results presented here focus on a central supply and demand context, with no other policy changes

Central context

- **Compliance demand** includes announced facility closures / entries, but otherwise stable production
- **ACCU supply** from existing methods, w/ long run land sector abatement potential from LUTO model
- **No other policy change**, incl. e.g. to cost containment threshold

Alternative contexts also modelled

- **Lower compliance demand** with no new fossil fuel projects combined with **more low-cost ACCU supply**
- **Revised cost containment settings** growing at CPI+6% from 2028

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Modelling can provide useful insights into SGM-ACCU market dynamics and likely broad outcomes, but precise actual effects of policy variations remain uncertain

Modelling approach and limitations

Modelling aims to capture complex market dynamics

- The model was developed by the EY Net Zero Centre and used for NZC publications and EY-PS client engagements
- The modelling framework represents the complex interactions and dynamics that drive SGM and ACCU outcomes, reported as scenario projections
- The framework is based on current SGM and ACCU policy settings, published data on covered facility emissions, information and estimates on sector-relevant international abatement options and costs, and long run land sector abatement potential from the CSIRO LUTO model
- The model represents the behaviour and financial decision making of forward-looking facilities and ACCU suppliers with good but not perfect information and foresight
  - This includes decisions on abatement investment and the timing of SMC supply to the market (where relevant)

But has inherent limitations

- The model does not identify optimal or least cost outcomes, but instead reflects current and potential future dynamics and commercial incentives
  - Modelled outcomes are very sensitive to forward price expectations, which have a significant impact on investment decisions and credit purchases
- The modelling does not assess the effects of compliance obligations on facility production or profits, and assumes production levels are determined by external circumstances
- A key finding from the modelling is that credit prices are very sensitive to small variations in supply and demand balance, which is shaped in turn by a large number of inputs and assumptions
  - This implies specific scenario results should be treated as indicative, with close attention to sensitivity analysis to assess the effects of different assumptions

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Most modelled policy options drive net emissions reductions consistent with the 2035 target, with options that increase on-site abatement also raising costs

Summary of results and key findings[1]

- **Baseline decline rates ~5-7% p.a. 2031-35 would be consistent with meeting a proportional share of the 62-70% emissions reduction target for 2035**
  - Higher decline rates increase ACCU prices and the system-wide abatement incentive to around ~$100/t, with cost containment settings (CCM) projected to bind from the mid-to-late 2030s for up to 5 years, and higher abatement volumes lifting total costs by ~5-10% from 2031-40 (vs. a 3.285% decline rate)
  - Higher rates also increase both total and on-site abatement, but reduce the share achieved on-site, particularly before incentive prices rise more strongly
- **All modelled policy options that increase on-site abatement also increase compliance costs to varying degrees**
  - **Capping facility-level ACCU use** at 30-50% of pre-obligations emissions can increase on-site abatement by up to ~20% from 2031-40 (relative to no ACCU cap), but also sees costs increase up to 3x and substantial projected abatement shortfalls – potentially risking SGM function
  - **Discounting ACCUs** by 1.25-1.5 is projected to deliver up to ~5-10% more on-site abatement and ~10-15% more net abatement from 2031-40, while increasing costs ~15-80% (relative to no ACCU discounting). A 1.5 discount could also see abatement shortfalls when combined with 7% decline rates
  - **Technology mandates for methane abatement** could be used in different ways to support adoption:
    - **Regulating lower-cost methane abatement** technologies could increase confidence in their uptake with relatively limited projected cost impacts
    - **Mandating higher-cost abatement** that is uneconomic under current SGM settings but might be considered cost-effective if methane's higher short-term climate forcing is accounted for. While net SGM emissions would not change, this could reduce methane emissions ~20%, increase costs for fossil fuel sectors by ~2x, and reduce costs for other sectors by ~10% over 2031-40 (given model assumptions on availability and cost of methane abatement)
- **The analysis also considers alternative contexts, including a higher cost containment trajectory and alternative low price outlook**
  - **The underlying low price outlook** assumes ~50% more low-cost ACCU supply and lower facility production than the central medium-high price scenario, and sees lower credit prices and higher shares of off-site abatement from around 2040
  - **Current cost containment** settings help manage potential ACCU price spikes and the risk of excessive costs, in the context of a maturing market. Analysis of a higher CCM trajectory finds this could have less impact on long-term price discovery and reduce net government expenditure, while still making some contribution to managing price risks, but the higher trajectory does not have significant impacts on near-term on-site abatement in the scenarios assessed

1. Unless otherwise noted, all figures are for 2031-40, and are reported in real 2025 dollars.

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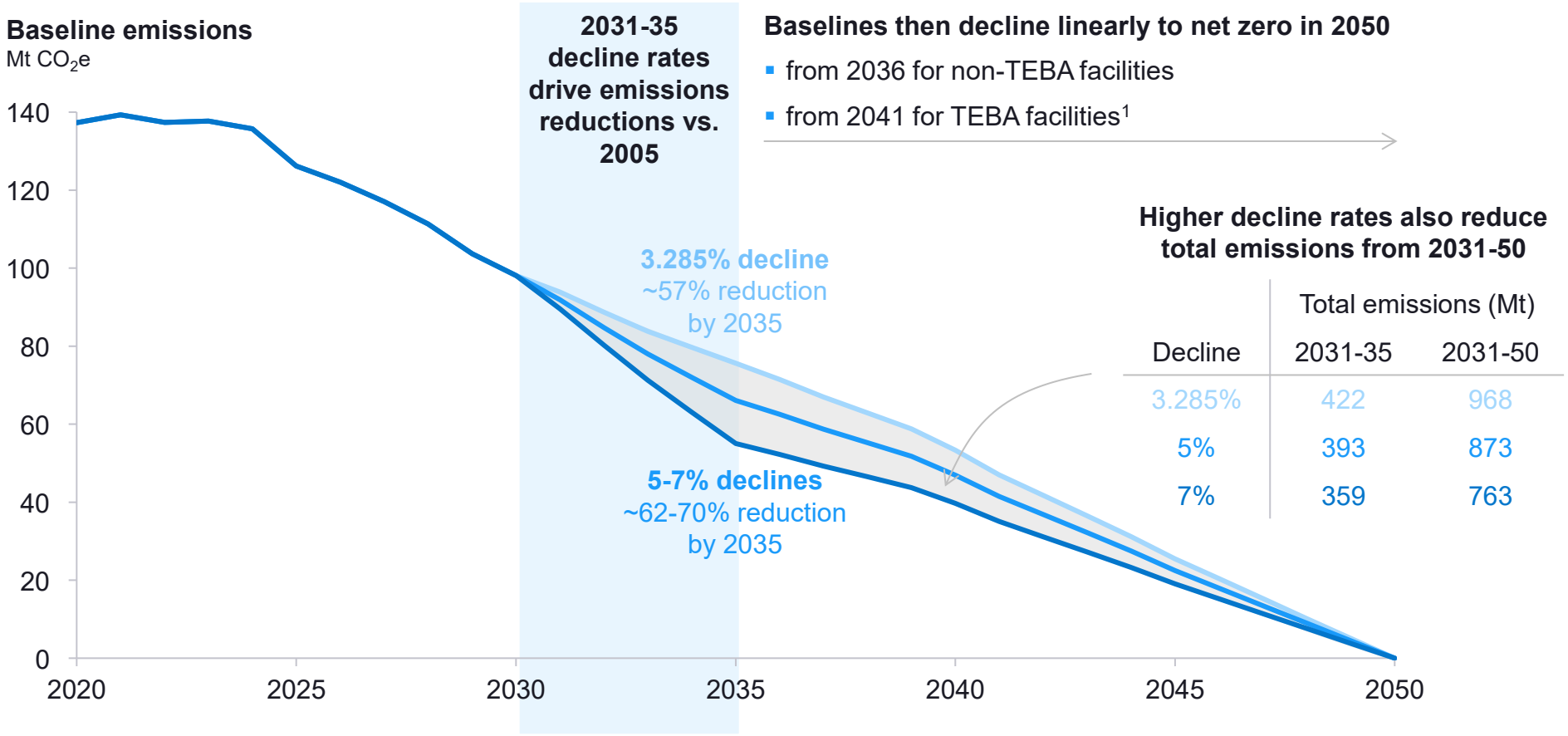
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  - Methane regulation
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- Modelling assumptions and methodology

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Increasing 2031-35 decline rates reduces 2035 emissions and total emissions to 2050, while still reaching net zero in 2050

1 **Decline rates** | Overview



Higher decline rates also reduce total emissions from 2031-50

	Total emissions (Mt)	
Decline	2031-35	2031-50
3.285%	422	968
5%	393	873
7%	359	763

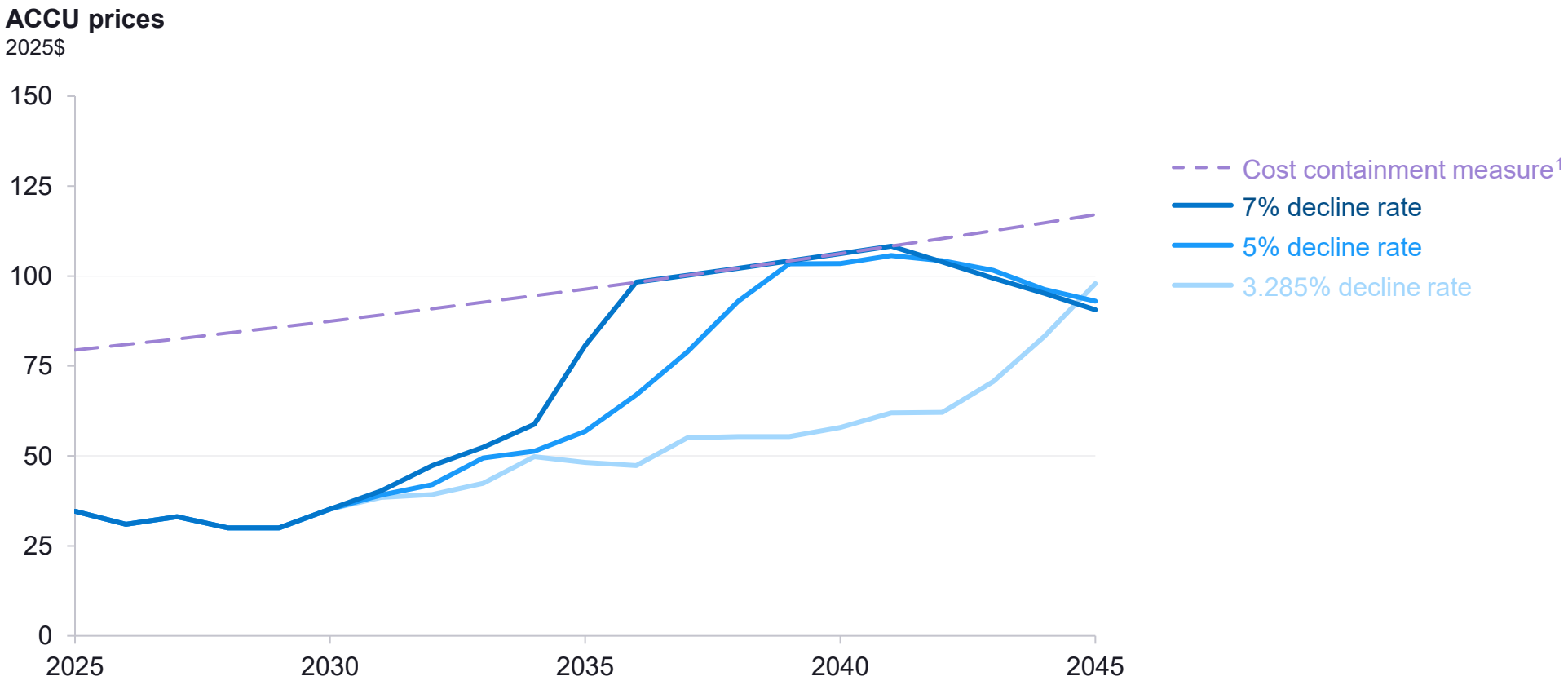
1. TEBA facilities continue under the 2031-35 rules to 2040 (i.e. receive discounts vs. the 2031-35 non-TEBA decline rates, where these are more advantageous than linear decline)

Source: EY-CARBON-VIEW model (July 2026)

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Baseline decline rates of 5-7% p.a. lift abatement incentives from $50-60/t to ~$100/t, with the cost containment measure binding from the mid-to-late 2030s

1 **Decline rates** | Impact on ACCU prices



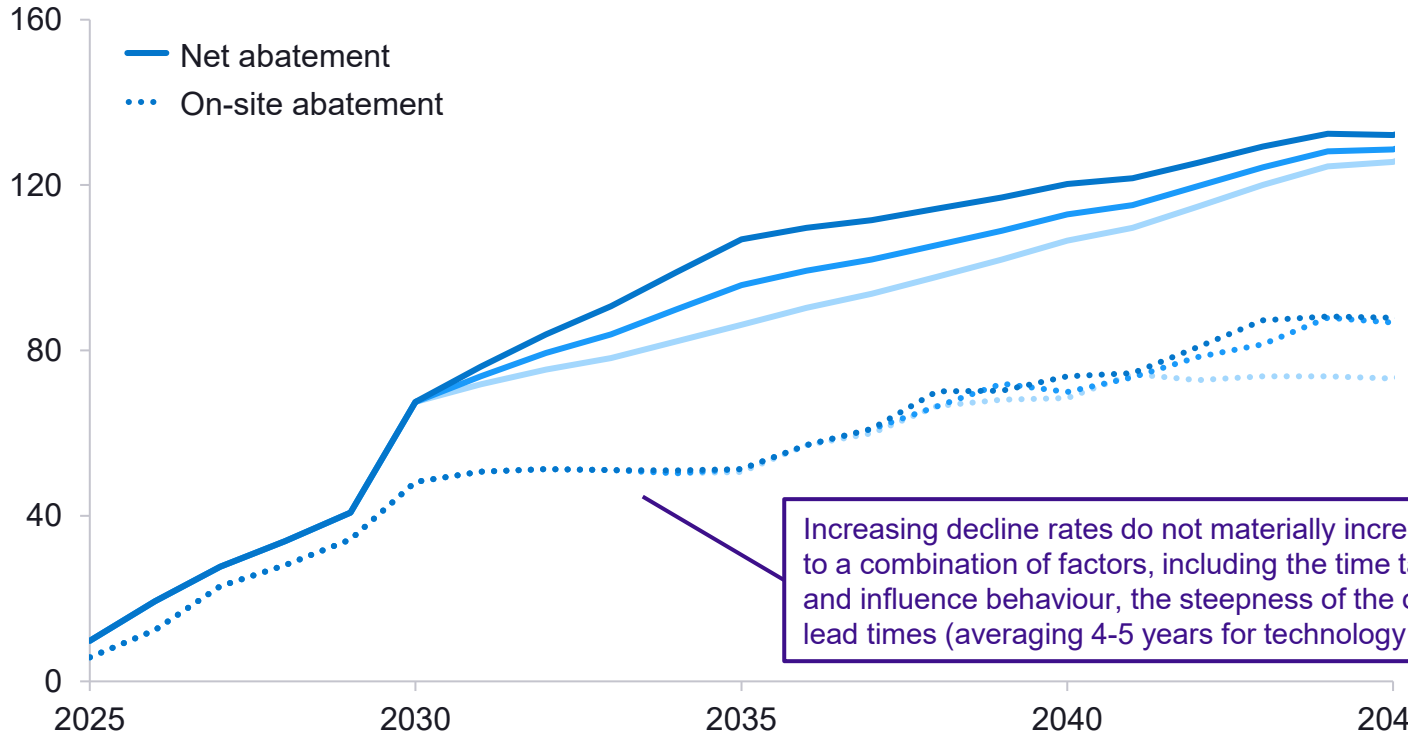
1. Modelling assumes Government defends cost containment by purchasing ACCUs in advance and selling at a threshold that rises at CPI+2% p.a. This may not necessarily reflect Government policy.
Source: EY-CARBON-VIEW model (July 2026)

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Higher decline rates increase total and on-site abatement, but see lower *shares* of on-site abatement – particularly in the near term before incentive prices rise

1 **Decline rates** | Impact on net and on-site abatement

Net and on-site abatement
Mt CO_2e p.a.



Decline rate	On-site share 2031-35	On-site share 2036-40
7%	56%	58%
5%	60%	62%
3.285%	65%	65%

Increasing decline rates do not materially increase on-site abatement before 2035. This is due to a combination of factors, including the time taken for higher price expectations to emerge and influence behaviour, the steepness of the on-site MACC curve, and long implementation lead times (averaging 4-5 years for technology switching, and sometimes longer)

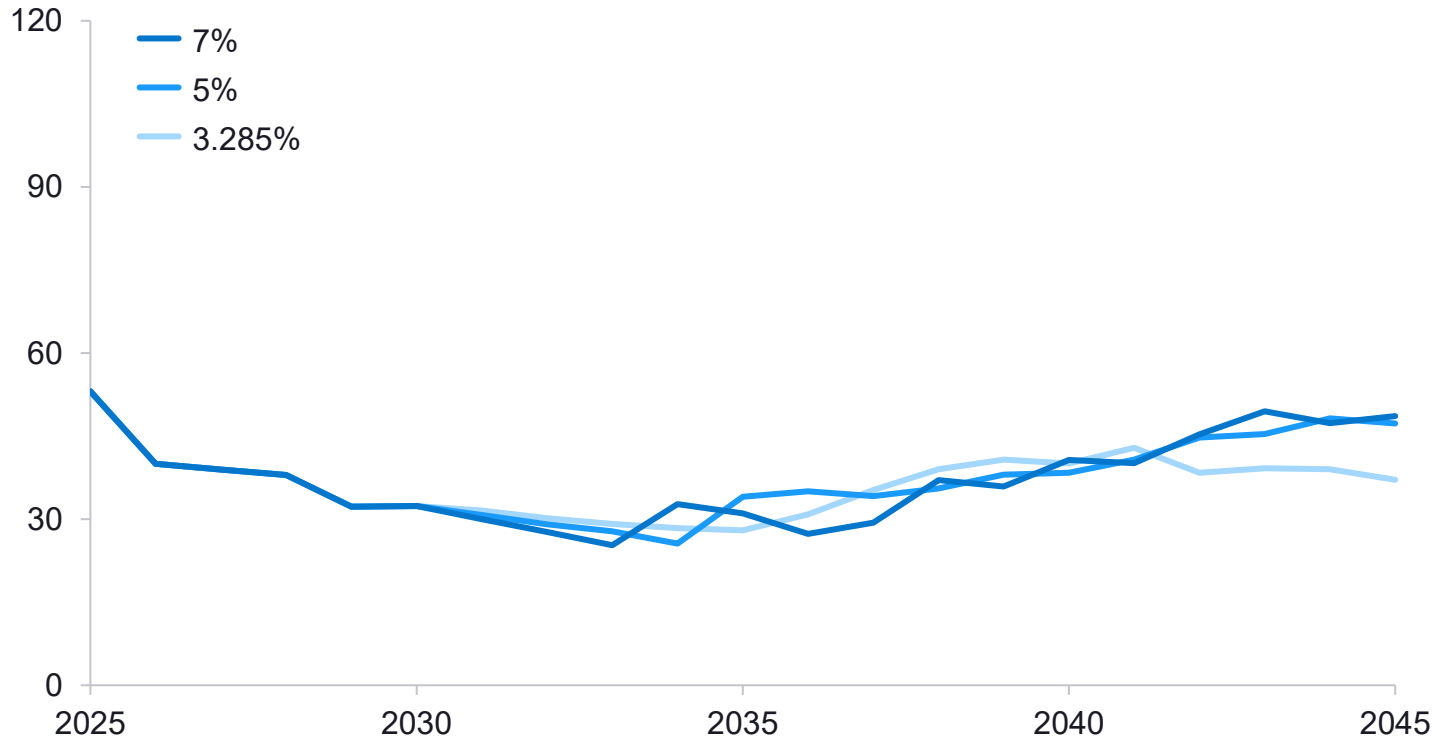
Source: EY-CARBON-VIEW model (July 2026)

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While higher decline rates have little impact on average compliance costs, larger abatement volumes drive higher total costs

1 **Decline rates** | Impact on compliance costs

Average compliance cost per tonne of abatement
2025$ / t CO_2e



- Average compliance costs per tonne trend up from ~2035 but do not vary widely across decline rates[1]
- But depending on decline rate, higher abatement volumes increase total compliance costs by 6-11% on average over 2031-40

1. Average costs initially decline as abatement volumes scale, then trend up as marginal abatement costs rise.
Source: EY-CARBON-VIEW model (July 2026)

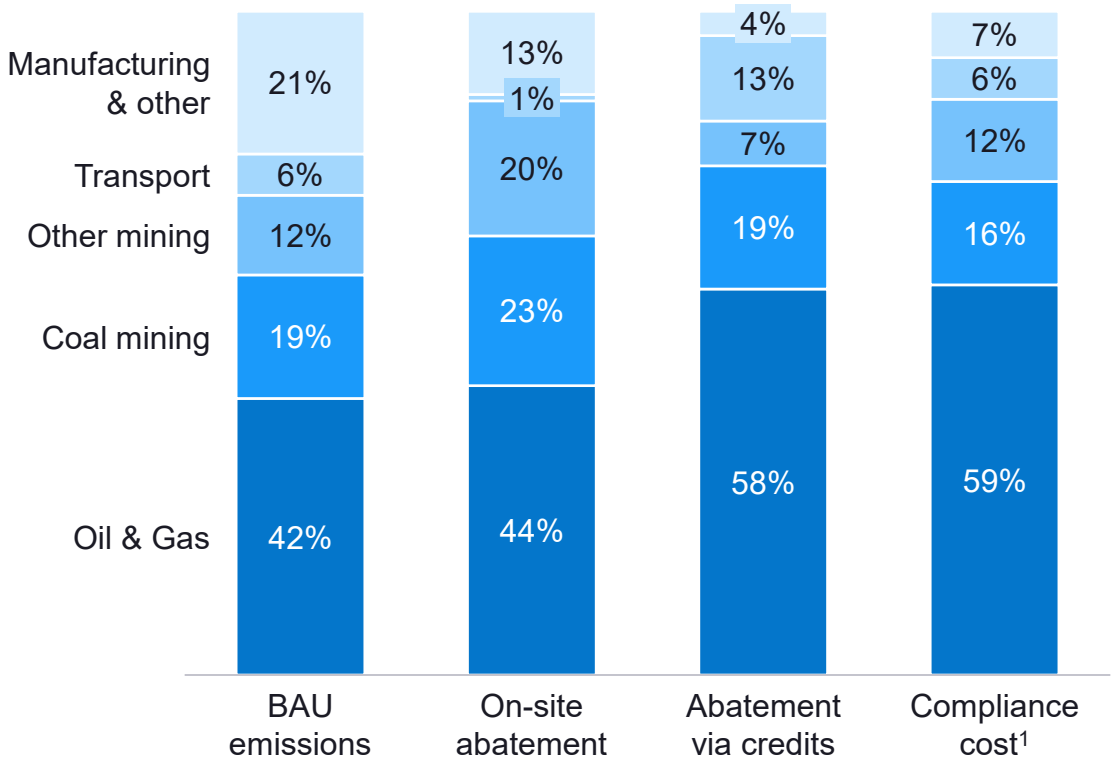
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Most BAU emissions, abatement demand and compliance costs are from extractive industries, while manufacturing benefits from TEBA in the near term

Decline rates | Sectoral distribution of emissions, abatement, and compliance costs, 2031-35

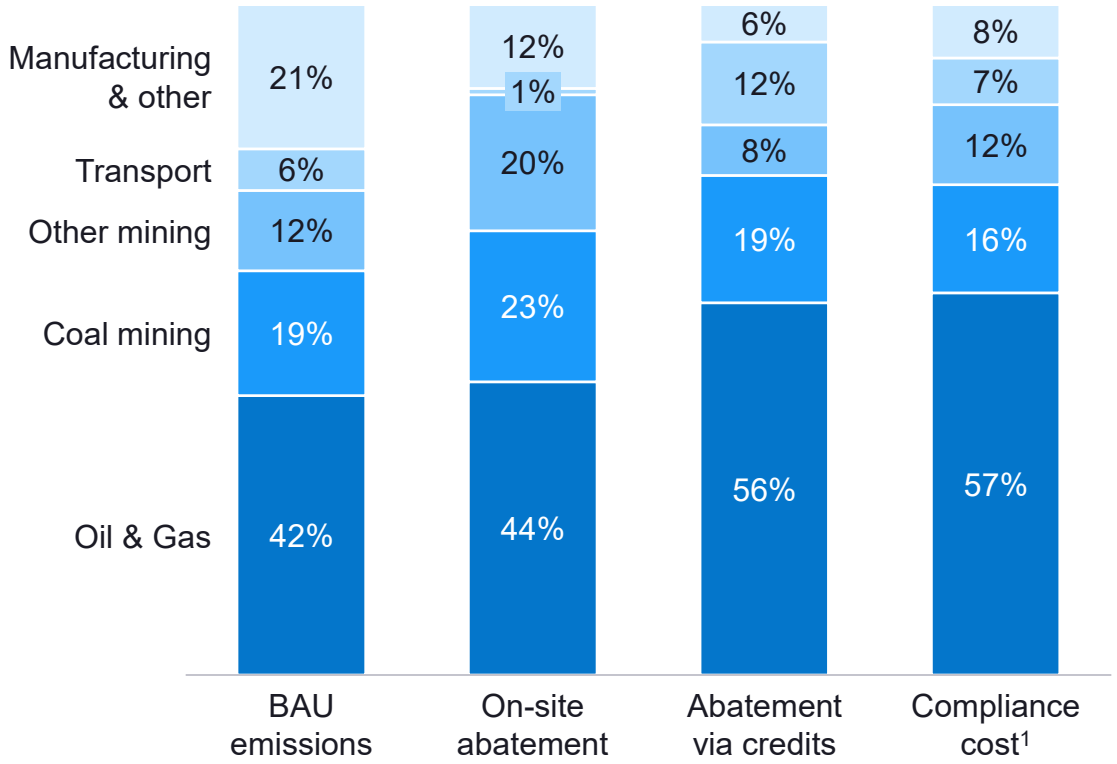
Oil and gas facilities face proportionally higher abatement demand, while manufacturing benefits from TEBA exemptions in the near term

Emissions, abatement, and compliance costs – 5% decline rate (%)



Higher decline rates do not shift the distribution of abatement demand or compliance costs materially

Emissions, abatement, and compliance costs – 7% decline rate (%)



1. Sectoral compliance costs include the value of credits at market prices (see slides 46-47).
Source: EY-CARBON-VIEW model (July 2026)

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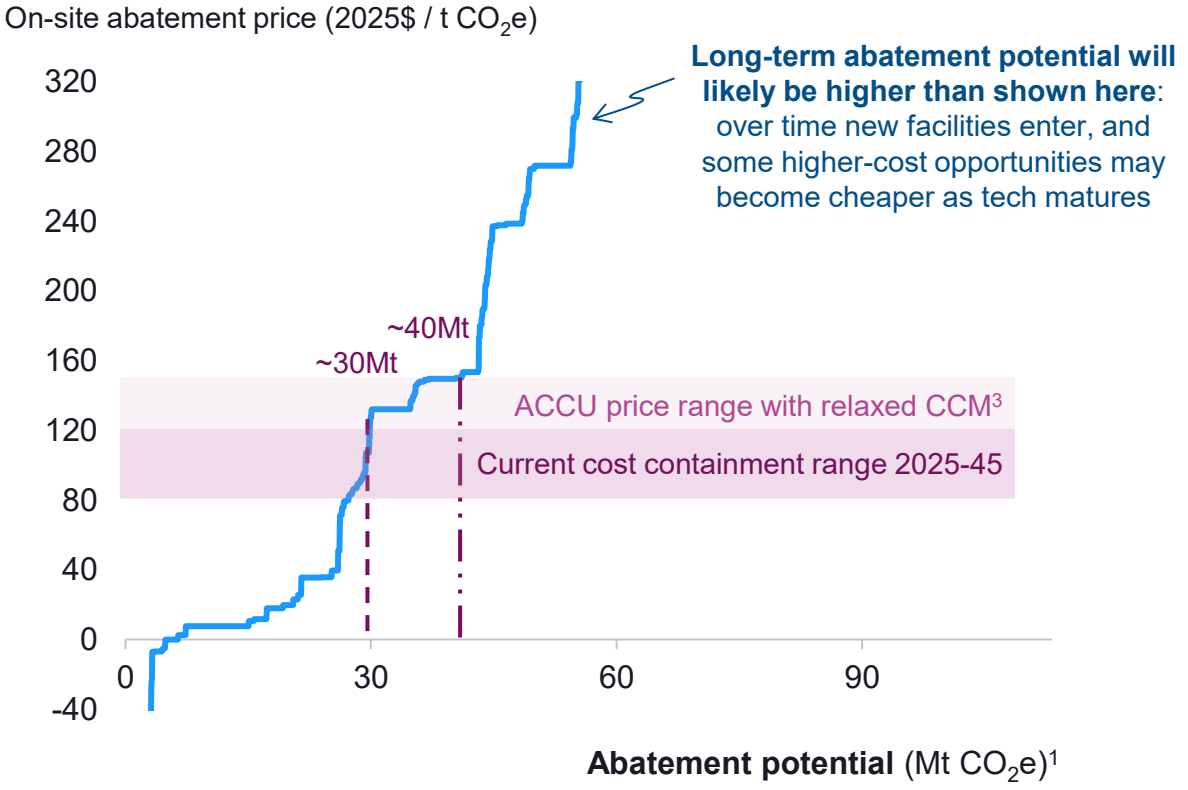
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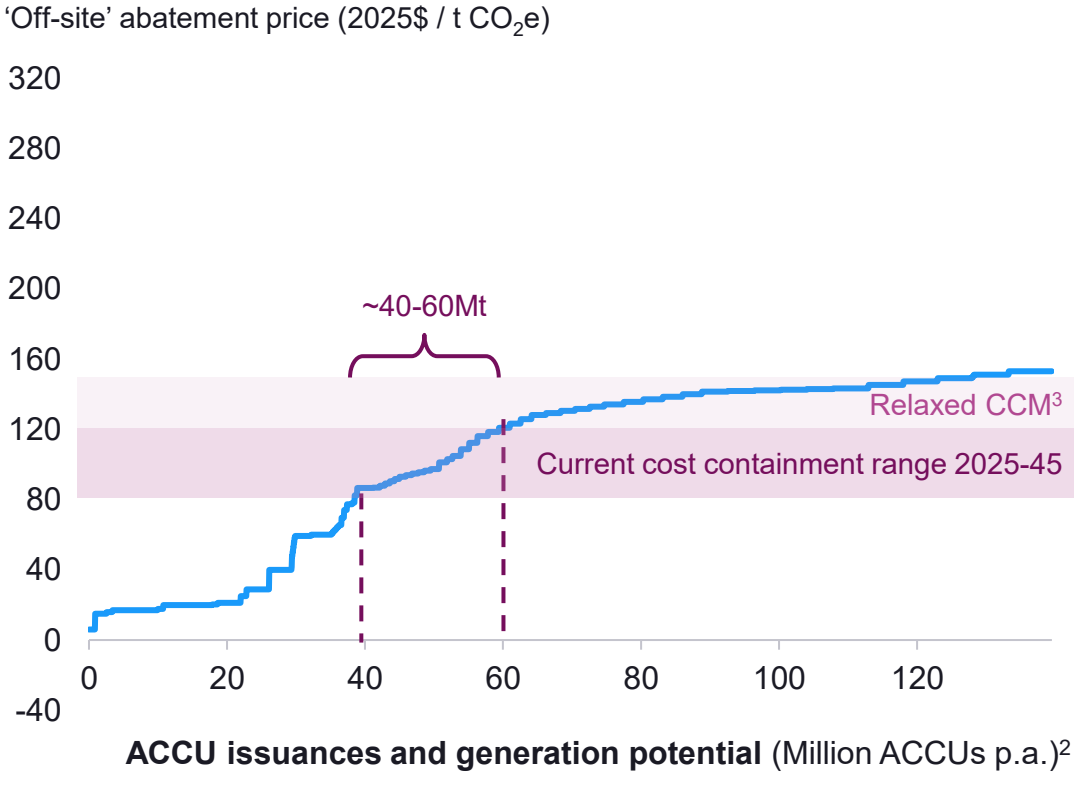
ACCUs account for up to two thirds of early cost-effective abatement potential, and will thus account for a large share of abatement under current settings

2 **Context** | Estimated on-site MACC and off-site ACCU abatement potential

~30Mt of early on-site abatement potential is available at incentive prices consistent with existing cost containment settings



Total potential ACCU supply within the same price range is ~40-60Mt – and there is significant additional potential below $200/t



1. Reflects pre-SGM reform abatement potential. 2. ACCU potential p.a. is average over the life of the relevant ACCU projects. 3. With relaxed cost containment settings, growing at CPI+6% p.a. from 2028, ACCU prices peak at $150/t (see slide 38).
Source: EY-CARBON-VIEW model (July 2026).

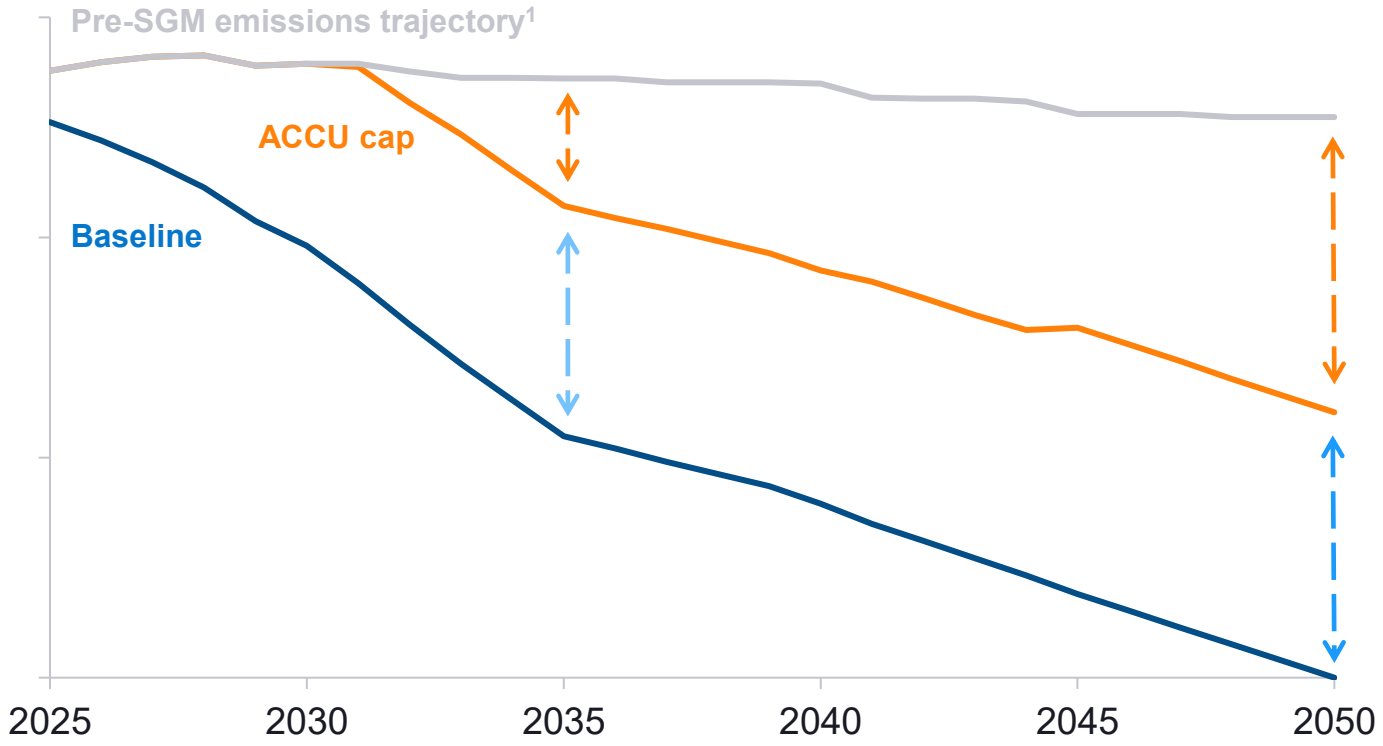
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Capping facilities' ACCU use as a percentage of pre-SGM emissions trajectories could increase on-site abatement, while still allowing some ACCU use

2 **ACCU caps** | Overview

ILLUSTRATIVE

Baselines and caps (Mt CO_2e)



- **Cap is set as a percentage of pre-SGM emissions** trajectories and implies that the **share of on-site abatement required increases over time**
- **Above cap, abatement must be delivered on-site**, either by an individual facility or by buying SMCs
- **An abatement shortfall fee** is paid if this obligation cannot be met[2]

- **Within cap, abatement can be delivered w/ ACCUs**
- **We have modelled a facility-level cap** where facilities with gross emissions below their individual caps cannot 'transfer' headroom to other facilities

1. 'Pre-SGM emissions trajectory' is equivalent to 'pre-ERC' baselines (or Baseline / Emissions Reduction Contribution). 2. Shortfall fee is paid at the cost of a Commonwealth penalty unit ($360/t in FY27) if obligations cannot be met in a given year. Assumes no additional (e.g. daily) shortfall fees, but the obligation carries over to future years.

Source: EY-CARBON-VIEW model (July 2026)

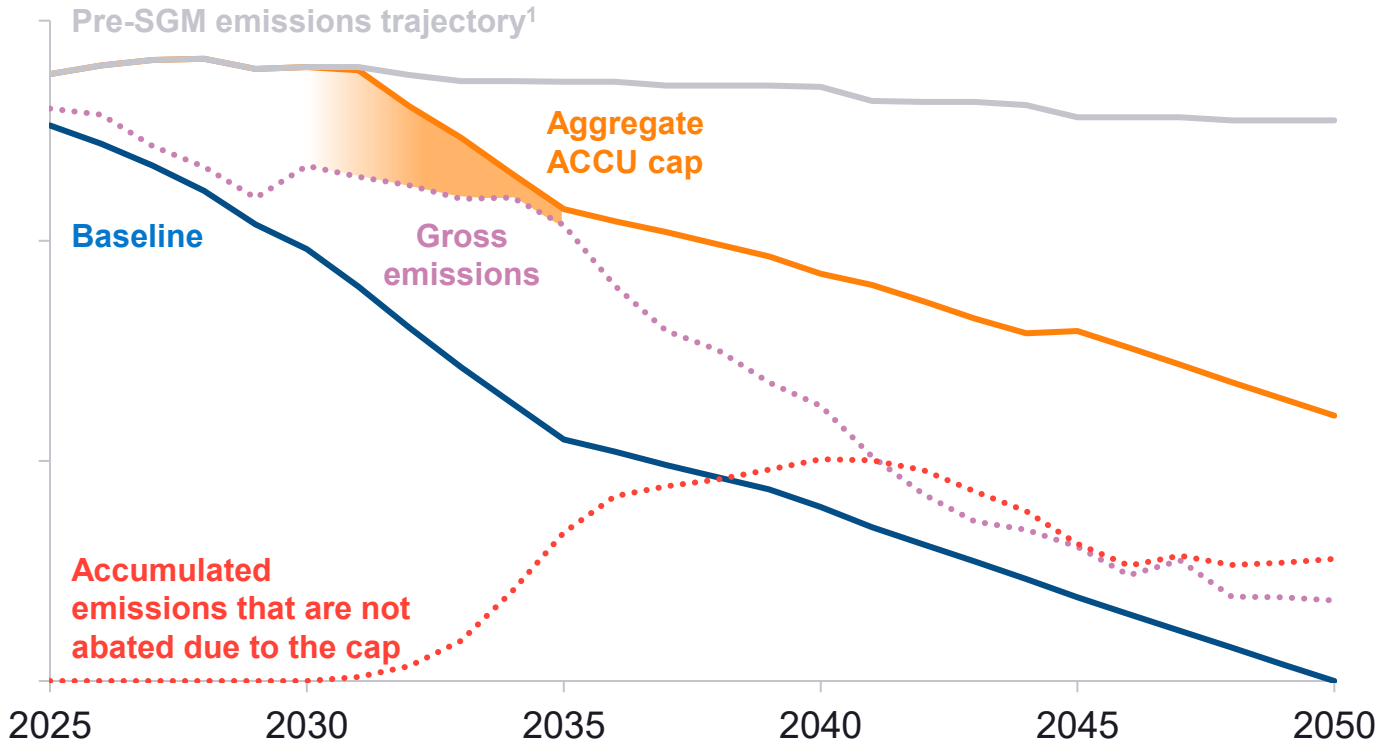
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Facility-level ACCU caps could drive significant abatement shortfalls, and risk market instability when the aggregate cap is too close to gross emissions

2 **ACCU caps** | Potential abatement shortfalls

ILLUSTRATIVE

Aggregate baselines, caps, and abatement shortfall (Mt CO_2e)



- **Facilities above their caps require SMCs** to meet their obligations, but SMC markets remain relatively thin and prices and volumes are difficult to predict
  - Facilities **below their baselines** can generate SMCs, but
    - **Volume is typically low in the early 2030s**, until SMC price signals flow through to incentivise more expensive on-site abatement
    - **Potential SMC volumes decline** again as baselines approach net zero
  - Facilities **above their baseline** (but below their cap) **do not generate SMCs**
- The resulting incentives can be **difficult for market participants to respond to** effectively
- **Material abatement shortfalls can occur under a facility-level approach** when the aggregate ACCU cap comes too close to aggregate gross emissions – reflecting a lack of technically and economically feasible on-site abatement opportunities

1. 'Pre-SGM emissions trajectory' is equivalent to 'pre-ERC' baselines (or Baseline / Emissions Reduction Contribution).

Source: EY-CARBON-VIEW model (July 2026)

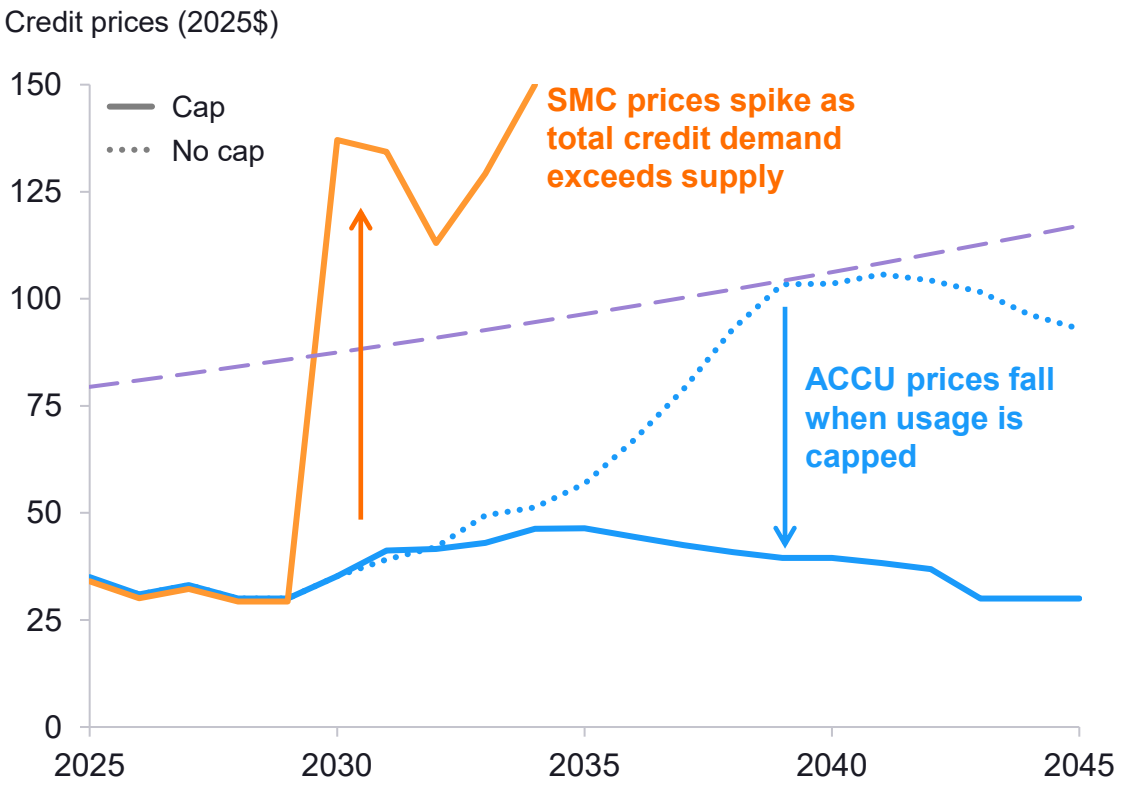
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Facility-level caps depress ACCU prices, but cause SMC prices to spike as total credit demand exceeds supply

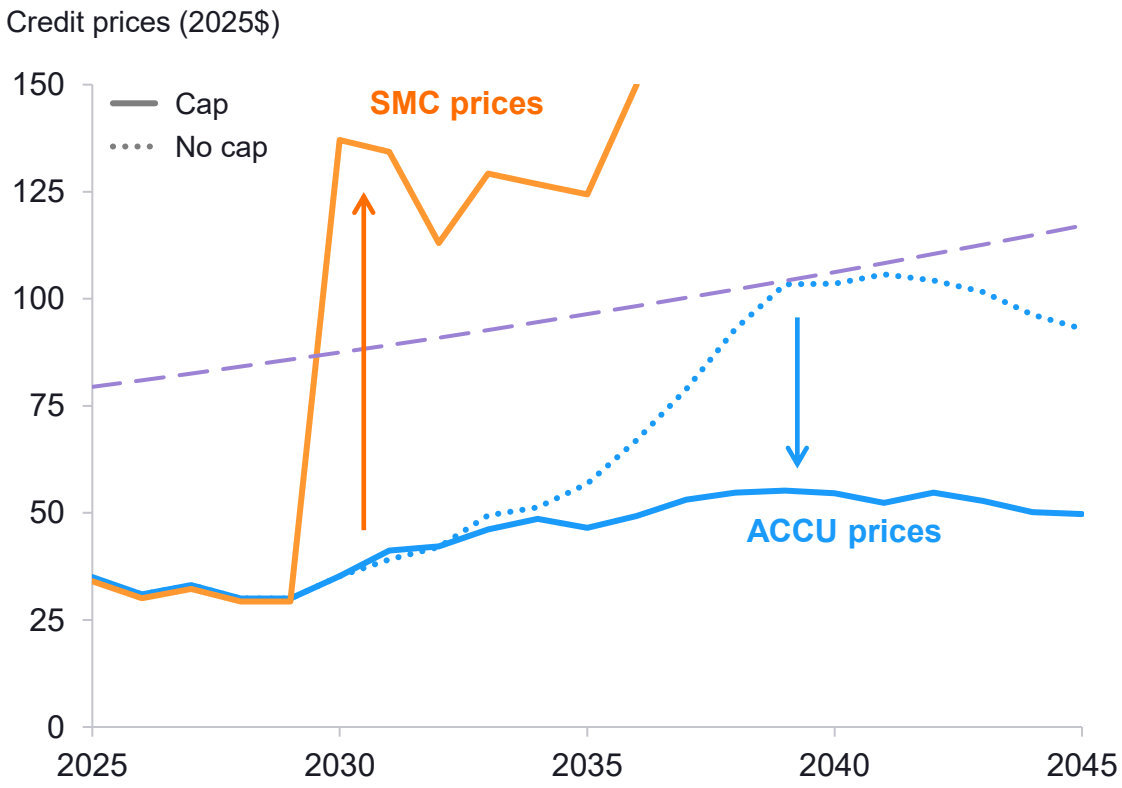
2 **ACCU caps** | Impact on credit prices

5% decline rate

A 30% ACCU cap depresses ACCU prices, but causes SMC price spikes



50% cap binds less strongly, so has weaker – but still material – effects



Note: Modelling assumes Government defends cost containment by purchasing ACCUs in advance and selling at a threshold that rises at CPI+2% p.a. This may not necessarily reflect Government policy.
Source: EY-CARBON-VIEW model (July 2026)

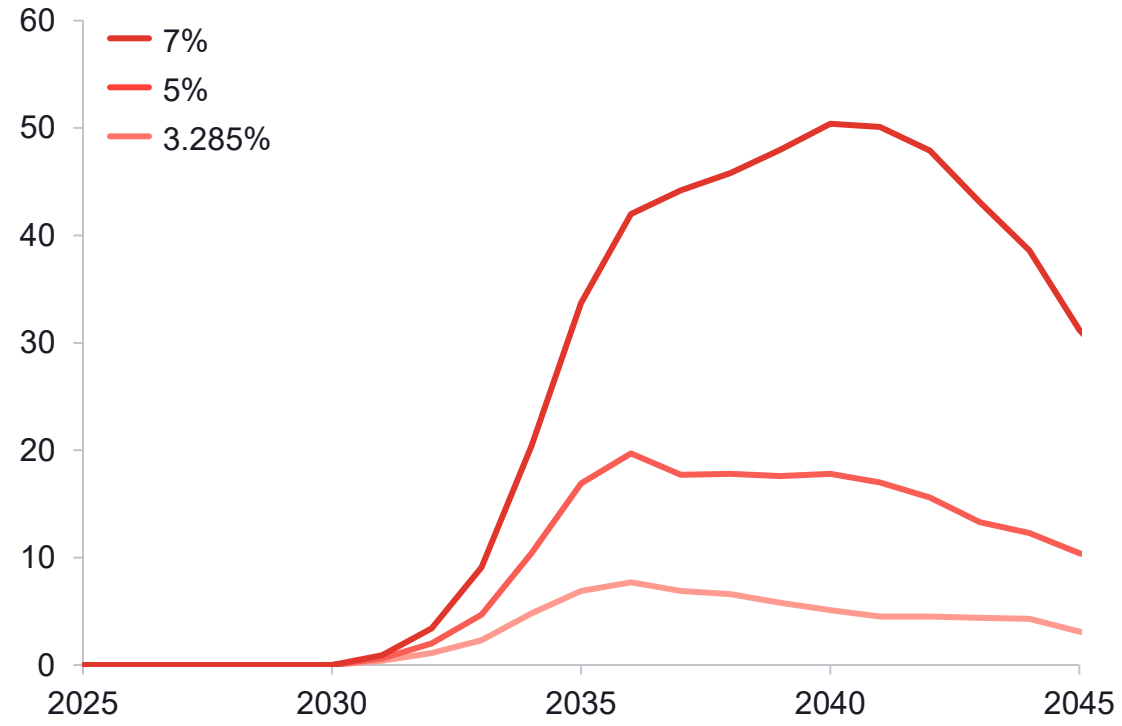
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This sees 30% and 50% ACCU caps driving significant projected abatement shortfalls, reflecting a lack of cost-effective abatement options

2 **ACCU caps** | Potential abatement shortfall

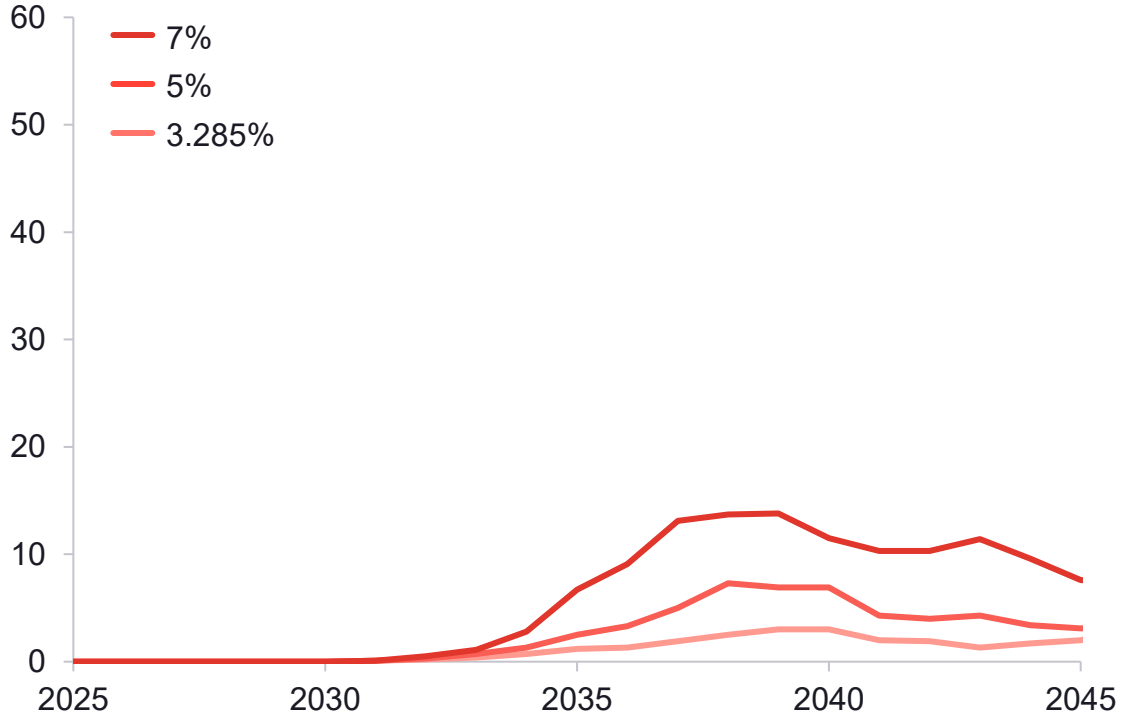
A 30% ACCU cap results in material abatement shortfalls

Accumulated abatement shortfall[1] (Mt CO_2e)



A 50% ACCU cap drives smaller – but often still material – shortfalls

Accumulated abatement shortfall[1] (Mt CO_2e)



1. Shortfall shown here excludes modelled shortfall from new facilities. The model assumes that the cap applies equally to new facilities, who are likely to be above their caps immediately (and contribute to additional abatement shortfalls) if they enter above best practice emissions intensities. In practice, these facilities may not enter without some form of exemption or transition arrangement, and Government would need to take a view on whether this is a desirable outcome.

Source: EY-CARBON-VIEW model (July 2026)

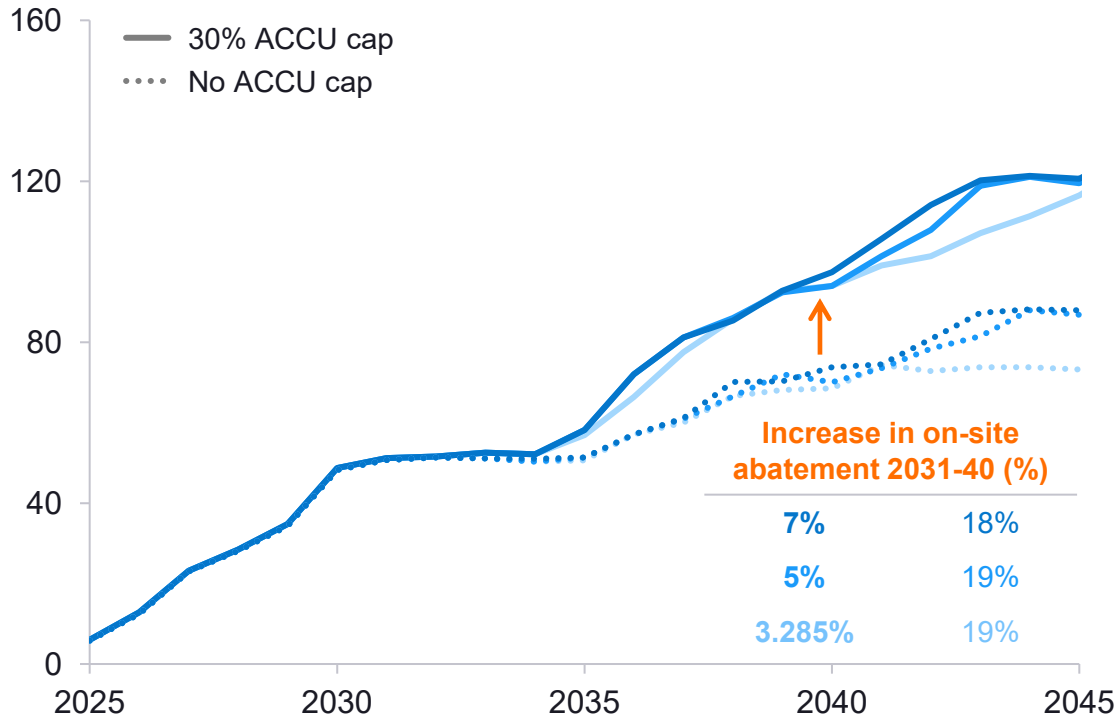
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Projected facility-level abatement shortfalls result in lower total abatement, despite higher on-site abatement from facilities that can meet their abatement obligations

2 **ACCU caps** | Impact of 30% ACCU cap on on-site and net abatement

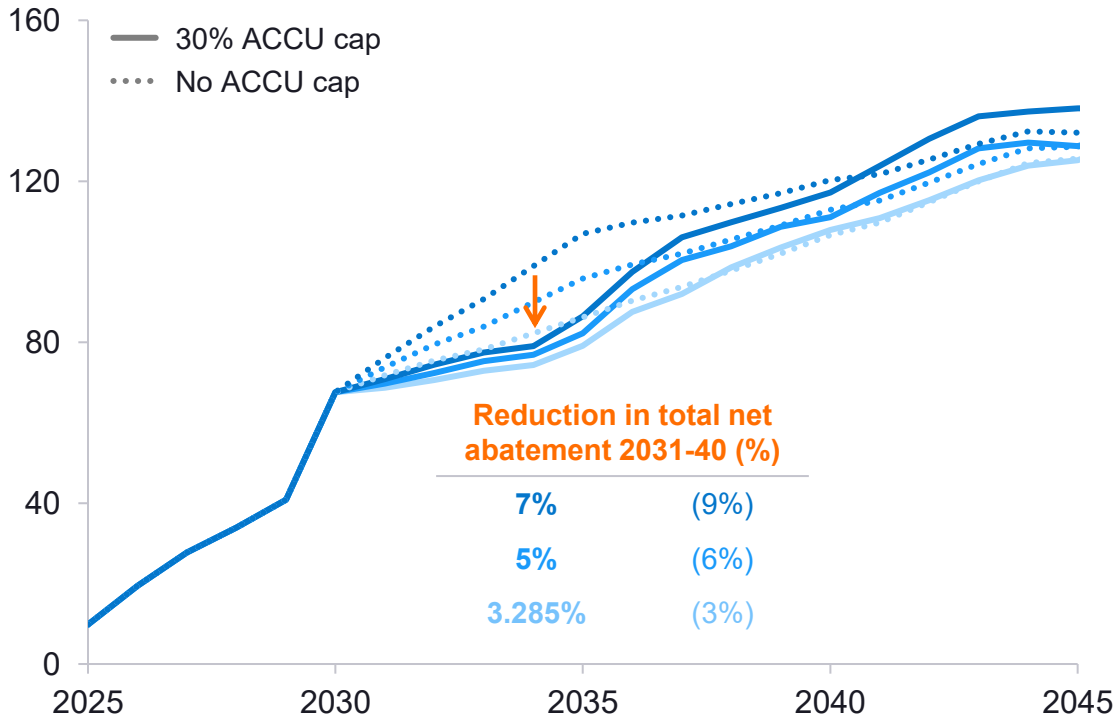
A 30% ACCU cap increases on-site abatement p.a. by ~20% from 2031-40

On-site abatement (Mt CO2e p.a.)



But shortfalls reduce total net abatement p.a. up to ~10% from 2031-40

Total net abatement (Mt CO2e p.a.)

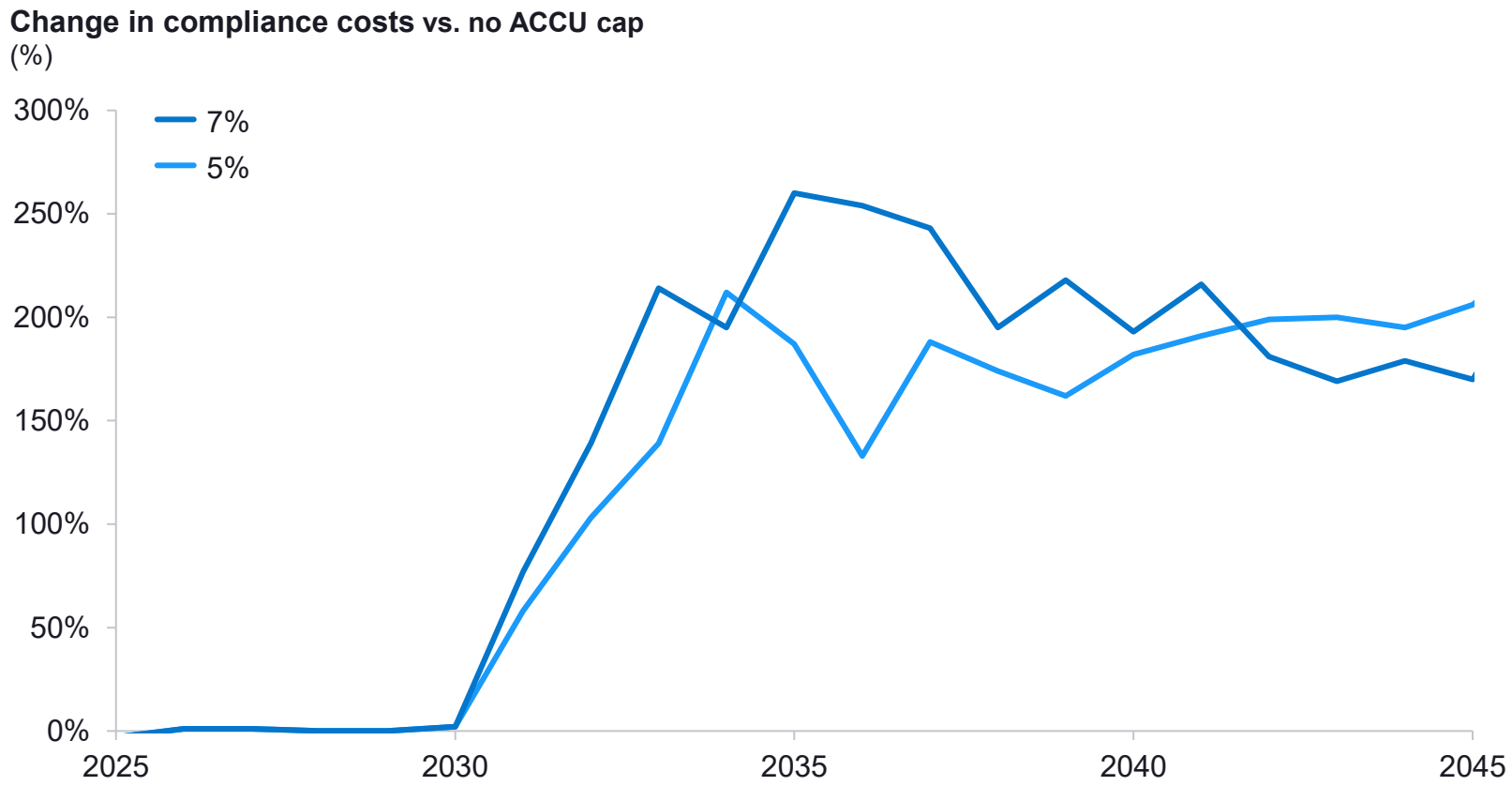


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Facility-level ACCU caps also see average compliance costs increase significantly – by 160-200% from 2031-40 for a 30% cap

2 **ACCU caps** | Impact of 30% ACCU cap on costs



Source: EY-CARBON-VIEW model (July 2026).

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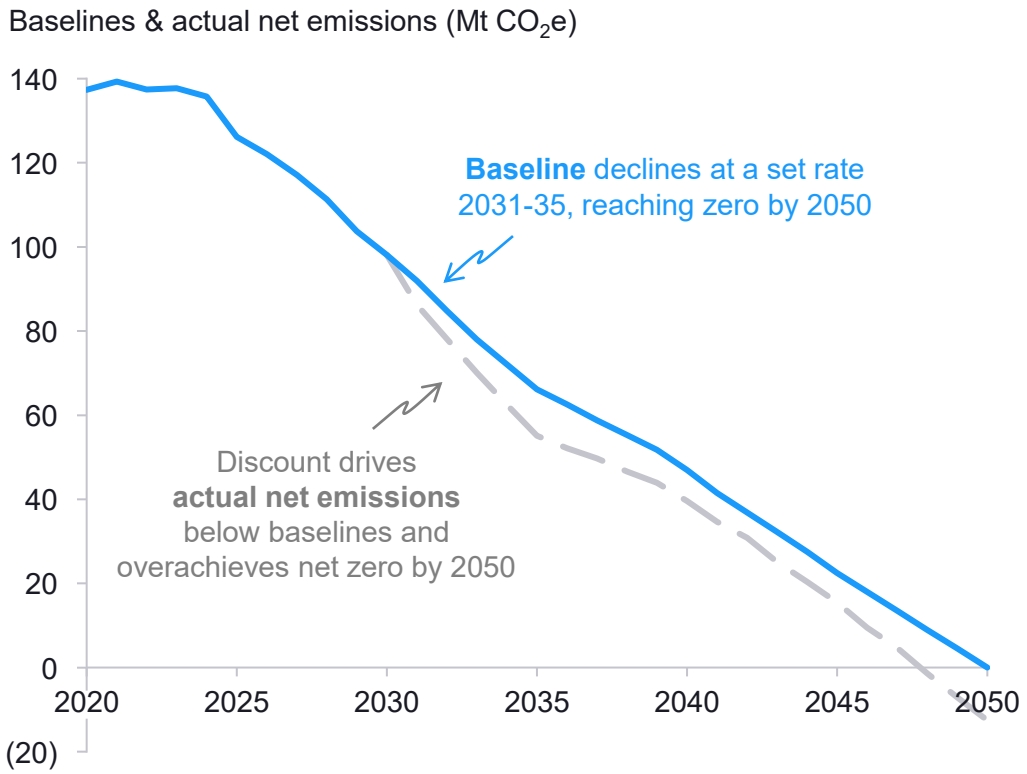
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  - Methane regulation
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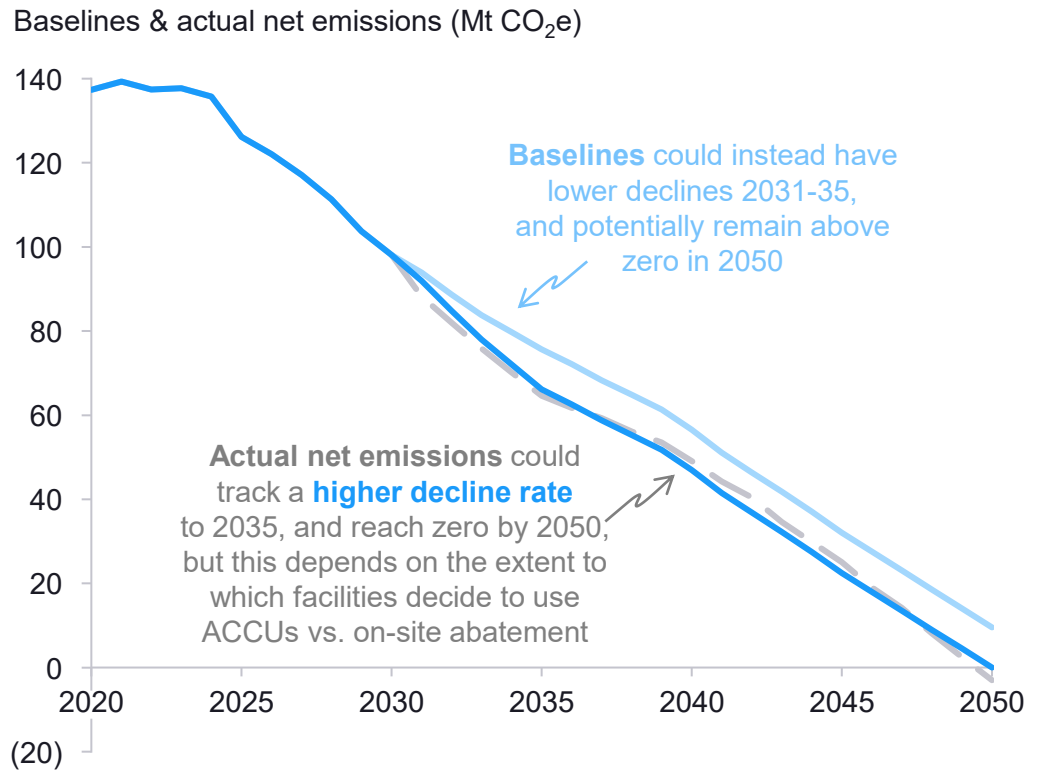
Discounting ACCUs requires surrendering >1 ACCU for each tonne of compliance obligation – resulting in more net abatement than set by headline SGM baselines

3 **ACCU discounting** | Impact on net emissions across decline rates

Discounting ACCUs can 'over-deliver' net abatement vs. baselines from 2031 – depending on scale of continued ACCU use



Alternatively, potential over-delivery could be 'neutralised' via lower headline decline rates, but with some risk re continued ACCU use



Source: EY-CARBON-VIEW model (July 2026)

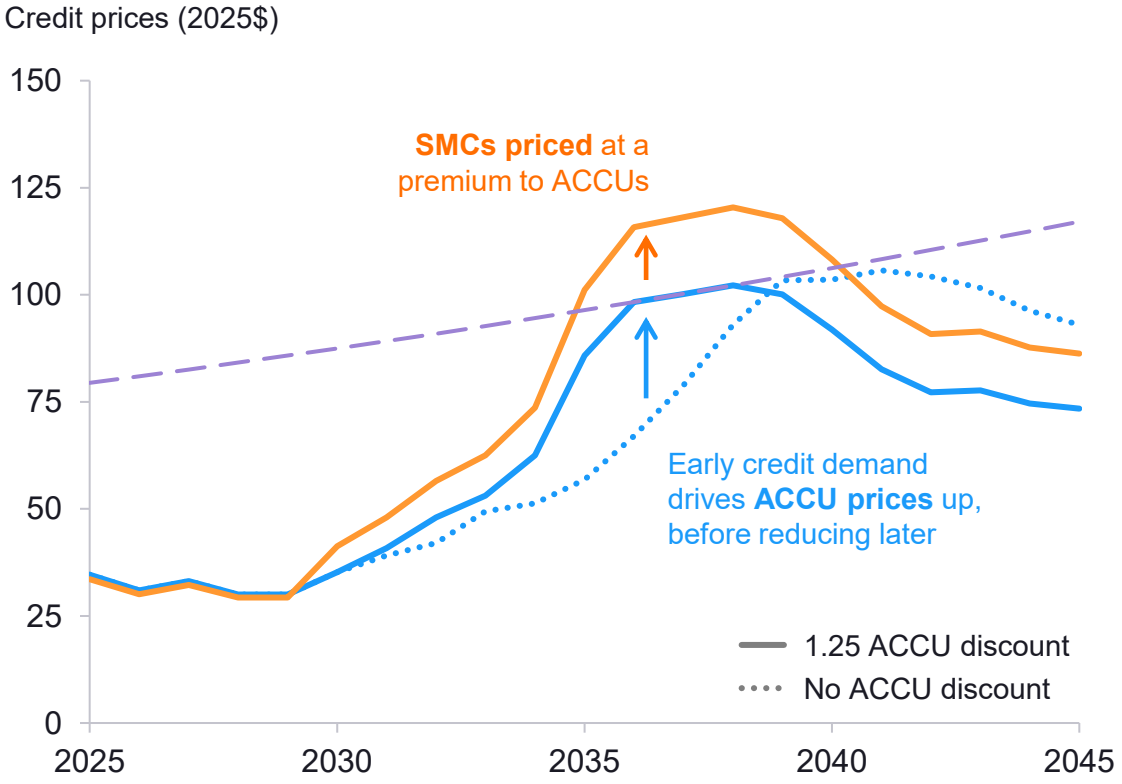
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Discounting ACCUs increases early credit demand to meet compliance obligations and lifts the value of SMCs relative to ACCUs, sharpening incentives for internal abatement

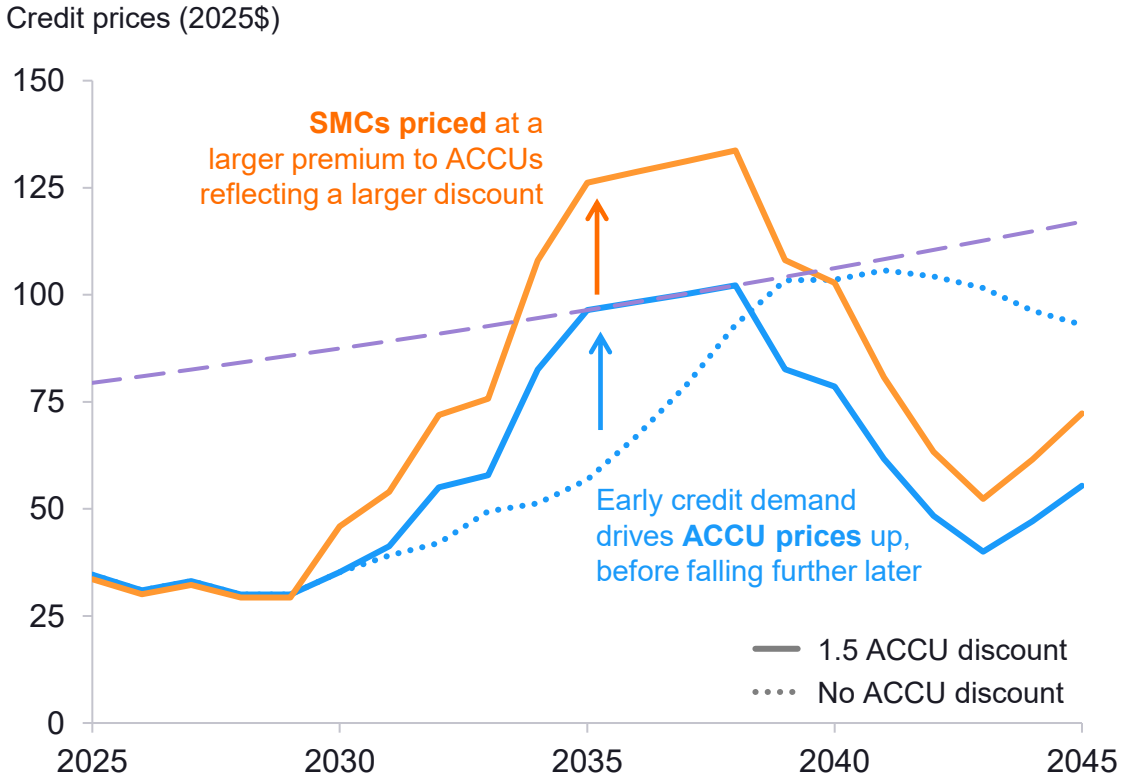
3 **ACCU discounting** | Impact on credit prices

5% decline rate

A 1.25 ACCU discount increases early credit demand and the value of SMCs relative to ACCUs



A 1.5 ACCU discount drives higher early demand and SMC premiums



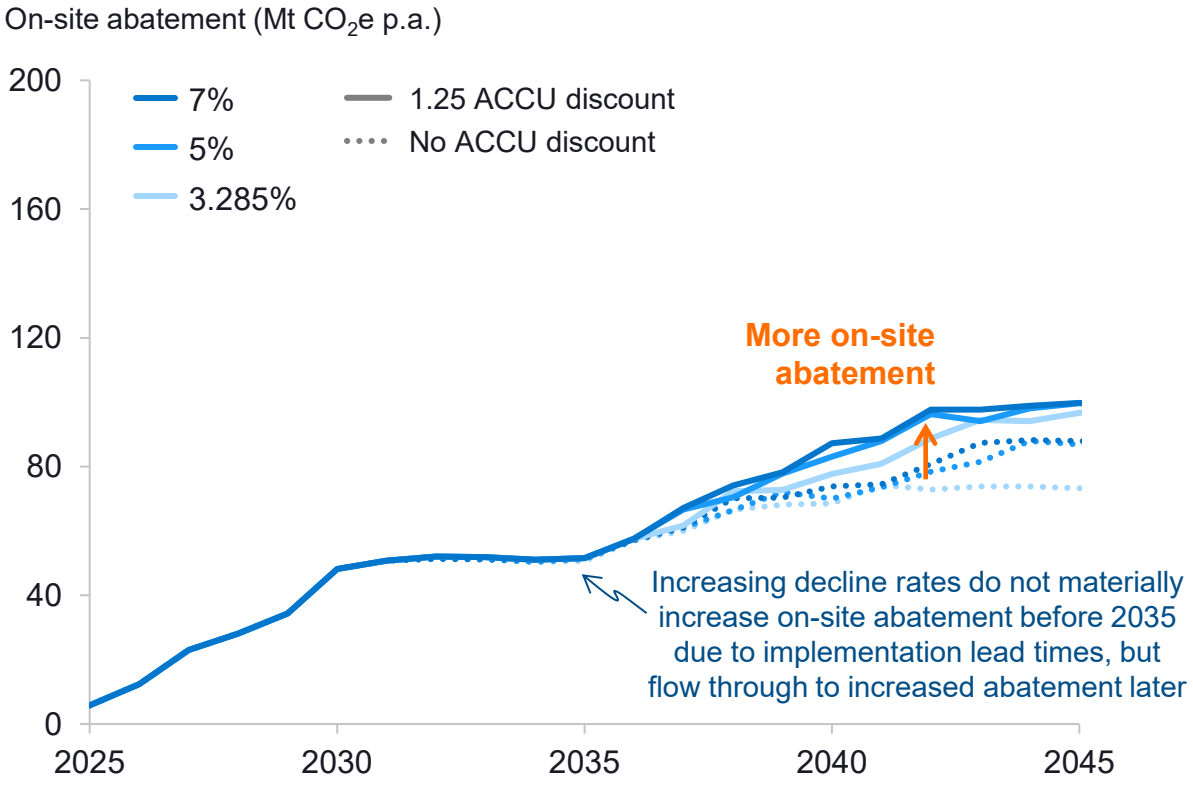
Note: Modelling assumes Government defends cost containment by purchasing ACCUs in advance and selling at a threshold that rises at CPI+2% p.a. This may not necessarily reflect Government policy.
Source: EY-CARBON-VIEW model (July 2026)

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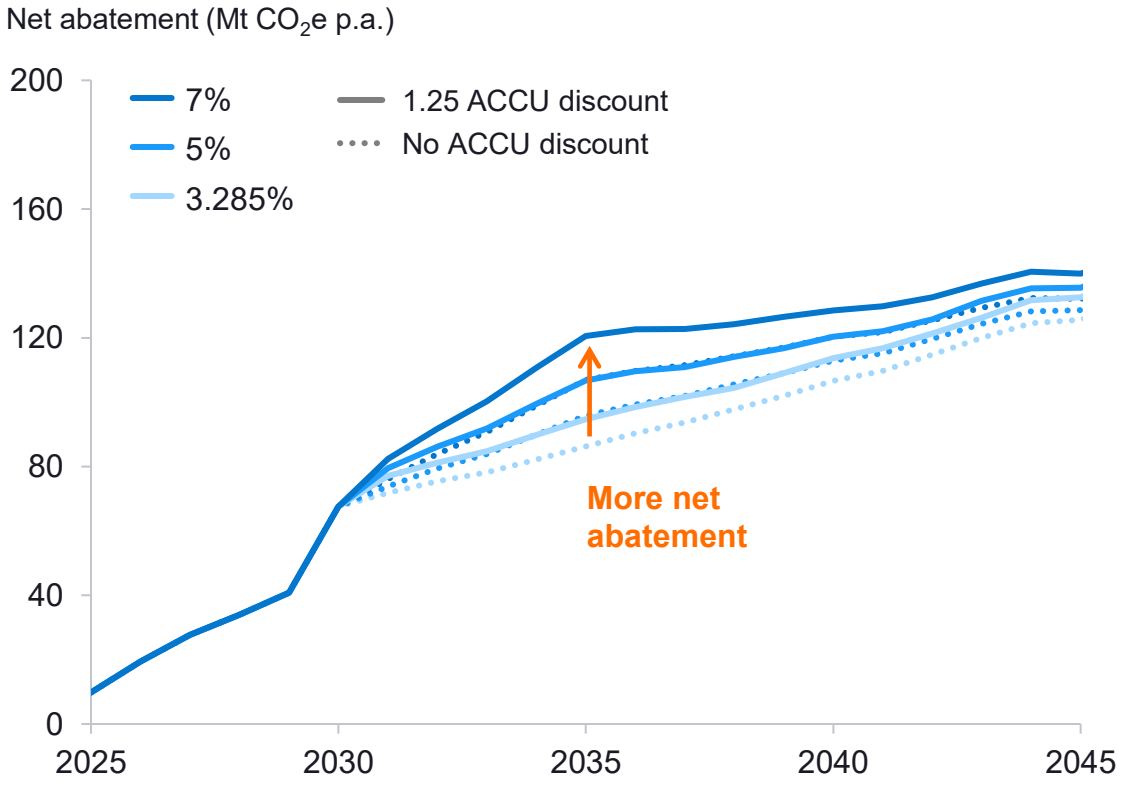
A 1.25 discount could see ~5% more on-site and ~10% more net abatement from 2031 to 2040

3 **ACCU discounting** | Impact on net and on-site abatement

1.25 discount increases on-site abatement p.a. by ~5% from 2031-40



1.25 discount increases net abatement p.a. (incl. outside SGM) by up to ~10% from 2031-40



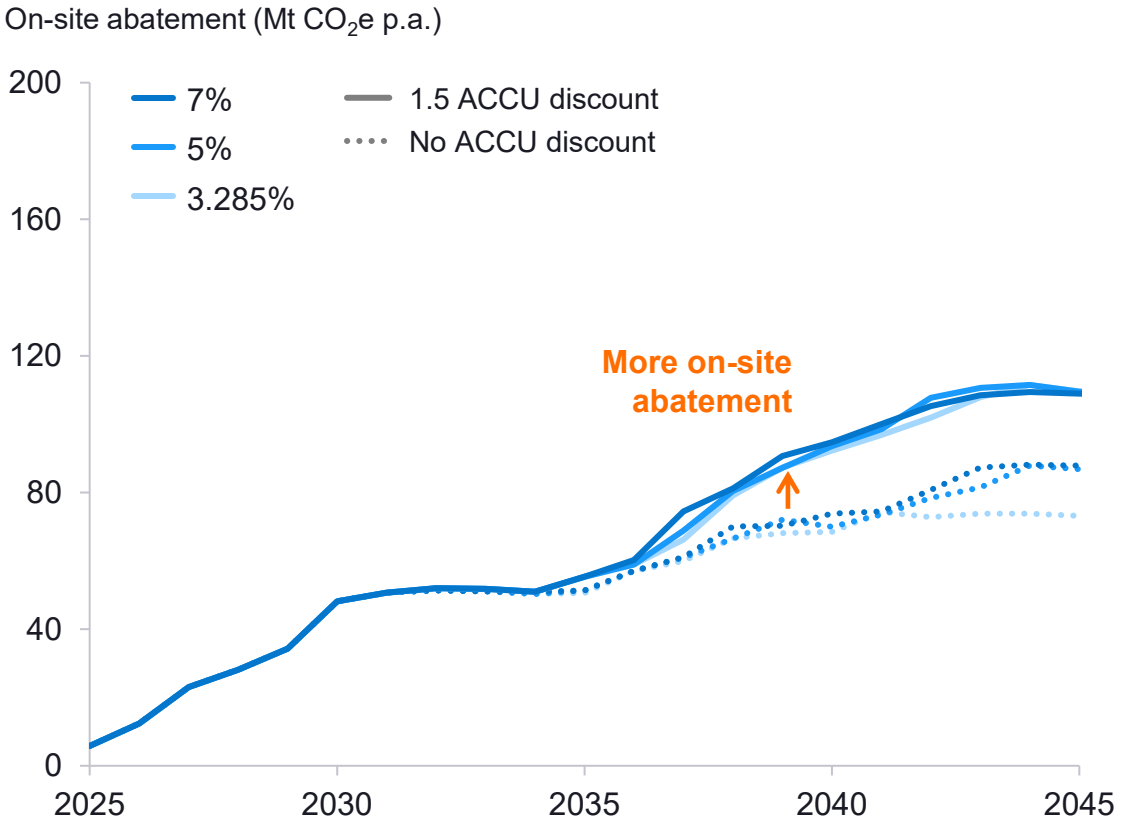
Source: EY-CARBON-VIEW model (July 2026)

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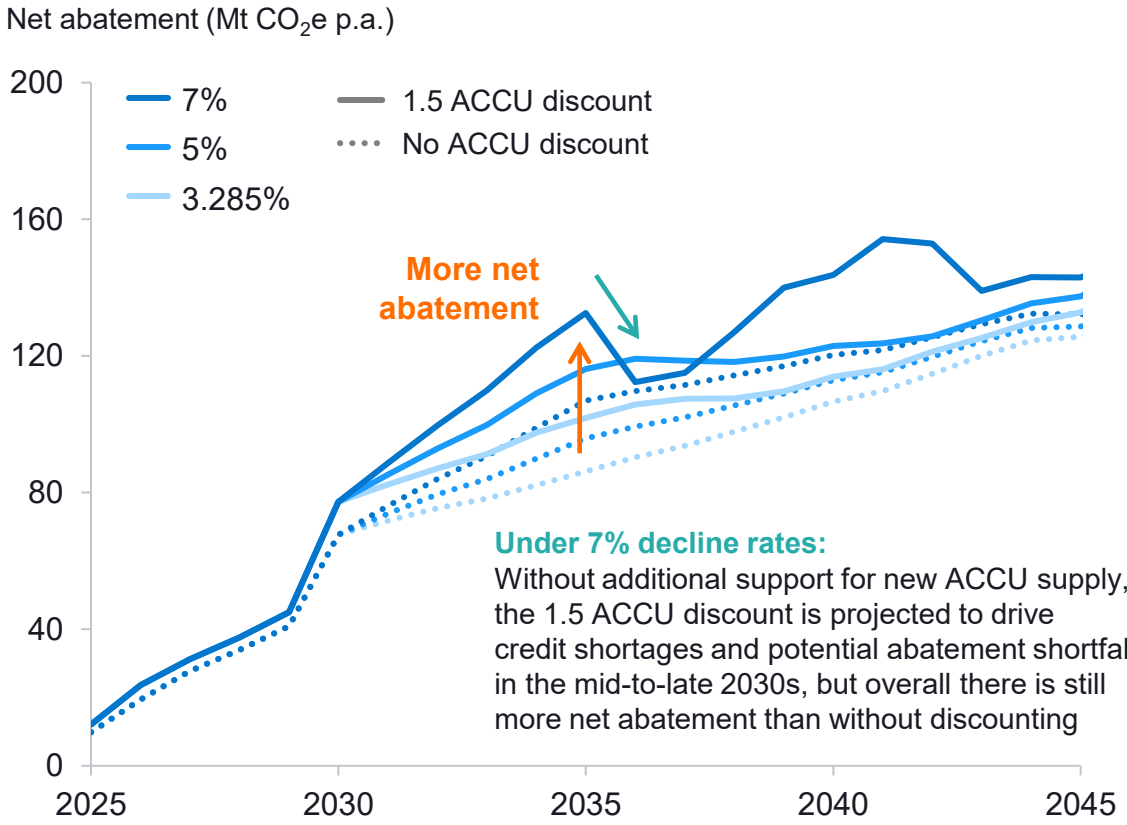
A 1.5 discount could see ~12% more on-site and ~15% more net abatement from 2031-40, and could risk credit shortages in the mid-to-late 2030s

3 **ACCU discounting** | Impact on net and on-site abatement

1.5 discount increases on-site abatement p.a. by ~12% from 2031-40



1.5 discount increases net abatement p.a. (incl. outside SGM) by up to ~15% from 2031-40



Under 7% decline rates:
Without additional support for new ACCU supply, the 1.5 ACCU discount is projected to drive credit shortages and potential abatement shortfalls in the mid-to-late 2030s, but overall there is still more net abatement than without discounting

Source: EY-CARBON-VIEW model (July 2026)

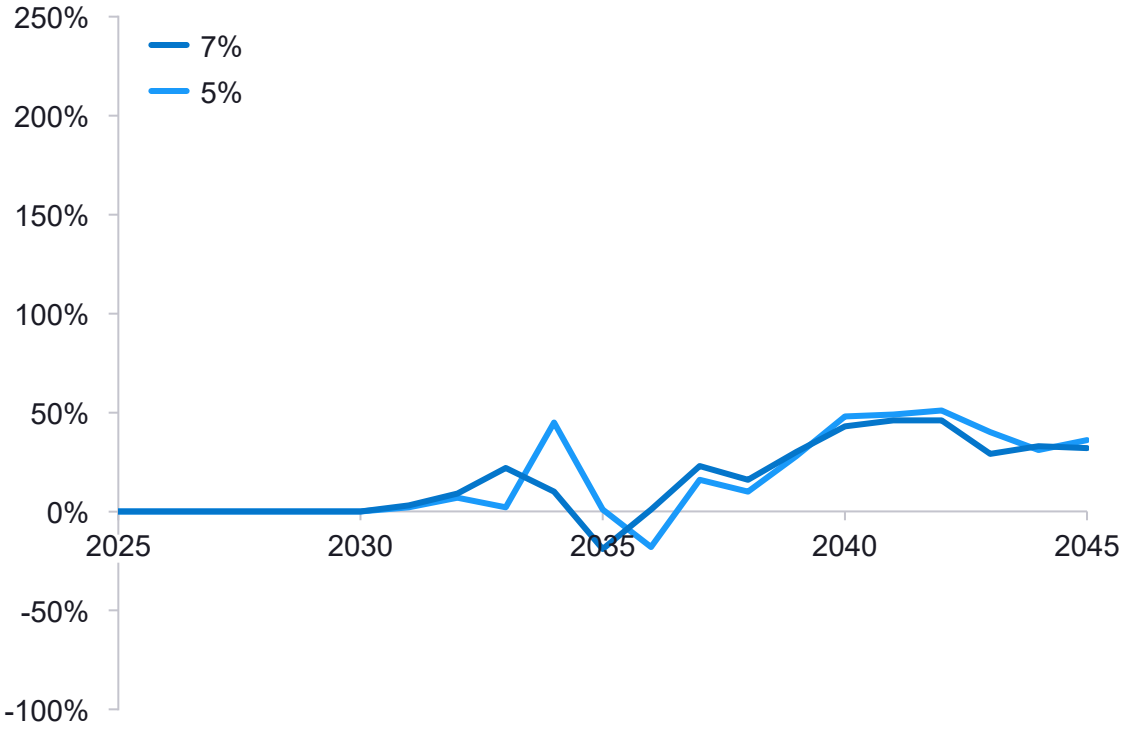
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Discounting also increases compliance costs, particularly with stronger settings

3 **ACCU discounting** | Impact on compliance costs

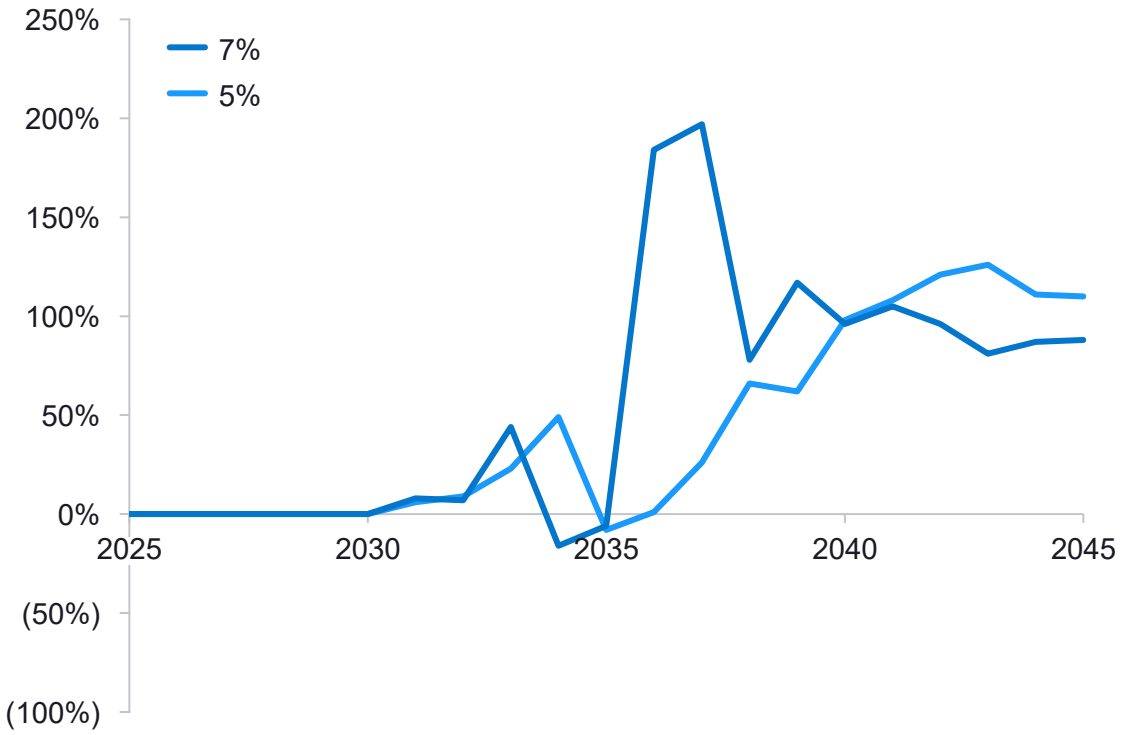
1.25 discount increases average compliance costs ~15% from 2031-40

Change in total compliance cost vs. no discount (%)



1.5 discount increases average compliance costs ~40-80% from 2031-40

Change in total compliance cost vs. no discount (%)



Source: EY-CARBON-VIEW model (July 2026)

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Regulating methane abatement technologies could help address risks associated with methane's higher short-term warming potential with greater confidence

4 **Methane regulation** | Context for attention to fossil methane abatement

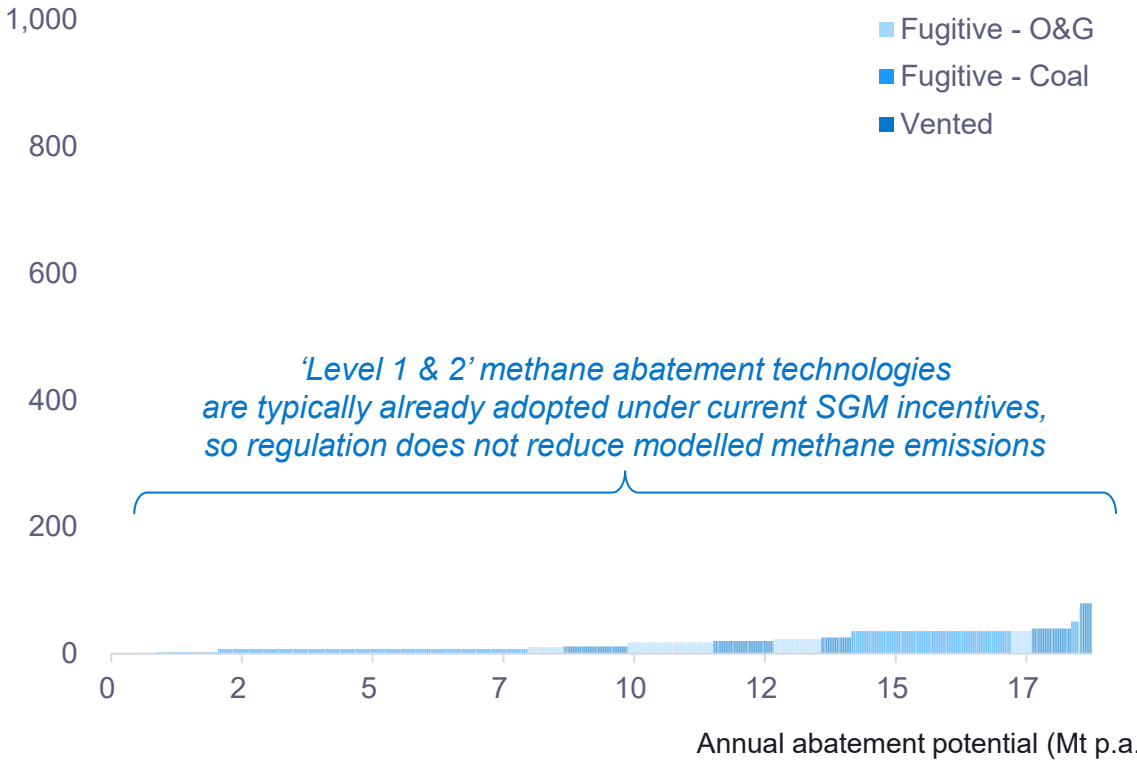
- **Regulators often lack good information on facility abatement costs and opportunities:** this suggests **care is needed in considering mandating specific abatement actions or technologies** – and is often a key reason for preferring incentive and market-based approaches to abatement
- Nevertheless, two factors could warrant considering additional policies to support uptake of fossil methane abatement opportunities
  - **Methane has larger near-term climate forcing effects that are not reflected in current SGM incentives**
    - Methane's global warming potential over 20 years (GWP20 > 80) is ~3 times its effect over 100 years (GWP100 ≈ 30) – so action to reduce methane emissions reduces near-term climate impacts and tipping point risks more than CO_2 abatement
    - SGM emissions are calculated on a GWP100 basis and so do not reflect this timing aspect of methane abatement
  - **The market and regulatory context for fossil fuels implies some facilities may take an excessively short-term approach to abatement**, and fail to implement investments with a positive ROI but long payback period, notwithstanding SGM incentives
- **We assess mandatory implementation of moderate-cost fossil methane abatement options**, given this context, with options identified using cost per tonne CO_2e with GWP20 weights
  - **While this may provide useful insights,** particularly in relation to relative effectiveness and cost impacts, **the technology and cost detail in the model is not designed for this purpose**
  - Modelling inputs are based on international cost estimates, do not account for local supply chain factors, and are not intended to support granular analysis of the kind required to support regulatory design decisions, and so **policy development should primarily be informed by other sources**

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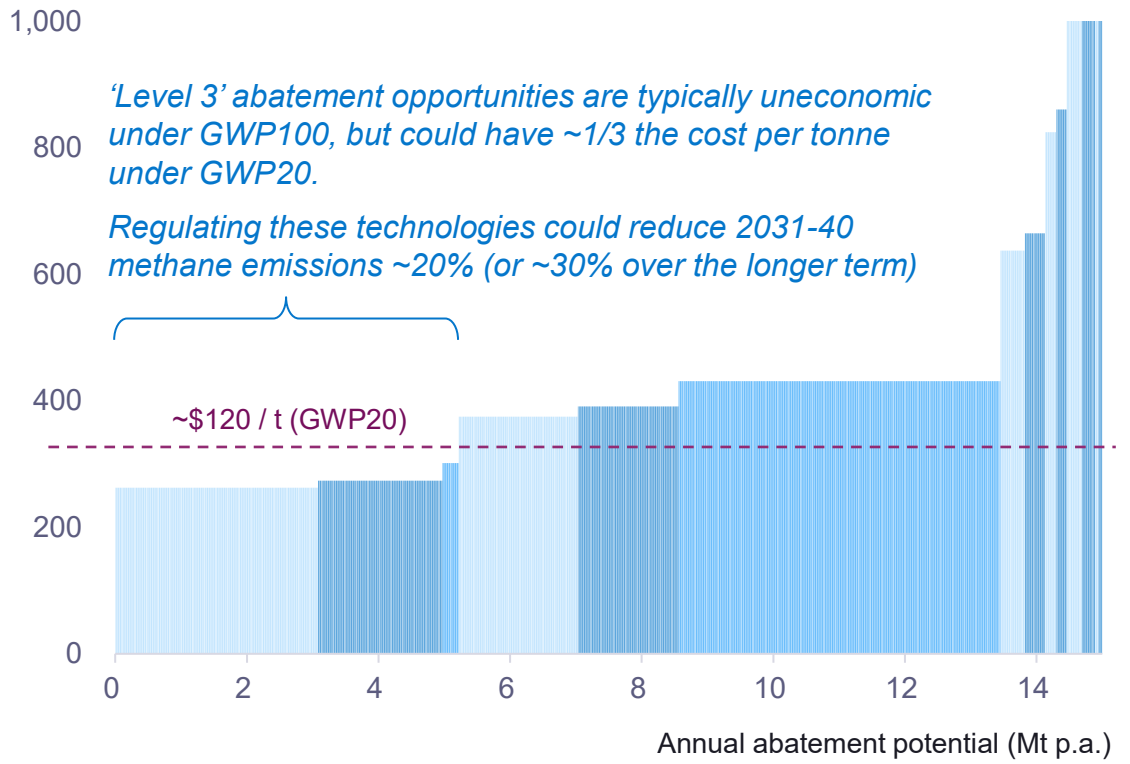
Modelled MACC curves suggest two alternative approaches to regulating methane abatement technologies

4 **Methane regulation** | 2025 MACC curves for different levels of methane abatement technology

Regulation could increase speed and/or confidence on delivery of lower-cost 'Level 1 & 2' methane abatement technologies



Regulation could also target select higher-cost 'Level 3' abatement technologies that might be considered worthwhile on a GWP20 basis



Note: MACCs are shown as at 2025 for the medium-high credit price context, under current policies, but with a 5% decline rate to 2035

Source: EY-CARBON-VIEW model (July 2026)

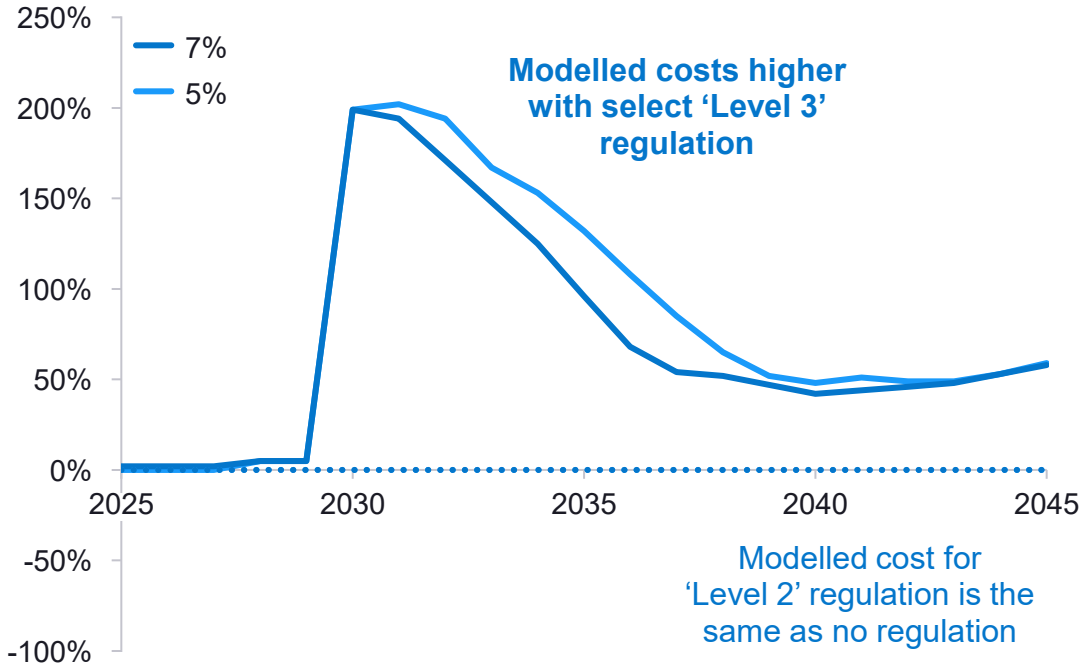
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Mandatory implementation of selected higher-cost ‘Level 3’ abatement significantly raises costs for fossil fuel sectors and lowers costs for non-fossil sectors

4 **Methane regulation** | Impact of methane regulation on costs

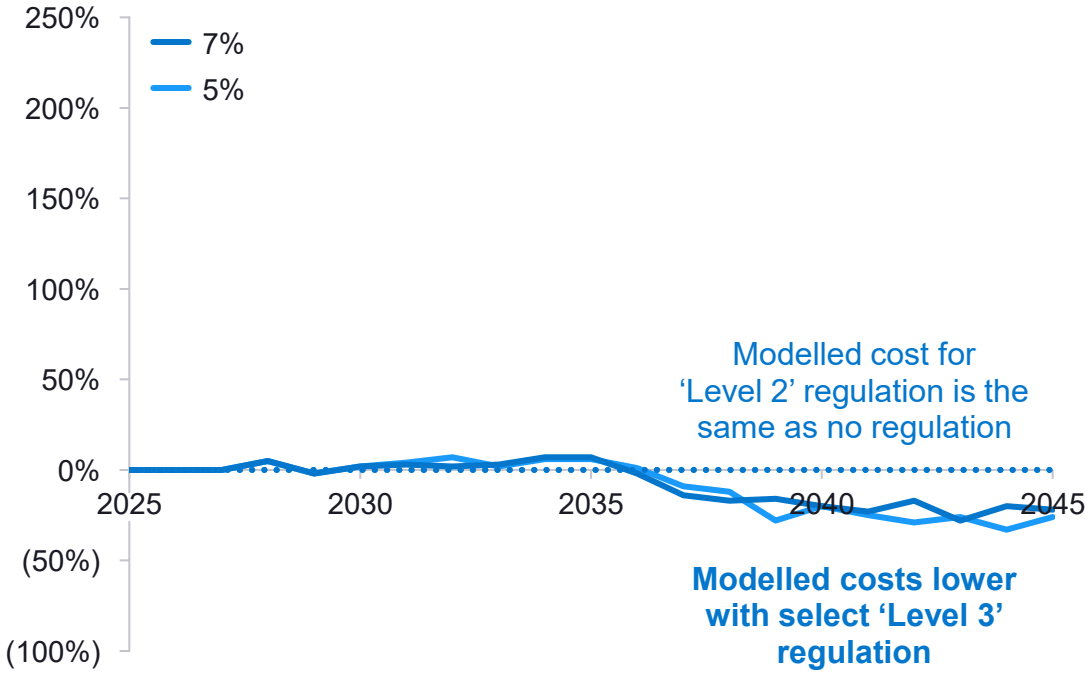
Fossil fuel sectors face up to 2x increases in annual costs from mandatory ‘Level 3’ methane abatement over 2031-40

Change in cost of compliance[1] w/ methane regulation and SGM (%)



Other sectors benefit from up to ~10% lower annual costs from mandatory ‘Level 3’ methane abatement over 2031-40

All other sectors: Change in cost of compliance[1] w/ methane regulation and SGM (%)



1. Sectoral compliance costs include the value of credits at market prices (see slides 46-47).
Note: Fossil fuel sectors defined as oil & gas and coal mining; non-fossil fuel sectors defined as other mining, transport, and manufacturing & other.

Source: EY-CARBON-VIEW model (July 2026)

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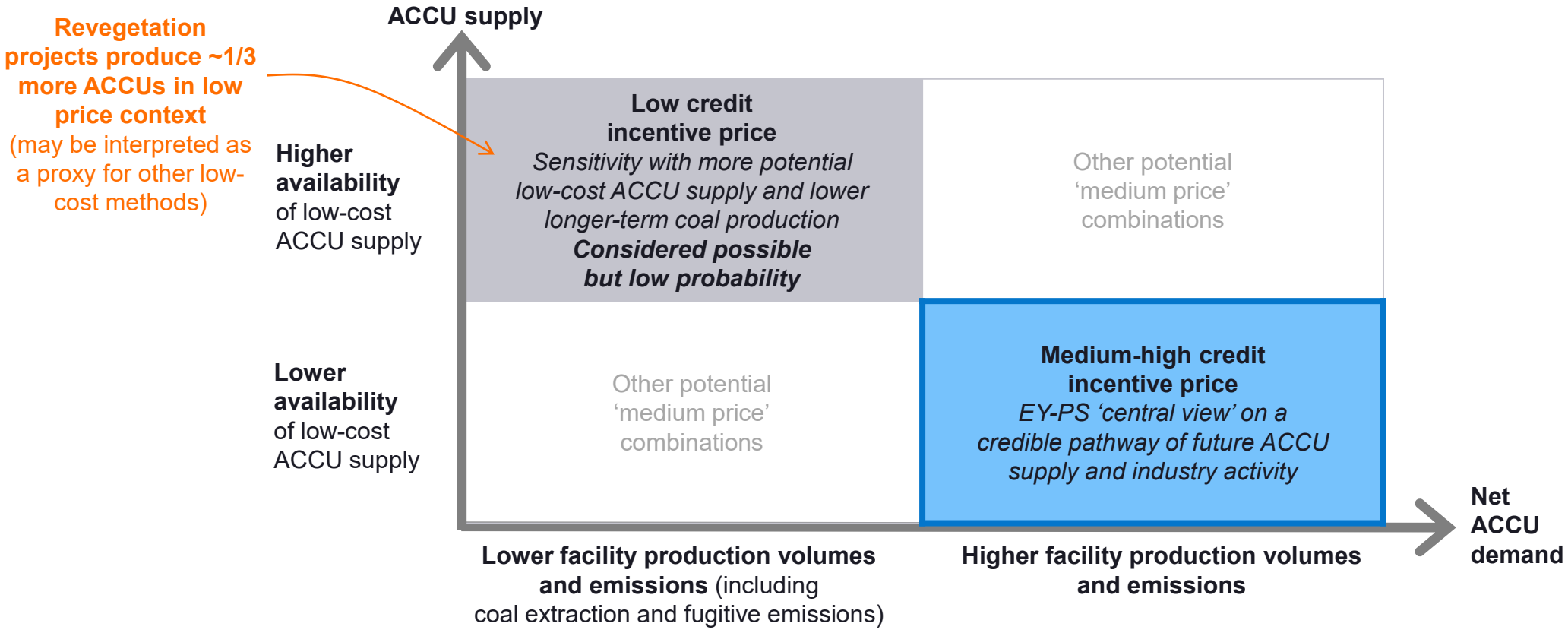
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To test the effect of underlying context we distinguish *low* and *high* underlying ACCU supply outlooks based on physical supply potential

Underlying contexts | Central and alternative reference contexts for modelled scenarios



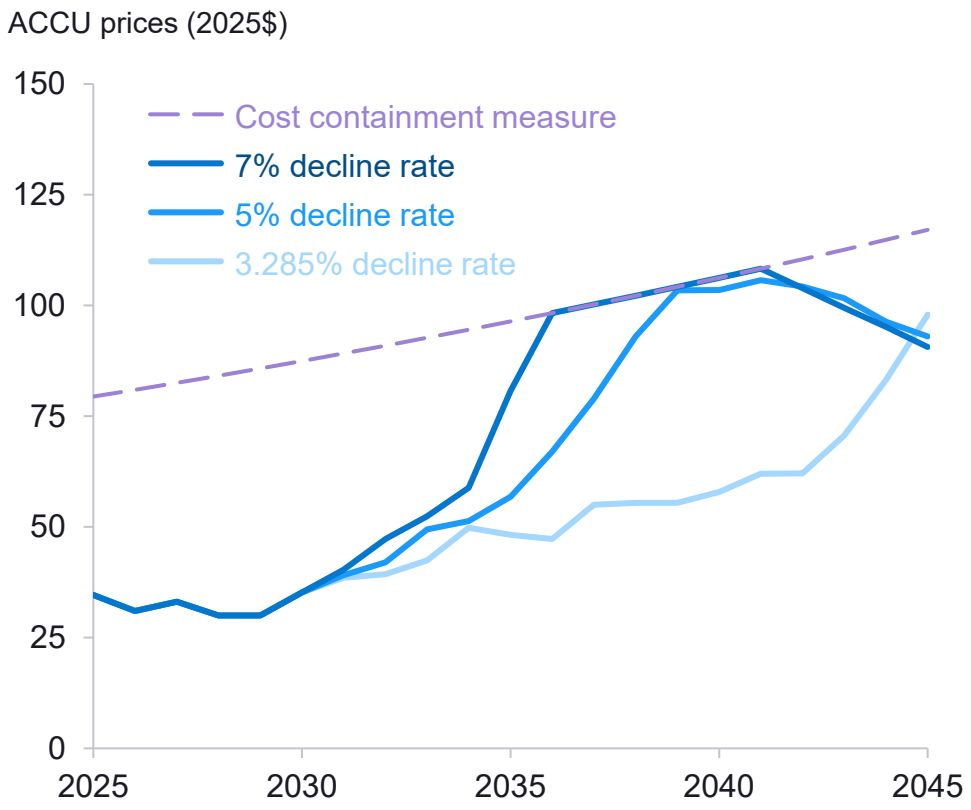
Driven by facility production volumes, facilities opening / closing, economics of on-site abatement, and (imperfect) expectations about future credit prices

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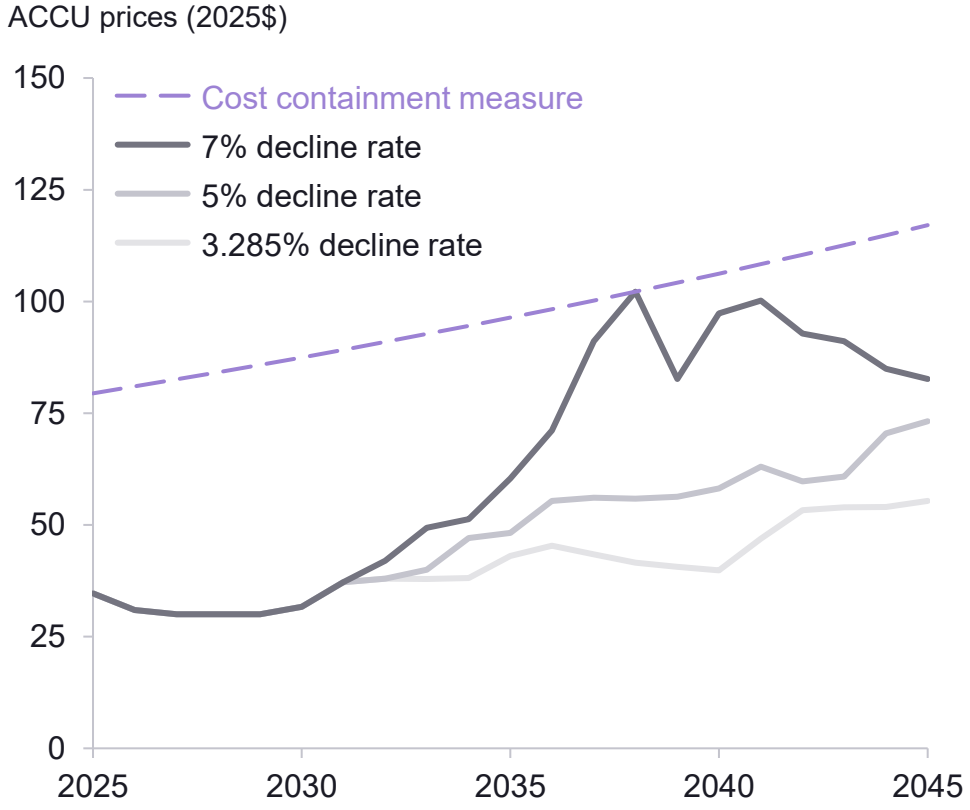
Low price context sees lower ACCU prices and system-wide abatement incentives, with the cost containment threshold only triggered under the 7% decline rate

1 **Underlying contexts** | Impact on ACCU prices

Medium-high price context



Low price context



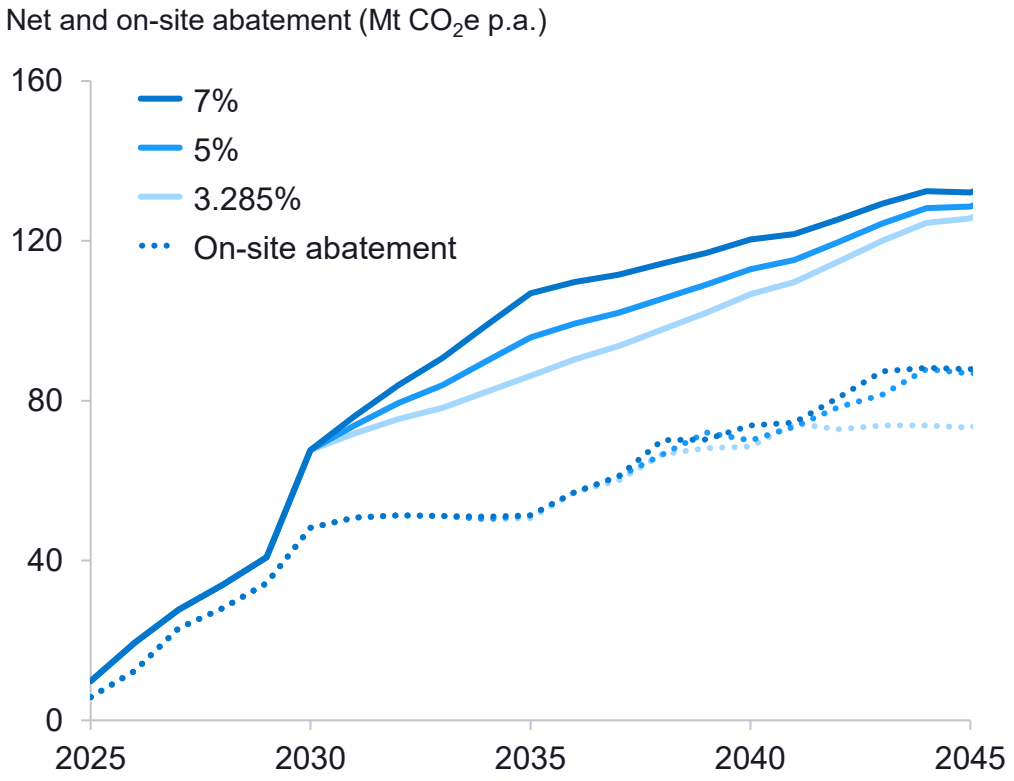
Note: Modelling assumes Government defends cost containment by purchasing ACCUs in advance and selling at a threshold that rises at CPI+2% p.a. This may not necessarily reflect Government policy.
Source: EY-CARBON-VIEW model (July 2026)

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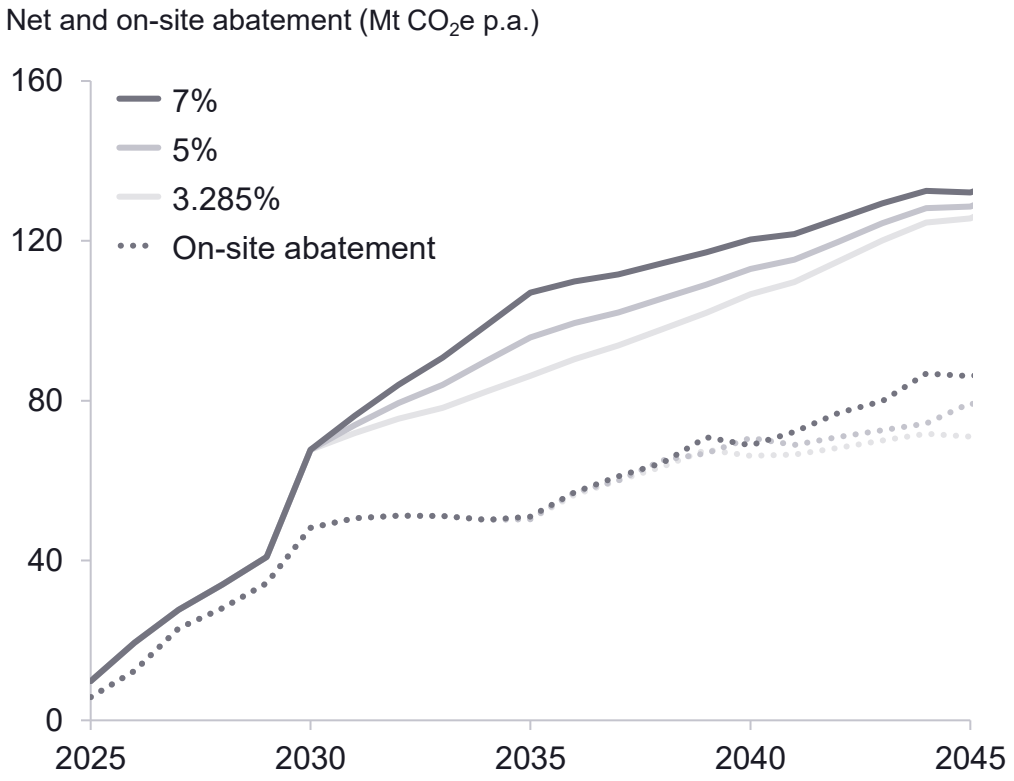
Low price context has no impact on net abatement (which is set by decline rates) but sees slightly lower on-site abatement after 2040

1 **Underlying contexts** | Impact on net and on-site abatement

Medium-high price context



Low price context



Source: EY-CARBON-VIEW model (July 2026)

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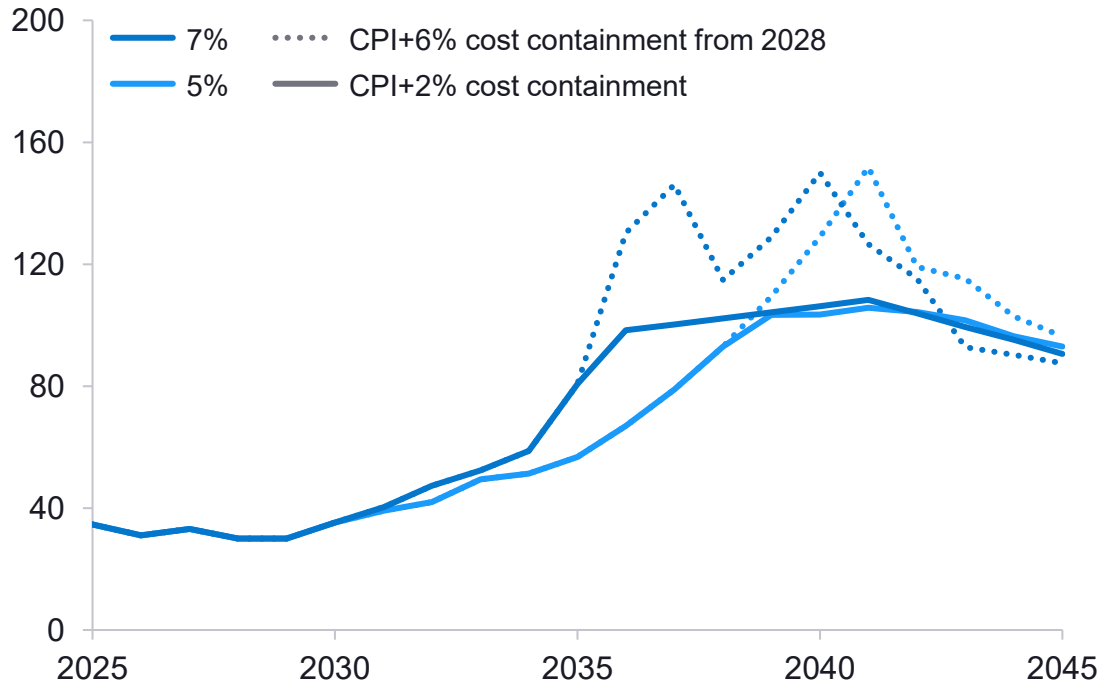
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Continuing current cost containment settings helps manage the risk of price spikes in a maturing market, but could weaken incentives for deep decarbonisation

Cost containment | Impact on ACCU prices and compliance costs (relative to sensitivity with looser CCM)

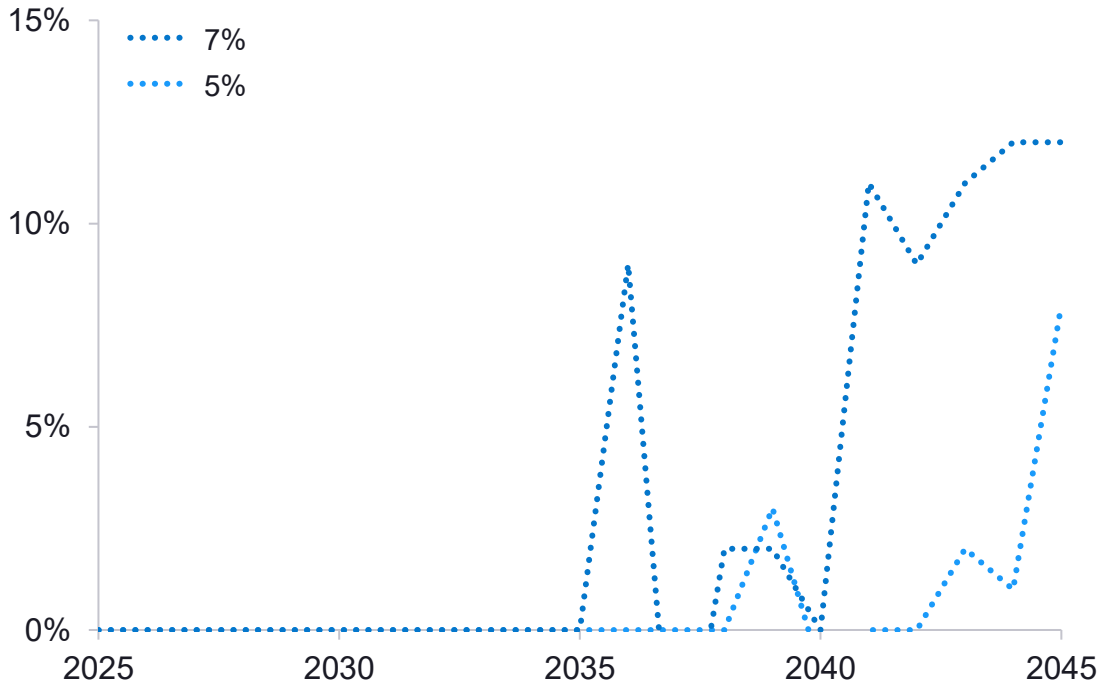
Sensitivities that increase cost containment to CPI+6% from 2028 result in higher ACCU prices from the mid-to-late 2030s

ACCU prices (2025$)



These also increase compliance costs by up to ~12% in some years

Change in total compliance cost with CPI+6% vs. CPI+2% cost containment



Note: These modelling results test a sensitivity where Government defends cost containment by purchasing ACCUs in advance and selling at a threshold that rises at CPI+6% p.a. rather than CPI+2%.
Source: EY-CARBON-VIEW model (July 2026). Results shown for medium-high price context.

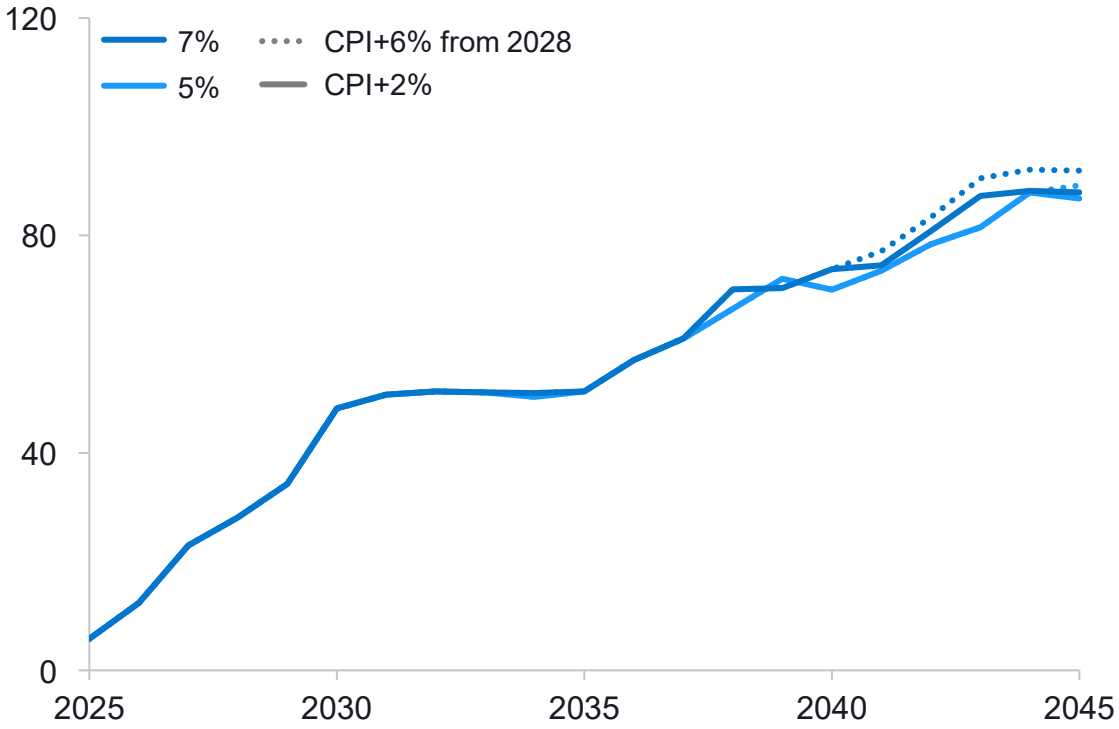
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Relaxing cost containment sees higher ACCU prices from 2035, increasing projected on-site abatement by ~2-4Mt p.a. after 2040

Cost containment[1] | Impact on on-site abatement

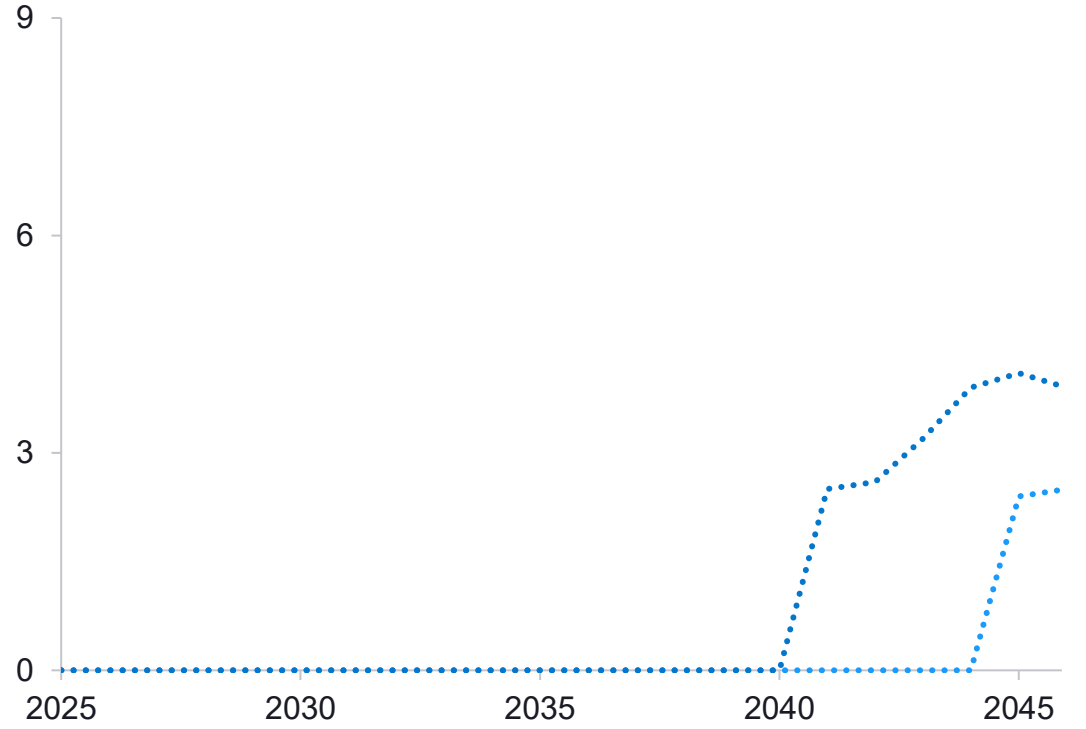
A looser cost containment threshold could lift incentives for on-site abatement

On-site abatement (Mt CO_2e p.a.)



Resulting in ~2-4Mt p.a. additional on-site abatement after 2040

Change in on-site abatement vs. corresponding decline rate scenario (Mt CO_2e p.a.)



1. The main modelling results assume current settings continue rather than lapsing, rising at CPI+2% and contrast this with an alternative sensitivity trajectory rising at CPI+6% from 2028.

Source: EY-CARBON-VIEW model (July 2026). Results shown for medium-high price context.

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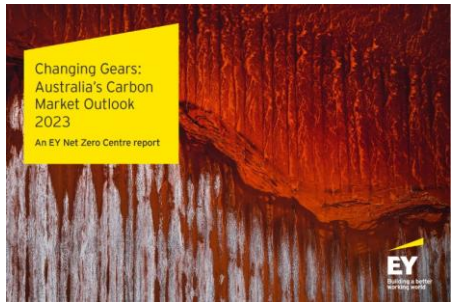
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The EY Net Zero Centre developed the EY-CARBON-VIEW model to support its thought leadership and market insights publications

EY-CARBON-VIEW model | Selected EY Net Zero Centre reports

Carbon market outlooks



Australian ACCU-SGM outlook 2023



Global voluntary carbon market outlook 2024



Australian ACCU-SGM outlook 2026

More information on the model and insights provided can be found in the **Australian carbon market outlook reports** (2023, 2026), including in the supplementary information

New economic opportunities



Australia's superpower opportunity



Australia's nature-positive advantage



Critical minerals – rethinking pursuit of advantage in a disorderly world

Pathways to net zero

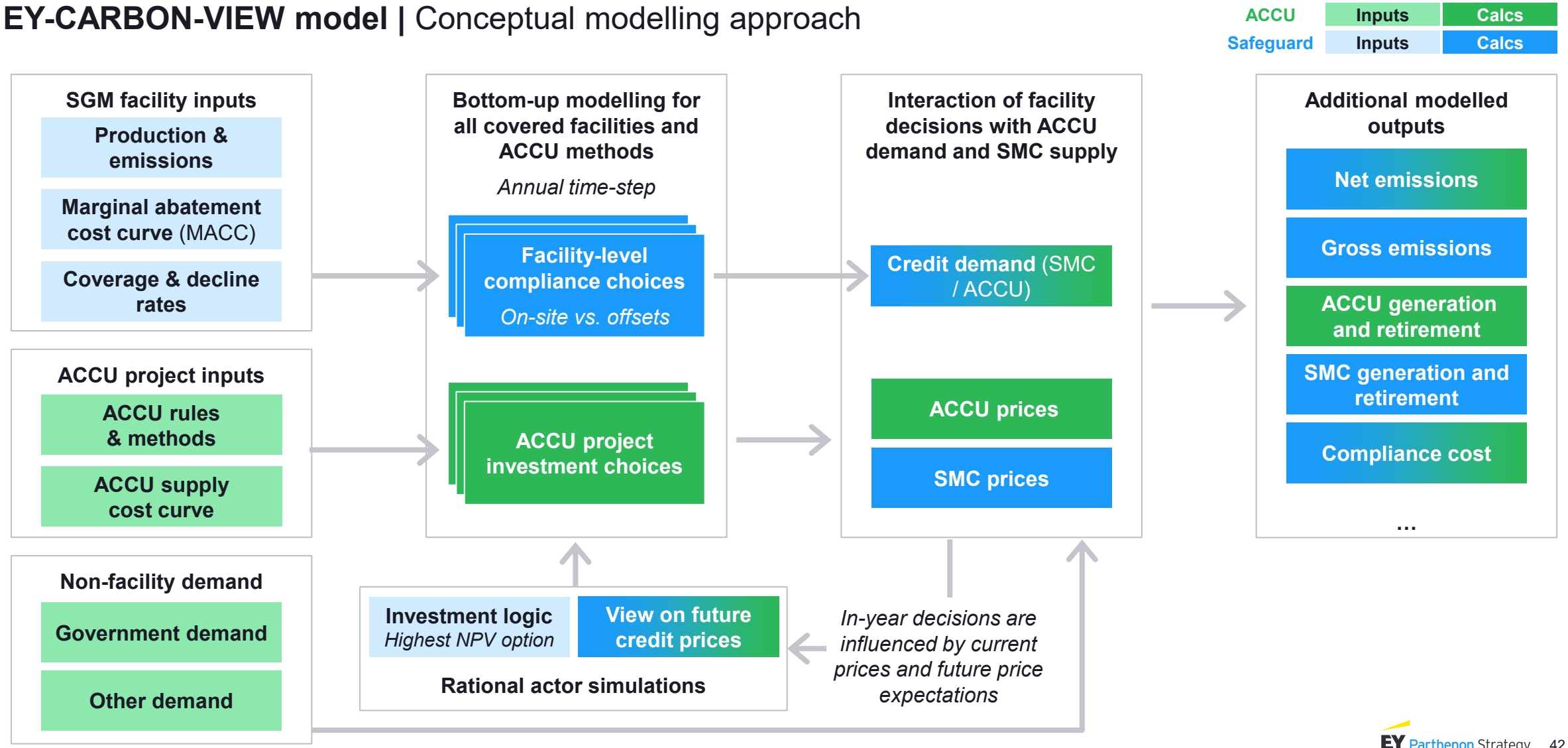


Win-win priorities for near-term action toward net zero

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The EY-CARBON-VIEW model analyses facility-level compliance choices and their interactions with credit supply and markets to project system outcomes

EY-CARBON-VIEW model | Conceptual modelling approach



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EY-CARBON-VIEW simulates rational investment and market participation decisions based on bottom-up modelling of facility and ACCU project inputs

EY-CARBON-VIEW model | Overview of key assumptions

Facility inputs

- **Exogenous production** volumes based on announced new projects, expansions, and closures (and no other scheme exits)
- Availability and costs of different types and levels of **abatement opportunities** based on desktop research and market intelligence, and consistent with NGFS <2°C
- Simplified application of **TEBA** rules:
  - Manufacturing fixed based on current application
  - Simplified modelling of non-manufacturing revenue test

ACCU inputs

- **ACCU supply** based on existing projects, and current ACCU rules (no new methods)
- Longer-term carbon and environmental planting potential and economics based on **CSIRO LUTO model**, with annual conversion cap consistent with DISER 2021

Non-facility demand

- **Government** pre-commits to ACCU purchases and builds inventories, selling at cost containment prices when required
- Limited **voluntary demand**

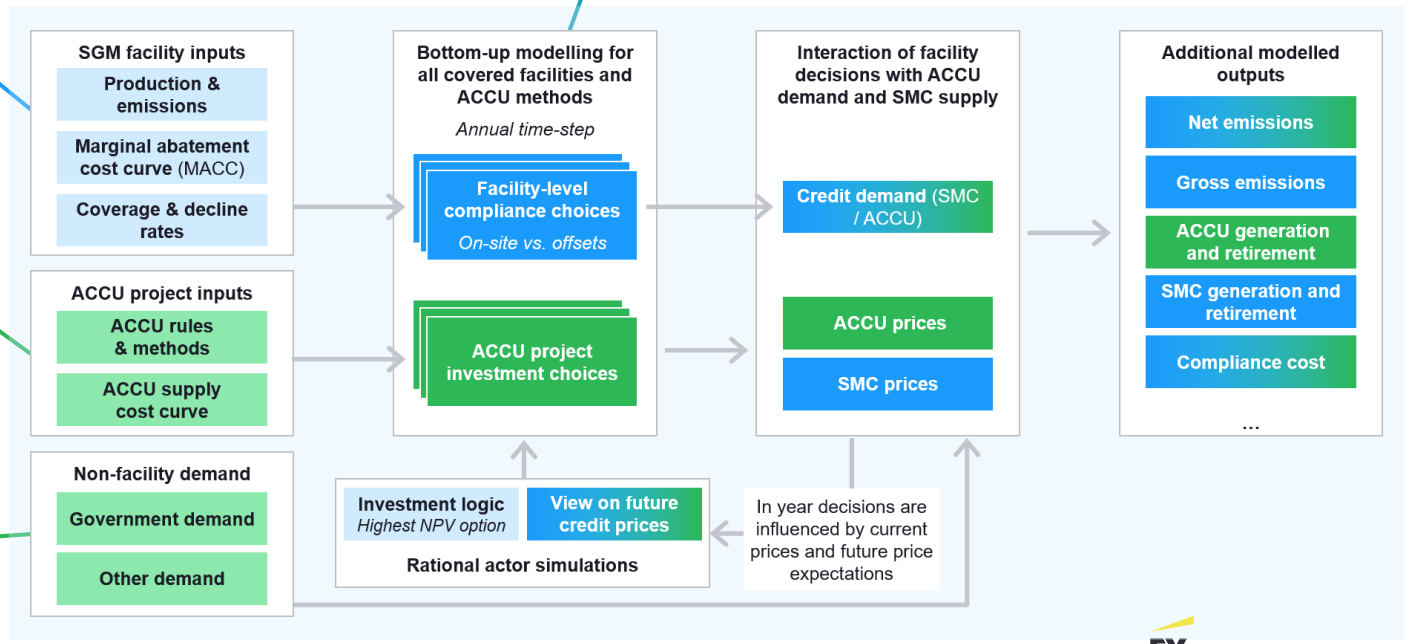
Rational investment behaviour and market participation

Models rational investment decisions and market participation by facilities and ACCU investors to give a more realistic view of market outcomes than least cost optimisation

Investment decisions reflect sector & technology-specific WACCs, asset cycles, lead times etc.

Future price expectations based on observed market signals, and tuned to minimise market instability (subject to not being able to 'see the future')

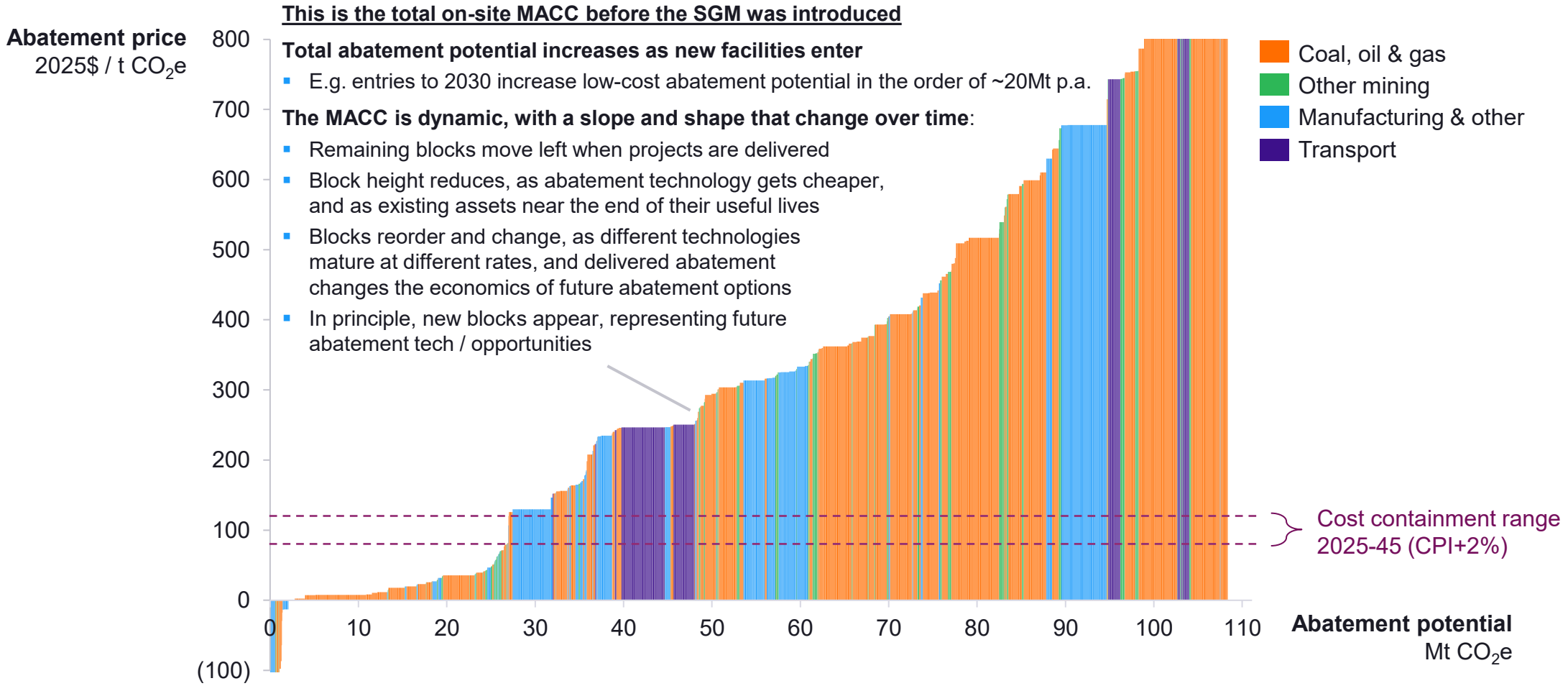
Facilities build credit inventories for future compliance, but do not actively engage in trading



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A whole-of-SGM marginal abatement cost curve (MACC) is estimated based on the cost and volume of abatement options for all emissions sources at each facility

EY-CARBON-VIEW model | Facility marginal abatement cost curve (pre-SGM reforms)



Note: Abatement options and costs are generally based on international estimates, while actual costs will be influenced by local factors including scale, supply chain factors, local regulations and learning by doing.
Source: EY-CARBON-VIEW model (July 2026)

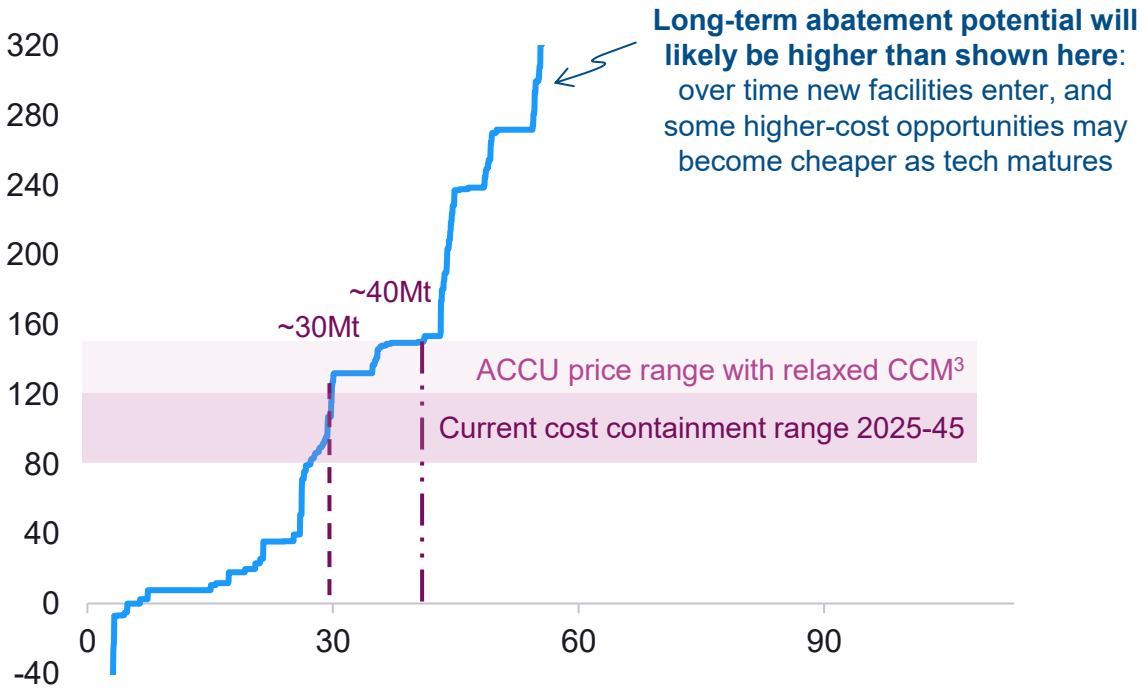
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The model also estimates the ACCU supply curve for abatement from existing methods and land sector supply

EY-CARBON-VIEW model | Estimated on-site MACC and off-site ACCU abatement potential

~30Mt of early on-site abatement potential is available at incentive prices consistent with existing cost containment settings

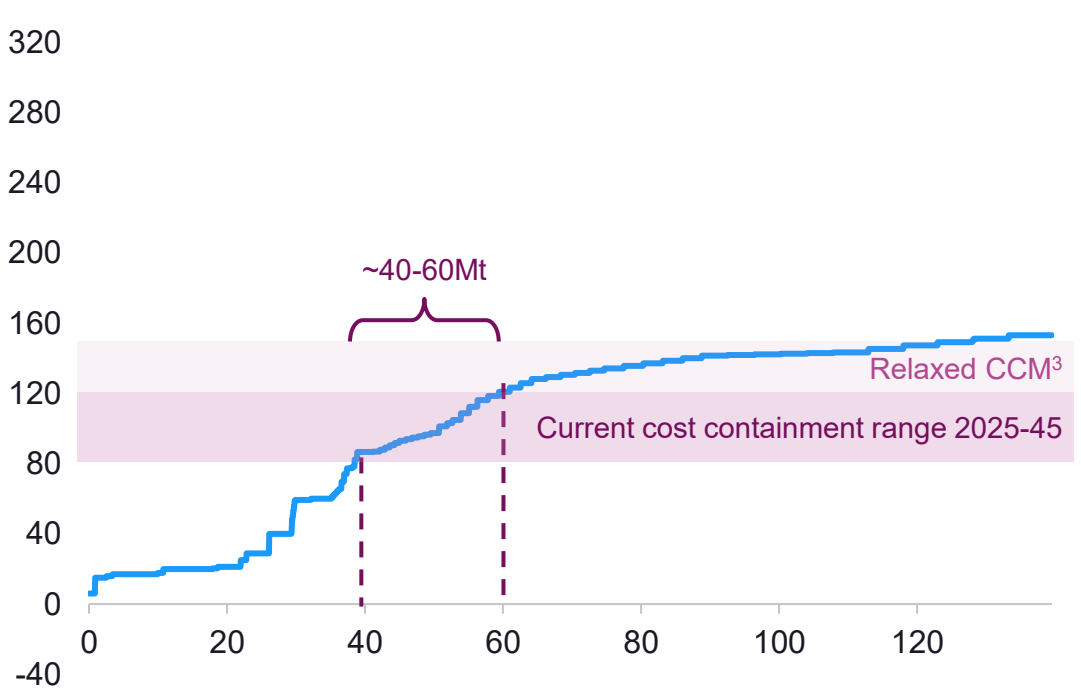
On-site abatement price (2025$ / t CO_2e)



Abatement potential (Mt CO_2e)[1]

Total potential ACCU supply within the same price range is ~40-60Mt – and there is significant additional potential below $200/t

'Off-site' abatement price (2025$ / t CO_2e)



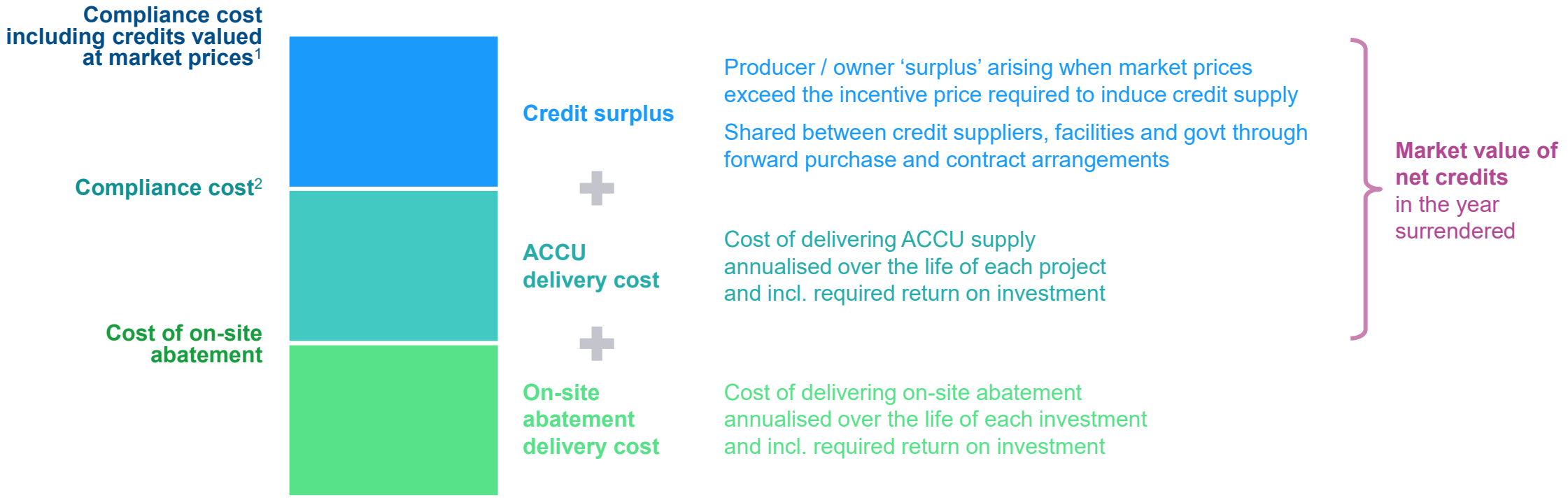
ACCU issuances and generation potential (Million ACCUs p.a.)[2]

1. Reflects pre-SGM reform abatement potential. 2. ACCU potential p.a. is average over the life of the relevant ACCU projects. 3. With relaxed cost containment settings, growing at CPI+6% p.a. from 2028, ACCU prices peak at $150/t (see slide 38).
Source: EY-CARBON-VIEW model (July 2026).

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Compliance costs reported in these materials focus on the cost of delivering abatement, and not the surplus shared between suppliers and facilities

EY-CARBON-VIEW model | Components of compliance costs



1. Reporting of costs across sectors includes credits valued at market prices in order to most accurately reflect value of SMC trade between sectors. 2. Compliance costs include total cost of delivering on- and off-site abatement (using ACCUs), and abatement shortfall fees if applicable.

Source: EY-CARBON-VIEW model (July 2026)

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Glossary

EY-CARBON-VIEW model | Definitions of key variables

Gross emissions	Facility emissions (after abatement actions)
Net emissions	Gross emissions less net credit (ACCU and SMC) surrenders
Abatement	Difference between ‘BAU’ emissions and net emissions
Compliance cost	Cost of delivering on-site abatement plus cost of ACCU delivery and abatement shortfall fees where relevant. Sectoral costs incl. credits valued at market prices to reflect value of SMC trade between sectors.
Credit surplus	Market clearing credit price less the weighted average delivery cost of credits supplied in that year, multiplied by the volume of credit retirements
Compliance cost per tonne	Compliance cost divided by the total tonnes of abatement achieved in that year

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