



COVER SHEET FOR SUBMISSIONS

Overview

The Australian Government is consulting on the review of the *Carbon Credits (Carbon Farming Initiative – Facilities) Methodology Determination 2015*. The Department of the Environment and Energy is inviting members of the public and industry to provide submissions. Submissions should be provided by **5pm AEST on Friday 12 July 2019**.

Contact details

Carbon Credits (Carbon Farming Initiative—Facilities) Methodology Determination 2015

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Is this a confidential submission?

Yes No

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Submission instructions

Submissions are due by **5pm AEST on Friday 12 July 2019**. Any submissions received after this date will be considered at the Department's discretion.

Where possible, submissions should be sent electronically, preferably in Microsoft Word or other text-based formats, to the email address below.

All submissions must include this cover sheet and reference the project name.

Submissions should be sent to:

Email: Emissions-Reduction-Submissions@environment.gov.au



Australian Government

Department of the Environment and Energy

Post: Emissions Reduction Assurance Committee Secretariat
Climate Change Division
Department of the Environment and Energy
GPO Box 787
CANBERRA ACT 2601

Persons making submissions may be invited to provide additional information. While all submissions will be considered by the Emissions Reductions Assurance Committee, the Committee does not usually respond to individual submissions. The Committee's advice to the Minister on the draft determination will be published on the Department's website.



Name of determination: Carbon Credits (Carbon Farming Initiative— Facilities) Methodology Determination 2015

Please provide your feedback on the Statement of activity intent

The Committee welcomes views on:

- whether the requirement of a statement of activity intent is appropriate and sufficient to ensure that a proposed project is additional
- whether there are other measures that could be used to supplement or replace the statement of activity intent
- whether there are other changes to refine the scope of the method to improve its usability.

The Consultation Paper correctly reports that the low uptake of the Facilities Method is strongly related to the difficulty faced by proponents to “categorically conclude that the project is driven by the ERF incentive or jointly by the ERF and other factors”.

This is a result of the strict offset integrity standards which state that “Projects covered by the determination should result in abatement that is unlikely to occur in the ordinary course of events (i.e. unlikely to occur in the absence of the incentive provided by the scheme).” And is further compounded by a strict rewording of that into the statement of activity intent.

These constraints are an attempt to develop a standard that can be applied to a wide range of abatement opportunities in the economy and find the appropriate compromise between incentivising abatement and ensuring that public money is never directed to abatement that is not strictly additional.

Given the amount of greenhouse gas emissions theoretically accessible through the Facilities Method (the industrial sector) and the low uptake of the method – the real world experience of the last 3-4 years suggests that the right compromise between incentivising abatement and strict additionality has not yet been found. Furthermore, it suggests that the same compromise between these factors that is incorporated in other methods (such as in the land sector and waste sector) has not been found here.

We recommend that Emissions Reduction Assurance Committee make recommendations that find a more appropriate compromise between incentivising abatement in the industrial sector and ensuring strict additionality (see below). For clarity, we are not recommending that the requirement for additionality be compromised but that the means of expressing and delivering on it should better reflect how project decisions are made within companies.

Some possible ways to strike a more reasonable compromise include:

1. align the statement of activity intent more closely with the offset integrity standards – for example, require a statement that the project was “unlikely to occur in the ordinary course of events”;
2. adjust the offset integrity standards to better reflect likely circumstances within commercial operations – a common situation would be for a project to be brought forward in time, increased in scale, or made more certain or a higher priority by the incentive provided by the scheme; none of which strictly qualify as “unlikely to occur in the absence of the scheme”;
3. develop parallel initiatives (within or alongside the Emissions Reduction Fund) that have a



requirement and structures more aligned to incentivising additional abatement within large industrial facilities where projects are only likely to attract capital if they deliver on a range of objectives, including commercial objectives.

It is noteworthy that the Consultation Paper, in Section 3.2.5, states “A seven year crediting period was adopted as standard for most ERF projects, recognising that, over time, emissions reduction activities that receive government funding to get started will become business as usual”. This statement is uncontroversial but it does contradict the current requirement that projects should result in abatement that is unlikely to occur in the ordinary course of events.

Lastly, there are two important issues of context to consider in the design and uptake of the Facilities Method. The first is that there are a limited number of projects of this size and nature available for implementation at any point in time and the likelihood of their implementation rests as much with general economic conditions and sector-specific markets as it does with the design of the ERF.

Second, the remaining points made in this submission on specific elements within the Facilities Method are all of a second (or lower) tier impact than the issue surrounding the statement of activity intent described above.



Please provide your feedback on counterfactual emissions intensity

The Committee welcomes views on:

- whether using the electricity grid average as the proxy for counterfactual emissions intensity is appropriate and conservative, noting the fast changing make-up of fuels and technologies in the electricity grid, and the increasing momentum of decarbonisation of the grid
- if the grid average is to be applied, what time should the average be taken from? A range of possibilities include the time of declaration (current approach), start of the reporting period, end of the reporting period, time of electricity use or average of the values for the start and end of the reporting period.
- are the issues for the facilities method the same as for other methods which also use a grid factor in the same way?

The counterfactual emissions intensity of electricity is a critical input to determining the business-as-usual scenario and therefore the emissions abatement for a project that reduces electricity consumption or displaces grid electricity.

This counterfactual emissions intensity should be known, or calculable, by project proponents prior to implementation. There are many uncertainties that must already be considered at the commencement of an emissions reduction project including the level of abatement, and the price that will be received. The overall risk of the project should not be compounded further by incorporating a level of uncertainty in the counterfactual emissions intensity.

In developing a method to determine, in advance, the counterfactual emissions intensity, the aim should be to provide an unbiased estimate of the likely emissions saved. The need for conservative calculations is already (over) catered for elsewhere in the ERF and the methods and there is no justification to introduce further conservative calculations in this component.

Given the relatively short timeframe under which projects can deliver eligible abatement (seven years), it would seem reasonable and uncomplicated to include a single figure for emissions intensity of the grid and it should be close to current grid intensities.

Any concerns about the impact of a theoretical overestimate of grid intensity must be considered in light of the unusually low uptake of this method. If there is a concern, it should be that the method, in its entirety, is not attractive enough to access the potential abatement, rather than not sufficiently conservative.



Please provide your feedback on replacing essential equipment at electricity generators

The Committee welcomes views on:

- whether the impact of replacing essential equipment at electricity generators that may extend their operating life is sufficiently and appropriate addressed in the Facilities Method.

The Australian Aluminium Council has no specific comment on this issue.

Please provide your feedback on baseline setting

The Committee welcomes views on:

- whether the baseline setting based on four year historical data is sufficiently conservative and appropriate and whether this approach is sufficient to address regulatory additionality requirements.

The Consultation Paper appropriately identifies the trade-off between a shorter baseline period - it may not capture the lowest emissions intensity – and a longer baseline period – some facilities may not have the historical data.

The Australian Aluminium Council supports a continuation of the current 4 year baseline period.



Please provide your feedback on the standard seven year crediting period

The Committee welcomes views on:

- whether the standard seven year crediting period is appropriate for the project types intended to be covered by the method.

The Consultation Paper outlines the reasons a seven year crediting period was chosen and also the view, from some, that “these larger projects would have long payback periods, but would also continue to deliver the same level of emissions reduction for many years after the standard seven year crediting period”.

Again, when determining the appropriate level of ‘conservative accounting’ to implement, we ask ERAC to consider the low level of uptake of the method. Under current settings, the Facilities Method is failing to access the potential for additional abatement that could be incentivised in the industrial sector. There is a strong justification to ease some or all of the ‘conservative settings’ to incentivise more abatement from what is a significant sector of potential abatement.

Additionally, current rules only allow a maximum of three ERF contracts over the project period. This is potentially constraining for projects under the Facilities Method as the amount of abatement available each year will be uncertain and full value from a project could be best achieved by contracting more frequently, for example, annually and therefore up to seven times.



Please provide your feedback on usability and other improvements

The Committee welcomes views on:

- how the usability of the method could be improved.
 - Are there any obstacles to the use of the method, e.g. scope of activities covered in the method; meeting the project eligibility requirements; estimating the potential abatement using the calculation stipulated in the method; and applying the reporting, measurement and verification rules and requirements?
 - Are there any opportunities to widen the scope of the method and cover a larger range of activities that currently are not practical to use the method?
 - Can the method be modified or streamlined to improve its usability and yet continue to meet the offsets integrity standards?
 - Can certain guidelines, tools or materials be developed to assist project proponents to prepare project applications and implement the project?

Adding back ACCUs

For any responsible emitter who has an emissions reduction fund project, all carbon abatement in the form of ACCUs issued gets automatically added to the entities scope 1 actual emissions. This increases the total emissions number under the safeguard mechanism for the site. These ACCUs are added on even when the ERF project (e.g. electricity savings or land use) has no impact on the scope 1 emissions of the site.

In the case where the responsible emitter is operating on or near their safeguard mechanism baseline, the only way for that entity to get financial benefit from the ERF project is to be in a contract with the CER for the estimated abatement amount. With a contract in place, the ACCUs are both deemed to be surrendered and delivered to the contract for value. Without the contract, the responsible emitter would surrender the ACCUs to the CER with no benefit in order to reduce their net emissions number below their baseline. This loss of flexibility reduces the attractiveness of pursuing projects under the Facilities Method.

A Sub-Facility Method

An impediment to the uptake of the Facility Method is the potential for abatement achieved from a project to be reduced or nullified by background variability in emissions from other parts of the facility. This may include natural variation, or caused by other factors such as maintenance or external events.

This impediment could be addressed by the development of a “sub-facility method” that enabled projects to be carried out with an emissions scope narrower than the whole facility. Such a method would require constraints on defining the project boundary but many examples exist where rigorous project boundaries could be drawn including: use of specific fuels, particular process elements, or any of the metrics reported under current NGERS arrangements. Facilities will have credible baseline data available (and currently reported) that could be used for projects at a sub-facility level.



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General/overall comments

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Department of the Environment and Energy