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Emissions Reduction Assurance Committee
Clean Energy Regulator
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Dear Chair

Re: Industrial Electricity and Fuel Efficiency Crediting Period Extension Review

The Australian Aluminium Council (the Council) welcomes the opportunity to provide information to the Emissions Reduction Assurance Committee (ERAC) on its review of the crediting extension period (CPE) of the Carbon Credits (Carbon Farming Initiative - Industrial Electricity and Fuel Efficiency) Methodology Determination 2015 (the IEFE method). Specifically, ERAC has requested the views of stakeholders on whether to extend the crediting period for the IEFE Emissions Reduction Fund (ERF) projects, and whether this would continue to result in abatement that is unlikely to occur in the ordinary course of events.

The Council represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The Australian aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the Australian economy. Alongside many decades of economic contribution, the industry is globally comparatively young and well maintained. The industry includes five large (>10 Mt per annum) bauxite mines plus several smaller producers which collectively produce over 100 Mt per annum making Australia the world's largest producer of bauxite. The six alumina refineries produce around 20 Mt per annum of alumina and Australia is the world's largest exporter of alumina. There are four aluminium smelters; in addition to downstream processing including more than 20 extrusion presses and Australia is the sixth largest global producer of aluminium. Aluminium is Australia's highest earning manufacturing export. The industry directly employs more than 17,000 people, including 4,000 full time equivalent contractors. The industry also indirectly supports around 60,000 families in regional Australia.

Of the more than 1000 projects listed on the Clean Energy Regulator's Register of Emission Reduction Fund Projects, only 50 are listed under the IEFE methodology. Of these, only 11 projects have generated Australian Carbon Credit Units (ACCU). The largest of these 11 projects is at one of the Council's members (RTA Gove Pty Limited). The Council's submission is based on Council members direct experience with registered projects, plus the ongoing consideration of other abatement opportunities by Council members, where the requirements to meet the IEFE (and other) methodologies are too narrow and/or complex.

It is the experience of the Council's members that the IEFE method has very specific and detailed statistical tests and particular additionality rules which make it difficult to deliver projects that meet the requirements of this methodology.

For example, under the statistical requirements, the baseline data needs to be:

- homoscedastic,
- be a normally distributed data set,
- have an $R^2 > 0.75$,
- meet t-statistic tests and relative precision thresholds, and
- have variables shown to be independent of each other (free of autocorrelation).

In a manufacturing environment, with process variation, it is the experience of members that it is exceedingly difficult to pass all of these requirements at once.

It also has to be demonstrated that the project would not take place without ERF, in order to meet additionality requirements; yet the project is then funded up front by the project proponent and it usually takes 2-3 years before the financial value is delivered. This combination of requirements makes it difficult to ensure compliance with the additionality requirement of not relying on ERF funding.

Additionally, given the high statistical burden, the audit costs alone of potential projects are not insignificant; and can represent a significant portion operation of a project's potential financial value.

Once the ACCUs are received, the project proponent then typically needs to enter into a contract with the Clean Energy Regulator (CER) to achieve any financial value because facilities which may use this method are usually responsible emitters under the safeguard mechanism. As a responsible emitter under the safeguard, any ACCUs received (irrespective if abatement is from scope 1, scope 2 or land improvements) are added to their reported scope 1 emissions and will likely cause them to exceed their baseline. This mechanism of adding ACCUs to reported emissions under the safeguard mechanism adds to the disincentive and uncertainty of delivering any meaningful value from an IEFE project.

The Council would support the extension of the IEFE methodology beyond 7 years for both current and new projects. However, current rules only allow a project proponent to enter into a maximum of three contracts with the CER for their ERF project over the project crediting period. Extension of the crediting period should also be matched with additional flexibility to have the option to participate in at least one more auction and subsequently enter into more contracts with the CER. This is to enable to the financial benefit of this extension to be realised. The Council notes that new projects have some increased flexibility in the delivery schedule, but this doesn't fully resolve the issue; particularly not for current projects which cannot access these flexible terms.

The Council would like to continue to work with the Department and Clean Energy Regulator, to develop workable solutions for industry; while maintaining the durability and policy intent of the scheme.

Yours sincerely,



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