Climate Council of Australia

Submission to: Review of the Carbon Credits (Carbon Farming Initiative—Facilities) Methodology Determination 2015

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About the Climate Council

The Climate Council is an independent non-profit organisation funded by donations by the public. Our mission is to provide authoritative, expert advice to the Australian public on climate change.

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Submission summary

The Climate Council welcomes this opportunity to provide input as part of the review of the *Carbon Credits (Carbon Farming Initiative—Facilities) Methodology Determination 2015*.

Our over-arching message in relation to the questions raised in the Emissions Reduction Assurance Committee's Consultation Paper is two-fold:

First, in some areas, the current version of the methodology is well-adapted to ensuring the legitimacy of abatement credited under it. **Where the method is strong, it should be vigorously defended.**

The requirement that officers of the proponent provide a statement of activity intent is especially important and should be retained. While this suggestion goes beyond the scope of this particular review, we would like to note that many, though not all, integrity issues identified in other methods could have been avoided if the proponents had been required to provide a similar statement.

Second, in other areas the method does not currently comply with the offsets integrity standards. These areas should be improved upon through this process. The point at which the counterfactual emissions intensity is set is a key example of this. **Where the method is weak, it should be strengthened.**

Responses to the individual invitations for comment are provided on the subsequent pages.

Responses to individual invitations for comment

3.2.1
The Committee welcomes views on: Whether the requirement for 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 this statement; and whether there are other changes to refine the scope of the method to improve its usability.

The statement of activity intent must be retained in order to ensure that projects are additional and go beyond business as usual. If the statement of activity intent for the Facilities method is making registration more difficult for projects where the contribution of the Act unable to be verified, then the statement of activity intent is adapted and working as it should. These projects should be excluded if abatement credit generated under the Act is to have credibility.

ERF registration should be a necessary (but need not necessarily be a sufficient) condition of the decision to commit funding to an abatement project in order to register that program under the Act. Deceptively simple, the requirement contained in the statement of activity intent, is far more nuanced and well-adapted to ensuring true additionality of abatement activities, in several regards, than the legislated additionality tests under s 27(4A). This test is alive to commercial realities and creates a rational limit in line with the offsets integrity standards, particularly s 133(1)(a). It would seem that if such a declaration was required under more of the methods contained under the Act, the integrity of the scheme would be far higher.

Additionality in offsetting is necessary to ensure that offset credits are issued against projects that have verifiably been caused by the registration of the project activities.

This simple requirement for additionality should not be overthought. In the provided case studies examples, neither project can in fact be proved to be additional and so they should not be able to register or generate credit. Permitting projects where it is unclear whether the operation of the Act has caused the project to proceed is goes against the combined effect of ss 133(1)(a) and 133(1)(g). A conservative approach to proving that abatement is genuine precludes projects where the Act's contribution is marginal or unclear.

The Case Study Projects in the consultation paper for this review are excellent examples of this.

Case Study Project 2 is straightforward. As it cannot be proved to have been in any way incentivised by the Act, it should be excluded. There are countervailing arguments about what the role of the Act, the methods and this Committee should be. The purposes could be one of the following, but cannot equally be both:

- To credit all activities that abate greenhouse gas emissions in order to encourage participation in the market; or
- To facilitate an offset market where the unit of trade is measurable and verifiable.

The offsets integrity standards, at s 133(1)(b) are quite clear about which approach should be preferred, and it is the latter.

If a project is already commercial, as in Case Study Project 1, but the proponent lacks the relevant expertise, an argument might be made (and, it seems, has been made) that ACCU credits are beneficial. But this is asking the wrong question.

The better question is: Why should government issued abatement credits be used in lieu of a standard commercial transaction? Certainly, there are dozens of other classes of decision made by corporations that require consultation with outside experts. Should all of these have a unique form of crediting and incentive from Government applied to them?

The short answer, when the correct question is asked, is that they should not.

There is the possibility of overthinking this requirement for additionality when dealing with any simple test of additionality. But resorting to the tests' purpose tends to make this far more clear. Additionality in offsetting is necessary to ensure that offset credits are issued that are proved to be caused by the registration and crediting of the project activities. In these case studies examples, neither project can in fact be proved to be additional. Therefore, they should not be able to register or generate credit.

3.2.2

The Committee welcomes views on: Whether using the electricity grid average as the proxy for the 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?

Given the rapid decarbonisation that is taking place in the electricity sector, the current approach of setting the counterfactual emissions intensity is not well adapted to ensure ss 133(1)(a) and 133(1)(g) are met over a seven-year crediting period.

It is important not to put too much stock in reports that claim Australia's electricity sector will fully decarbonise at or near 2030, especially those which understate the relative difficulty of achieving this goal. However, so long as the emphasis in any discussion remains on the *possibility* that we might fully decarbonise our electricity sector in that time, it serves as a useful example.

The current crediting period for electricity sector projects under the Facilities method, as noted above, is seven years. The possibility of fully decarbonising in ten, whether that comes through a strengthening of the Renewable Energy Target, through some form of National Energy Guarantee or from basic economics, means that for a significant proportion of the crediting period, projects which are at or near the grid average emissions intensity at the time of declaration might be significantly above the grid average intensity.

Regardless of an individual's position on how realistic such a transition in the electricity sector is, the Facilities method must be designed to cope with that possibility. If it is not, it could realistically provide an incentive to continue the operation of facilities that might be emitting at an average intensity today, but which may be operating at an extraordinary intensity by the standards of 2025. Under current settings, the method could make economic high-emitting activities that would otherwise be uneconomic. For obvious reasons, this should not be acceptable. The method must take a more iterative approach to consideration of the counterfactual.

We do not have a position on which of the reporting period options should be preferred. Given the current trajectory of electricity sector emissions intensity, using the average emissions intensity at the end of the reporting period would seem to be the more conservative, as required by s 133(1)(g), but the possibility of short term spikes (which may occur from a black swan event, for instance) could make the average of the entire reporting period preferable.

Given the media reporting that has surrounded this review and the registration of Vales Point coal-fired power station, we feel the need to be very clear that this provision should, under no circumstances, be made weaker. We note that the form of 'upgrade' proposed by the proponents of that project might be more accurately described as a 'repair'. Any marginal improvement in the emissions intensity of Vales Point from ERF121628 will be far outweighed by the increased emissions from prolonging its operating life well beyond the crediting period. This is obviously perverse. We note, also, that no Australian coal-fired power station operates at below the average emissions intensity for the National Electricity Market.

While this is not a consideration under the offsets integrity standards, given the work of the Intergovernmental Panel on Climate Change in its Special Report on 1.5 Degrees, we note that prolonging the life of coal-fired power stations does not meet the overarching objects of the Act, as they relate to Article 2 of the *Paris Agreement.* Under any conception of an equitable allocation of the global carbon budget that might be used, continuing the operational life of coal-fired power

stations does not contribute to meeting the internationally-agreed goal of limiting global warming to well below 2 degrees above pre-industrial levels.

The vast majority of fossil fuel resources must remain in the ground to meet this goal, and no new fossil fuel facilities – or extensions or upgrades to existing facilities – should be incentivised.

3.2.3
The Committee welcomes views on: Whether the impact of replacing essential equipment at electricity generators that may extend their operating life is sufficiently and appropriately addressed in the Facilities Method.

As discussed in the above responses, it does not appear to be at present. However, our priority is that the method should most certainly not be made weaker through a weakening of the statement of activity intent requirement or through a detrimental shift in the counterfactual emissions intensity.

3.2.4
The Committee welcomes views on: Whether setting the baseline on four years of historical data is sufficiently conservative and appropriate and whether this approach is sufficient to address regulatory additionality requirements.

Certainly, we can see arguments for and against shifting this requirement. However, it is difficult to assess whether, across the full range of projects that might register under the method, it is possible to come to a clear position. Certainly, for certain projects, four years might be sufficient, and for others, it could be manifestly insufficient. One core disadvantage of this method, as we see it, is that unlike most methods created under the Act, it seems to be attempting to be all-things-to-all-people. We are not convinced that this is appropriate.

3.2.5
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.

As above, given the diversity of projects that might register under this method a one-size-fits-all approach to setting the crediting period will almost certainly be inappropriate under certain circumstances.

3.2.6
The Committee welcomes views on: How the usability of the method could be improved.

As intimated in the response to the first and second responses, we feel that there might be an undue emphasis creeping into the method review process whereby participation under the Act is being given precedence over legislated requirements under the Act.

While the Act is permissive with regard to the considerations that the Committee might take into account under s 123A(6), where these further matters come into conflict with the offsets integrity standards, it is the considerations that have been specifically considered by Parliament that must prevail. While this is, in part, a matter of propriety and giving the legislation its due place, as discussed in response to the above responses, it is also core to maintaining the integrity of the scheme.

As such, we reject the premise of this invitation and would prefer that the priorities of the Committee be shifted toward maintaining integrity within the scheme, with a cleared-eyed perspective on the legislated standards for offsets under the Act.