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The Emissions Reduction Fund and Opportunities for Local Government

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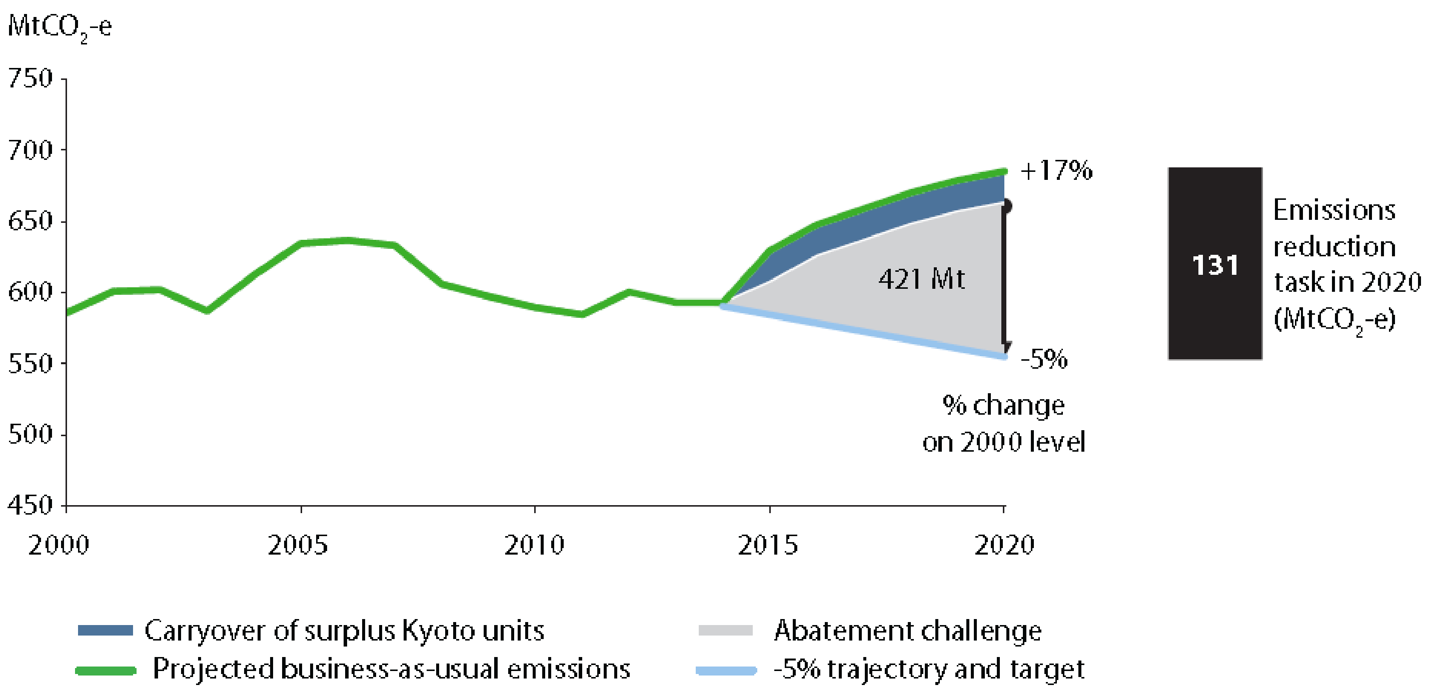
Figure i: Australia's emissions reduction task to 2020



Source: Department of the Environment, *Australia's Abatement Task and 2013 Emissions Projections*, 2013, adjusted for updated data in *Australia's National Inventory Report 2012*, 2014.

Notes: The Kyoto Protocol allows countries that overachieve in meeting their Kyoto target in the first commitment period to credit that overachievement against the target for the second commitment period by 'carrying over' surplus Kyoto units. Since the release of *Australia's Abatement Task and 2013 Emissions Projections*, the 'carry over' surplus estimate has been revised upwards from 121 $MtCO_2$-e to 131 $MtCO_2$-e, which reduces the overall challenge to 421 $MtCO_2$-e. Emissions are presented using the Intergovernmental Panel on Climate Change's Fourth Assessment Report global warming potentials.

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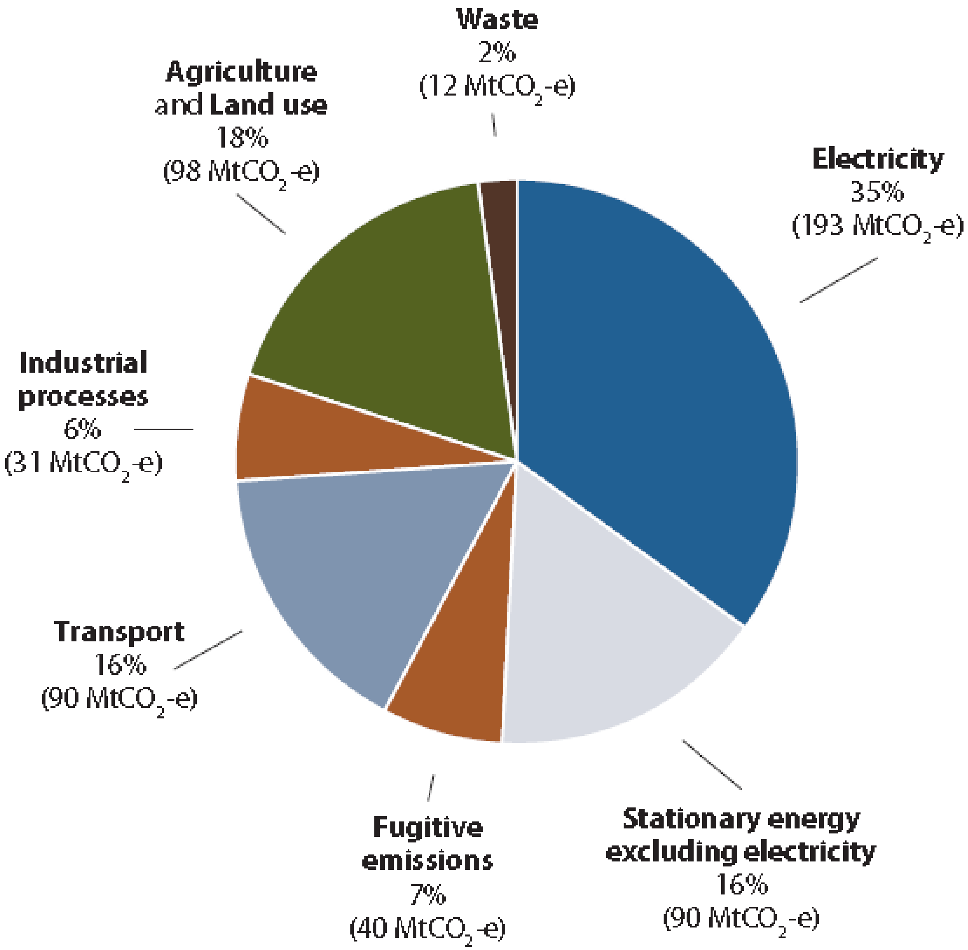
Figure 1.2: Australia's National Inventory 2012



Source: Australian Government, *Australia's National Inventory Report 2012*, 2014.
Note: Figures are expressed using Kyoto Protocol accounting rules in terms of millions of tonnes of carbon dioxide equivalents ($MtCO_2$-e), using the global warming potentials published in the Intergovernmental Panel on Climate Change's Second Assessment Report.

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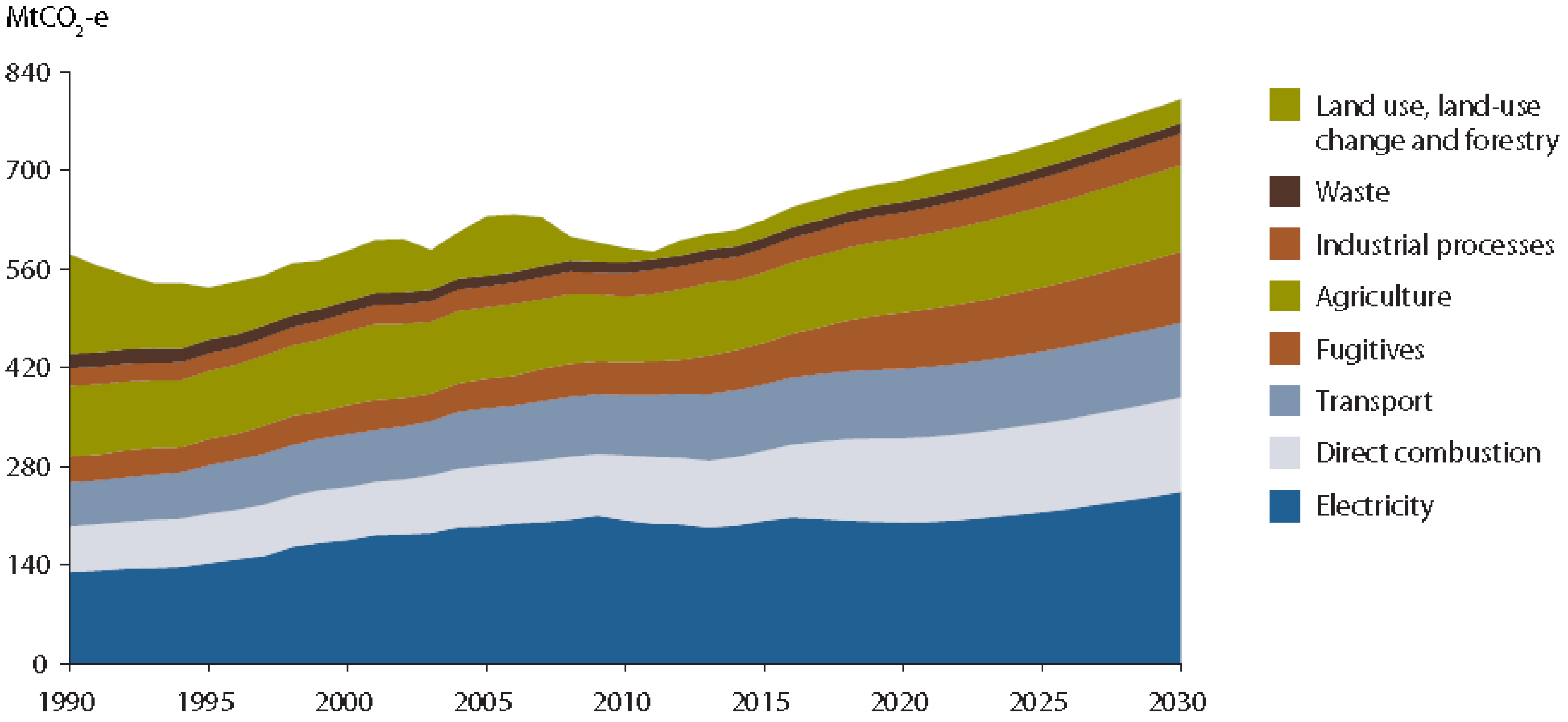
Figure 1.6: Australia's emissions projections to 2030

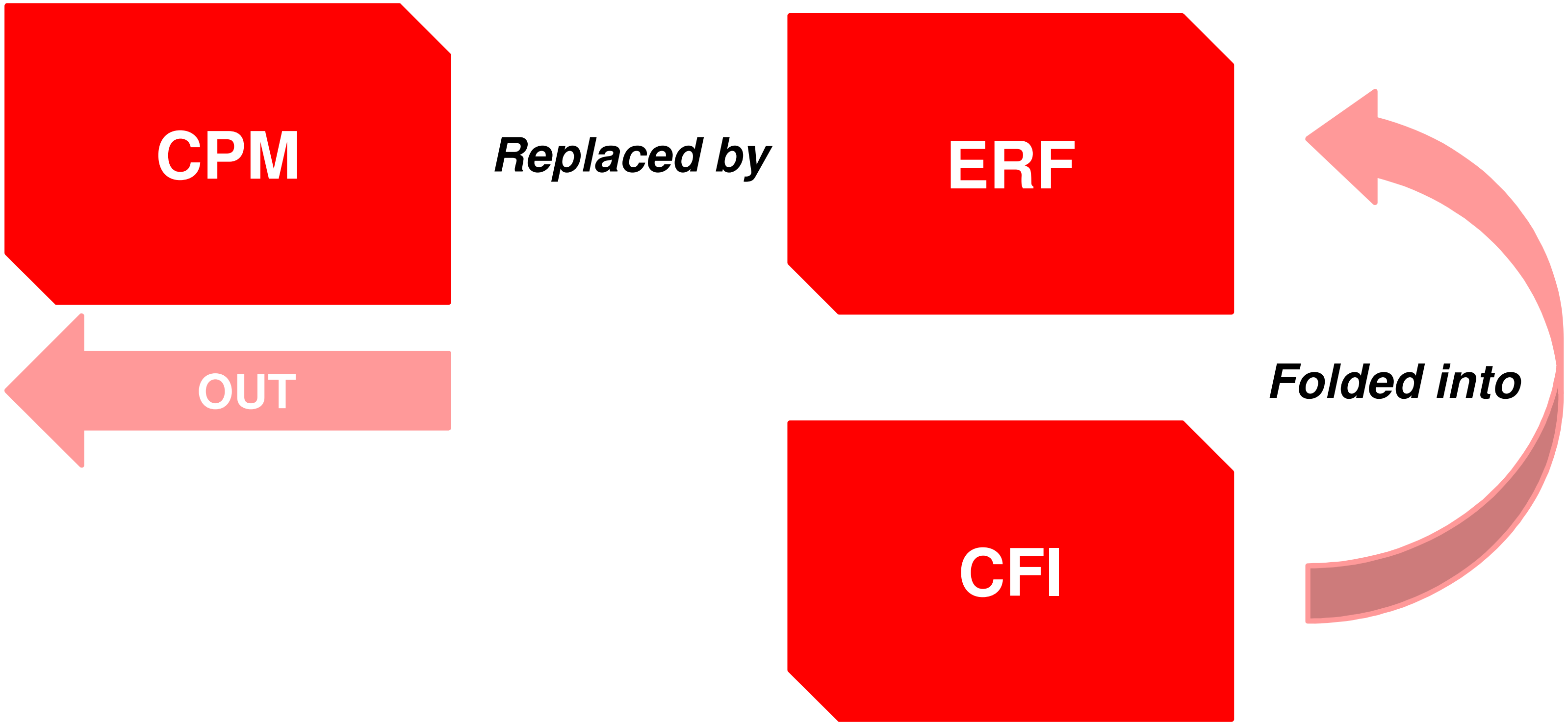


Source: Department of the Environment, *Australia's Abatement Task and 2013 Emissions Projections*, 2013.

Introduction to the ERF

- ERF White Paper released on Anzac Day Eve and draft legislation on 9 May
- ERF will commence after the carbon tax has been repealed
- ERF is a fund allocated to the purchase of emissions reductions
- Expenditure of $2.55b over next four years: $300m, $500m, $750, $1b
- Money can be spent via auctions, tenders or “any other process”
- Clean Energy Regulator will register projects, issue credits, administer auctions and enter into contracts with successful participants
- ERF has three primary components: crediting, purchasing, safeguarding
- The design of the ERF has had regard to three principles:
  - Lowest-cost emissions reductions
  - Genuine emissions reductions
  - Streamlined administration

Interrelationship between the CPM, CFI and ERF



- CPM legislation will be repealed
- CFI will be "folded into" the ERF
- CFI Act will be kept and amended to implement the ERF
- Amendment Act contains transitional provisions for CFI
- Amendments to other legislation (e.g. NGERS, ANREU, CER)

Steps to participate in the ERF

Method Development

Step 1: Register project and estimate emissions

Step 2: Submit auction bid

Step 3: Enter into a contract

Step 4: Report on project and receive payment for credits

Sourced from the White Paper

Crediting emissions reductions

- Participants wishing to participate in the ERF will need to undertake a project or activity in line with an "emissions reduction method" (**method**)

- Two types of methods:

Facility methods	**Activity methods**

- Minister will determine priorities for method development

- Methods developed through Technical Working Groups and referred to the Emissions Reduction Assurance Committee

Current priority methods

- A generic method for emissions reductions at facilities reporting under NGERS
- Commercial, industrial and aggregated energy efficiency (including existing state schemes)
- Reductions in emissions-intensity of transport
- Capture and destruction of coal mine fugitive emissions
- Capture and combustion of landfill gas
- Alternative treatment of organic waste
- Capture and combustion of biogas from wastewater

NB Other methodologies still being progressed under CFI (soil carbon, forestry, feed additives)

Project approvals

- Project registration undertaken by Clean Energy Regulator

- Additionality genuine (positive list and common practice test removed)
  - "carbon abatement that is unlikely to occur in the ordinary course of events"

- Projects will be eligible for registration if:
  - the project is consistent with a relevant ERF method;
  - the proponent has the legal right to undertake the project;
  - the project has not "begun to be implemented" prior to registration;
  - the activity is not required by law;
  - the activity will not occur as a result of another government programme.

- Projects which participate in the ERF will only receive one crediting period

Purchasing emissions reductions

- Three forms of procurement: auction, tender and “any other process”
- Intent to proceed through reverse price auctions – cost is only factor

Key features of auction process:

- Projects must be registered before bid submitted
- Sealed bids
- Only one bid per proposal (minimum bid size of 2,000 t)
- Regulator will conduct auction rounds in accordance with guidelines and will set benchmark price
- Benchmark price can be made public for first auction but not subsequent auctions
- Regulator will undertake pre-qualification checks (eligibility and credibility)
- Four auctions will be scheduled for the first year

Carbon abatement contracts

- Contract period currently 5 years (market testing underway to determine whether longer contract terms required)
- Contracts automatically entered followed success at auction and will detail the price, quantity and delivery time for emissions reductions
- Contracts will include make-good provisions
- Replacement credits sourced from domestic projects (no provision for international units to make up shortfall)
- Government will retain discretion to enter into out-of-auction contracts for major projects (250,000 tonnes CO_2-e pa)

Safeguarding emissions reductions

- Not starting until 1 July 2015
- Essentially the compliance element of the ERF
- Premised on a "baseline and credit" model
  - covered facilities set emissions baselines against which credits can be created if emissions fall below baseline levels and penalties applied for exceeding baseline levels
- Policy positions resolved in White Paper:
  - it will cover facilities with direct emissions of 100,000 tonnes CO2-e a year or more (which is said to equate to around 130 entities and 53% of Australia's emissions)
  - it will not impose new mandatory reporting obligations on existing businesses
  - it will cover new and existing facilities
  - for existing facilities, absolute emissions baselines over historical period will be set using existing data reported under NGERS (proposes using highest level of reported emissions over previous five years)
  - for new facilities and expansion facilities, baselines will reflect industry best practice

Carbon Farming Initiative - changes

- Streamlined and simplified reporting procedures
- Existing projects – grandfathered into ERF but must still be successful at auction
- Transitional period for registration of CFI projects
- Sequestration projects
  - requirement for a project aggregator to hold a proprietary interest in land or carbon sequestration right to be removed (only need to show agreement with the landholder)
  - a 25-year permanence option (with 20% discount) to be introduced (will also apply to soil carbon projects)
  - requirement that ACCUs be issued for avoided deforestation projects over 20 years be removed

What next?

- CPM repeal legislation before Senate between 7-17 July
- ERF legislation likely to be tabled in lower house shortly
- Senate will consider ERF legislation after July (after composition of Senate changes)

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Opportunities for local government participation

- Undertaking projects
- Energy efficiency (e.g upgrading civic buildings; street lighting)
- Waste (e.g landfill gas capture; waste diversion)
- Land (e.g revegetation)

- Acting as aggregator

- Education and outreach

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