



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **10(a)**
Meeting Date: 15 September 2015
Subject: Emissions Reduction Fund and Clean Energy Regulator Update
Date Prepared: 28 August 2015

Action Required

For Information Purposes Only

Agenda Item Objectives

1. To provide the AUASB with an update on developments in relation to:
 - a. The Emissions Reduction Fund (ERF) and the Safeguard Mechanism, including the activities of the Department of Environment in developing legislation and regulation for the schemes, and the Clean Energy Regulator (CER), who administers the schemes.
 - b. The National Greenhouse and Energy Reporting (NGER) and related schemes which the Clean Energy Regulator (CER) administers.
2. To monitor when Guidance Statement GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes* will be updated to reflect the current schemes.

Background

Policy

The Department of Environment is responsible for policy development in relation to climate change and is responsible for developing the policy with respect to:

- ERF - the legislation necessary to implement the scheme and the methodology determinations for quantification of abatements under each type of project.
- Safeguard Mechanism - designed to encourage businesses not to increase emissions above historical levels.

Regulation

The CER is responsible for the administration of schemes related to climate change, which currently include:

- National Greenhouse and Energy Reporting Scheme (NGERS) – on-going reporting requirements.
- ERF – auctions to purchase abatements and monitoring of reporting and assurance under the abatement contracts issued.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- Proposed Safeguard Mechanism – Large emitters will be required to keep their emissions below a set baseline, based on historical NGERs data. They will be able to surrender credits to offset any emissions over the baseline.
- Renewable Energy Target - encourages the additional generation of electricity from sustainable and renewable sources by requiring electricity retailers to surrender certificates to the CER, for electricity purchased from the coal or gas-fired power generators.

The ERF has been introduced by way of amendments to the *Carbon Credits (Carbon Farming Initiative) Act 2011*, issued in February 2015, which provide for the CER to conduct auctions and enter into contracts to purchase emissions reductions. The amendments enable a broader range of emissions reduction projects to be approved, as well as amending the project eligibility criteria and processes for approving projects and crediting carbon credit units. The ERF formally commenced on 12 December 2014 and the first auction under the ERF was held in April 2015. The auctions will be used by the CER to purchase emissions abatements in the form of Australian carbon credit units (ACCUs), on behalf the Government. ERF contracts include a schedule for the delivery of ACCUs submitted by the project proponent, reporting under the scheme and will be subject to an audit, the frequency of which will depend on the volume of abatement.

The AUASB advised the Department of Environment in drafting *Carbon Credits (Carbon Farming Initiative) Rule 2015*. The Rules specify the nature and frequency of the audit requirements and the form of the audit reports to be provided with respect to ERF projects. The Rules provide for projects to undertake an initial audit at the beginning of the crediting period with a minimum of three audits, including the initial audit, in total over crediting periods of seven years or more.

During the year the Department of Environment have been progressively issuing methodology determinations for each new activity which the ERF encompasses. Existing CFI projects were automatically transitioned to the ERF when it commenced on 12 December 2014. Changes to current and new methods will not affect these existing projects, in that they may either continue to operate under their existing CFI methods or apply to use an applicable ERF method.

Matters to Consider

The first ERF audits may be commencing in or after the last quarter of 2015 with respect contracts entered into at the first auction in April 2015. Initial audits can be conducted on project reports for a period of at least 6 months and up to 2 years into the crediting period (or 5 years into the crediting period for sequestration projects). At least 2 subsequent audits are also required for each project depending on the average abatements. The second auction under the ERF for the government to purchase abatements will be held on 4-5 November 2015.

The Safeguard Mechanism will start in 2016 and will require the largest emitters to keep their emissions below a set or historical baseline. The AUASB Technical Group has advised the Department of Environment on the assurance requirements with respect to Safeguard Mechanism baseline applications. An exposure draft *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* which includes these requirements was issued for public consultation on the 2nd September 2015.

With the repeal of CPM and related assistance schemes and the introduction of the ERF and proposed Safeguard Mechanism, GS 021 is now out-of-date. However, the AUASB agreed at the July meeting to delay amendments to GS 021 until the ERF is bedded down, the Safeguard Mechanism is in place and the future of the various schemes is clear. In the meantime, the CER are updating the Audit Determination Handbook to reflect the ERF audit requirements and have been consulting with the AUASB in this regard.

Material Presented

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