



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **12(b)**

Meeting Date: 25 November 2014

Subject: Emissions Reduction Fund and Clean Energy Regulator Update

Date Prepared: 17 November 2014

Action Required

For Information Purposes Only

Agenda Item Objectives

To provide the AUASB with an update on developments in relation to:

1. The proposed Emissions Reduction Fund (ERF), including the activities of the Department of Environment, in developing legislation and regulation for the scheme, and the Clean Energy Regulator (CER), who will administer the scheme, to identify possible implications for the AUASB.
2. The National Greenhouse and Energy Reporting (NGER) and related schemes which the Clean Energy Regulator (CER) administers.

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 the government's proposed ERF, the legislation necessary to implement the scheme and the methodology determinations for quantification of abatements under each type of project. The proposed ERF will replace the carbon pricing mechanism (CPM), which was repealed with effect from 1 July 2014 and will incorporate projects operating under the Carbon Farming Initiative (CFI). Assistance schemes related to the CPM, the Jobs and Competitiveness program (JCP) and partial exemption certificate (PEC) relief under the Renewable Energy Target (RET) have been discontinued with effect from 1 July 2014.

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
 - CPM & related assistance – final reporting period ended on 30 June 2014 and all obligations to meet carbon liabilities must be met by liable entities by 2 February 2015.
 - Proposed ERF – development of subordinate legislation (regulations & determinations) to implement the ERF legislation, including specific audit and assurance requirements.
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Matters to Consider

Emissions Reduction Fund

The Government introduced, the [Carbon Farming Initiative Amendment Bill 2014](#) to Parliament in June 2014 for the implementation of the ERF. The proposed legislation extends the coverage of the CFI for crediting of emissions reductions. It also provides for operation of competitive auctions for the Government to purchase these emissions reductions through contracts and it includes arrangements to transition projects and methods from the CFI into the ERF.

On 31 October 2014, the Senate made amendments to the Carbon Farming Initiative Amendment Bill 2014, which need to be passed by the House of Representatives during the parliamentary sitting period of 24 November to 4 December 2014 for the Bill will take effect to establish the ERF.

The amendments the Senate agreed will affect the way the ERF will be implemented by the CER, including:

- The commencement date for the safeguard mechanism will be 1 July 2016 and public consultation will be undertaken on safeguard mechanism legislative rules by 1 October 2015.
- The standard duration of carbon abatement contracts will be 7 years rather than 5 years and may be longer for projects with longer crediting periods.
- The Emissions Reduction Assurance Committee (ERAC) has additional responsibilities, including the review of the crediting period for each method within a year of the end of the crediting period of the first project approved. The ERAC can order the CER to suspend project application processes if it believes the method does not comply with the offsets integrity standards.

Contracts for the purchase of emissions reductions or abatements will include a schedule for the delivery of Australian carbon credit units (ACCUs) submitted by the project proponent and reporting under the scheme. Proponents can choose to report every six months. The Bill introduces a risk-based approach to auditing emissions reductions. The Bill provides for legislative rules to be made by the CER, specifying the level of assurance, frequency and scope of the audit report that must be provided with project reports for different types of projects. The CER is in the process of drafting the legislative rules in preparation for the ERF being passed, which are expected to 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. The rules may also provide for fewer audits over shorter crediting periods.

The proposed legislation is in the form of amendments to the CFI Act which provide broadly for audit requirements, allowing for either:

- the legislative rules to specify which applications for offsets (certificate of entitlement) will require an audit and the form of the audit report; or
- the CER, having regard to risk management, to require an audit and the legislative rules will specify the form of the audit report.

The CER have been in consultation with the AUASB Technical Group when drafting the legislative rules and is expected to seek the AUASB's input on the prescribed audit reports with respect to assurance under the proposed ERF.

The Department of Environment have been in the process of issuing exposure drafts of methodology determinations for each new activity which the ERF will encompass. To date, 8 methodology determinations have completed their exposure period and 4 more are on exposure until 12 December 2014. Existing Carbon Farming Initiative projects will be automatically transitioned to the ERF. 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.

Clean Energy Regulator

The CER continues its NGER audit program of CER initiated audits of NGER registered corporations and assessment of the assurance reports lodged under the CPM and other schemes. In addition, it has established a greenhouse and energy auditor inspection program to ensure that registrations are held only by auditors who maintain the necessary competency requirements under NGERs.

The CER will oversee the final surrender by Australia's liable entities of ACCUs under the repealed CPM, which are due on 2 February 2015.

The AUASB Technical Group will continue to liaise with the CER and the Department of Environment and monitor their activities.

Material Presented

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