



Australian Government

EMISSIONS  
REDUCTION  
ASSURANCE  
COMMITTEE

# Industrial Electricity and Fuel Efficiency method – crediting period extension review report

## Summary

The Emissions Reduction Assurance Committee (ERAC) has undertaken a crediting period extension (CPE) review of the *Carbon Credits (Carbon Farming Initiative—Industrial Electricity and Fuel Efficiency) Methodology Determination 2015*, as required under section 255A of the *Carbon Credits (Carbon Farming Initiative) Act 2011*.

The Industrial Electricity and Fuel Efficiency (IEFE) method allows registered projects to generate abatement and earn Australian carbon credit units (ACCUs) by reducing their energy consumption emissions (scope 1 and scope 2). Examples of project activities include: replacing low efficiency energy-consuming equipment with higher efficiency versions; switching to less emissions intensive fuels; and changing the way energy-consuming equipment is controlled or operated.

The CPE review assessed whether the period over which projects can earn ACCUs – the crediting period – should be extended from the current seven-year period. The ERAC assessed whether under an extended crediting period the method would continue to meet the offsets integrity standards' requirement that projects are additional, meaning that the project activities and the abatement they generate are unlikely to occur in the ordinary course of events.

The ERAC requested financial data and supporting information from existing IEFE project proponents and other stakeholders on 22 February 2021. Eight responses were received with no submissions providing quantitative data as evidence to support a CPE.

The ERAC found that industry provided insufficient evidence to demonstrate that extending the crediting period would continue to result in abatement unlikely to occur in the ordinary course of events.

On the basis of its findings outlined below, the ERAC recommended that the crediting period for IEFE projects should not be extended.

## Review considerations

In undertaking the CPE review, the ERAC focused on two main issues:

- the extent to which existing IEFE projects are likely to continue in the absence of revenue from ACCUs; and
- the extent to which ACCUs generated in the future under an extended crediting period will continue to be additional and provide genuine abatement.

## Background

As of May 2021, 33 projects were registered under the IEFE method. A total of 1.4 million ACCUs have been issued to 14 IEFE projects, representing just under 1.5 per cent of ACCUs issued to date.

## Findings

All submissions expressed support for a CPE for the IEFE method. However, no submissions provided quantitative evidence about existing, potential, or revoked IEFE projects in support of a CPE.

A qualitative analysis was undertaken focused on determining the extent to which existing projects are likely to continue to result in additional abatement with an extended crediting period and the potential for an extended crediting period to provide further support for new projects that would otherwise be uneconomic.

### Existing projects

- The majority of IEFE projects require an initial capital investment when energy consuming equipment is upgraded or installed. However, project proponents generally gain an ongoing financial benefit from energy savings due to the upgrade or switch, as well as any benefits arising from ACCU generation.
  - » As such, it is likely that existing projects will continue to generate abatement at the end of their crediting period because there is generally an operating and capital expenditure loss associated with stopping or reversing the project activities.

### New projects that could be supported by a CPE

- Based on the submissions received, there was only limited evidence to suggest an extended crediting period would incentivise new projects and abatement sources that would otherwise not occur.
  - » Submissions indicated that many businesses and sectors that could undertake an IEFE project require payback periods less than seven-years and that under these circumstances a CPE would have limited impact on the project's financial justification.
  - » No submissions provided information about the types of projects that an extended crediting period might incentivise.
- Projects continue to be registered under the IEFE method with the existing crediting period. There is a risk that if a CPE is provided, projects for which the existing incentives are sufficient may be credited for non-additional abatement.

## Recommendations

On the basis of the above findings, the ERAC recommended that the crediting period for IEFE projects should not be extended.

On balance, the ERAC formed the view that there was a significant risk that, if an extended crediting period were to be provided, the method would credit abatement that is not additional.