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Department of Climate Change, Energy, the Environment and Water (DCCEEW)
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RE: DCCEEW's consultation on implementing ACCU Scheme 'priority' reforms

Australian Energy Producers welcomes this opportunity to provide feedback on the ACCU Scheme discussion paper. This submission relates specifically to matters raised in DCCEEW's [discussion paper](#) (paper) and its implementation of the Independent Review's (IR) recommendations on reforming the Australian Carbon Credit Units (ACCUs) Scheme; noting the Government adopted all 16 of the IR's recommendations.

Australian Energy Producers regards both the Safeguard Mechanism (SGM) and the ACCU Scheme (formerly known as the Emissions Reduction Fund) as important pillars of Australia's climate change response.

Australian Energy Producers supports the IR's finding that the ACCU Scheme (Scheme) is sound; as well as the Climate Change Authority's (Authority) view expressed in 2018 that it is operating well, is meeting its objectives, and is fit for purpose.

It is important for a well-functioning ACCU market that there continue to be a reliable supply of high-integrity credits. The Scheme's reform emphasis needs to continue to prioritise the removal of barriers to entry (reducing administration costs and costs of supply) while simultaneously enhancing economy-wide arbitrage of credits to ensure a deepening and more liquid carbon market that appropriately values ACCUs within a context of national carbon credit scarcity (emissions reduction targets).

Submission structure

The Australian Energy Producers' submission emphasises the following core positions, with further positions outlined in the main body of the submission.

Section 1 of questions – governance, transparency and integrity

- *Supports the introduction of Scheme principles to supplement the Offset Integrity Standards (OIS) and improve the consistent application of the OIS in method development and project implementation and administration. Further consideration should be given to the role/function of the principles within the ACCU scheme before they are finalised.*
- *Does not support the introduction of an administratively managed buffer as a kind of de facto approach to underwriting Scheme integrity.*
- *Supports continued Commonwealth-funded purchases where this helps ensure that investments in projects continue, to support price discovery and support efficient function of the market. Care should be taken so that Commonwealth purchasing does not unduly compete with private buyers.*
- *Supports strongly retaining the Scheme's focus on least-cost abatement.*

- *Does not support the targeting of specific themes, technologies and/or project activities or banding auctions by solution unless proven to be highly complementary to the achievement of least-cost abatement (i.e., not industry policy) within this Scheme and/or the SGM.*
- *Supports keeping early exiting arrangements with the proposed delivery of a minimum percentage of the contracted ACCUs. Early exit arrangements should be designed to balance the effective function of the cost containment mechanism and making ACCUs available to the market thereby reducing the likelihood the cost containment mechanism will be accessed.*
- *Supports for equity reasons that any proposed changes to the Scheme be applied prospectively and not retrospectively.*
- *Does not support individual account holding details being published, noting also the importance of the International Sustainability Standards Board development of an international standard on sustainability assurance (ISSB 5000).*

Section 2 – Method Development

- *Supports a proponent-led and modular method development process that ensures an equitable balance is struck between method developers, DCCEEW and the Integrity Committee. Thought should be given to how the costs of method development will be borne and opportunities for these to be recovered from project developers who do not face costs in the development of the method.*
- *Supports a fit for purpose development of methods that include a staged approach to approval and publication with the timing determined by whichever track is chosen.*
- *Does not support any mandate to formally report on non-CO₂ benefits.*
- *Supports the proposed Integrity Committee managing the public consultation process on a proposed method, method variation, or module.*
- *Supports the integrity committee explicitly considering transitional arrangements as part of making new methods, modules or method variations. We welcome transitional arrangements that grandfather established projects.*

Section 3 – Native Title Consent

- *Supports native title, land council and other Indigenous organisations being adequately consulted on the best means of providing advice to Indigenous communities on carbon market land tenure and Native Title considerations.*

National policy context

The Clean Energy Regulator (Regulator), the Emissions Reduction Assurance Committee (ERAC), DCCEE and the Australian Securities Investments Commission (ASIC) are all playing effective roles in the administration, operationalisation, and oversight of the Scheme. It remains the role of government to oversee method development, registration, monitoring and credit issuance as well as continue to educate participants and stakeholders. This role played by government is essential for proponents, investors, purchasers, and local communities to have and retain confidence in the integrity, operation, and impact of the Scheme and associated ACCU market.

The implementation of the IR's proposed reforms should prioritise maintaining and enhancing the confidence of Scheme and ACCU (and carbon) market participants in the Scheme's capacity to generate abatement and trade and/or acquit high integrity credits once issued by the Regulator. A secondary priority for any Scheme reforms must be the reduction of the Scheme's administrative burdens for public sector agencies and regulators. Delivering on both priorities is of course desirable.

It is important for equity reasons that any potential legislative or regulation Scheme changes be applied prospectively and not retrospectively (i.e., the remaining crediting periods of already registered projects are not affected by any potential Scheme changes) as this could undermine investment certainty and potentially penalise first mover project proponents. At the very least, proponents of existing projects should be afforded a choice between either remaining on an existing method or moving to new methods to avoid being disadvantaged and/or discriminated against.

The Regulator [reports](#) that about 113M ACCUs (equivalent to 113MtCO₂-e abatement) have been issued since the Scheme commenced in 2014. This amount is roughly equivalent to offsetting eighty percent of the annual emissions generated by all the facilities covered under the Safeguard Mechanism.

Australian Energy Producers appreciates that ACCU abatement priorities will continue to target project level activities underpinned to a varying extent by taxpayer funding. Despite the Scheme's success over the past nine years since its commencement, there needs to be greater economy-wide facilitation of technology- and energy-agnostic mitigation outcomes.

Australian Energy Producers considers a critically important element of Australia's climate response is the Government's identification of its future intention to use carbon markets, both in the context of its economy-wide 2030 target and longer-term through to the next Nationally Determined Contribution (NDC) required in 2025, and beyond to net-zero and negative emissions outcomes.

There is also a need for the Government to define the role and contribution intended for voluntary versus compliance-based carbon markets in Australia and abroad. This includes ensuring Australia's private sector has a preparedness to participate in the Paris Agreement's Article 6 carbon market arrangements given Australia's world-leading and highly investable carbon crediting framework under the Scheme.

Providing the private sector an ability to engage in the international trading of ACCUs as well as the purchase and subsequent acquittal of internationally fungible high-integrity credits for compliance purposes under the SGM, could help to further reduce compliance costs of both schemes while generating premium prices for ACCUs which are differentiated in the market by their high quality.

Sectoral policy context

Our sector has, is and will continue to have material obligations under the SGM and is committed to making this Scheme as successful as possible. It has already helped develop several methods including the [Oil and Gas Fugitives](#); [Savanna Fire Management](#); [Facilities Method](#), energy efficiency methods, and carbon capture and storage ([CCS](#)).

All of the above Methods leverage and build on our sector's extensive domestic and global technological competencies and international best practices, along with long-held experiences partnering with First Nations communities in remote and regional Australia. Innovative technologies that can benefit Australia greatly in helping reduce its emissions are especially supported by the sectors' engagement in the Scheme, including CCS and the future development of a Clean Hydrogen (H₂) Method.

The application of CCS to large-scale CO₂ sources such as industrial and chemical processes, gas separation, cement production, power stations and fertiliser production is proven at large-scale and remains critical to Australia if it is to meet its emissions reduction targets.

CO₂ capture from natural gas production and processing is one of the [lowest-cost CO₂ capture](#) processes. Coupled with accounting, measurement, and monitoring assurances that hold much higher levels of confidence when compared to other mature storage options (including bio-sequestration and soil carbon), Australian Energy Producers considers CCS an essential engineering pathway for Australia's mitigation and clean H₂ ambitions.

The volume of abatement generated to date under the Scheme demonstrates that the institutional arrangements of the Regulator, supported by ERAC, have provided good governance outcomes including method development, monitoring, compliance, project registration, and administrative functions.

Australian Energy Producers considers there will always be improvements to be made to the efficiency and effectiveness of existing schemes and the ACCU Scheme is no exception. This is due to rapidly changing climate policy and regulatory environments that aim to give effect to Australia's international commitments, as well as the Scheme's complementarity with reforms to the SGM and implementation of the Power the Regions Fund.

Submission responses

1. Governance and integrity

Australian Energy Producers regards the ACCU Scheme (Scheme) as fit-for purpose and well aligned with current international best practices. The six principles underpinning the OIS provide for a stable foundation for current and future methods.

1.1. [Scheme principles \(Recommendation 6\)](#)

Australian Energy Producers supports as reasonable proposed Scheme principles which provide guidance on how the OIS is to be applied and interpreted in method development, and project approval and administration.

While integrity, transparency; equitable access, practical participation, environmental sustainability, and respect for First Nations all serve as high integrity benchmarks, it is important that such principles do not add ambiguity and/or opportunity for inconsistencies in applying the OIS. This aspect should be carefully considered with any proposal for new Scheme principles.

Australian Energy Producers considers emissions removal methods will become increasingly important over time when compared to the current predominance of land-use approaches, and recommends adding the following to the proposed Scheme principles:

- Technology Neutrality – developing methods to strongly encourage both engineered solutions as well as nature-based solutions
- Competitive Neutrality¹ - in both market regulation and operation.

The proposed ‘integrity’ principle is well supported by existing voluntary frameworks such as the Australian Carbon Industry Code of Conduct (Carbon Market Institute). The principle aims to supplement considerations on the newness (additionality) requirement by ensuring ‘additional’ (programmatic, financial, and regulatory) emissions reductions and the avoidance of double counting of abatement. Australian Energy Producers recognises however that there remain challenges with the application of the additionality requirement in the development and implementation of methods.

Projects cannot currently register under the Scheme if they are considered as having already commenced. The ability of nascent, innovative and highly prospective projects and project methods to progress through their innovation cycle, including physical pilots, may be severely and perversely limited by Scheme ineligibility, making investment in them even harder to secure due to prohibitively high weighted average costs of capital. This is one area where the Scheme might look to implement a more pragmatic and practical approach to managing this requirement within a context of the proposed Scheme principles.

1.2. Specific role of Integrity Committee (Recommendation 2) and DCCEEW

Australian Energy Producers supports the establishment of an Integrity Committee resourced with dedicated, fulltime personnel (including Chair and indigenous representation) to replace ERAC. Its focus will be to ensure method development and approval satisfies the OIS principles while also giving due consideration to the Scheme’s principles. This will necessarily hold the Integrity Committee to a higher degree of accountability regarding its periodic review recommendations to the Minister.

This coupled with DCCEEW providing method development support and enhanced public capacity to interrogate Carbon Estimation Areas (CEA) data should introduce greater accountability for all advice provided to the Minister when deciding whether to approve a new method or vary an existing one or to endorse an extension of crediting periods.

1.3. Buffer mechanism (Recommendation 7)

The IR recommended introducing ‘conservativeness across the scheme’ by implementing a mandatory cancellation of a percentage of ACCUs generated under the scheme (buffer) to ensure abatement credited was physically realised.

Australian Energy Producers does not support any introduction of an administratively managed buffer into the Scheme. A dedicated, qualified and fully resourced Integrity Committee coupled with Scheme principles, supported by an [Australian Carbon Exchange](#), will go a long way to further de-risk the Scheme. The market needs confidence that ACCU issuance represents genuine and accurate emissions reductions; there is no valid economic or accounting argument supporting the quarantining or retiring or discounting of ACCUs as an insurance approach to underwrite the Scheme’s integrity.

¹ Competitive neutrality requires that commercial activities should not enjoy net competitive advantages over their competitors by virtue of public policy

As the market has deepened, we see the role of ancillary service providers (brokers, certifiers, standards bodies, independent ratings agencies) further facilitating a secondary level of oversight on the quality and value of abatement being credited.

Australian Energy Producers considers continuing to harness the power of the market to 'price in' project risk (buyer liability) leads to more efficient investments in technology-agnostic and least-cost abatement opportunities. If a buffer is imposed, it may simply serve to create significant market volatility for both ACCU suppliers and purchasers.

2. Market operationalisation

2.1. Government purchasing (Recommendation 3.3)

Commonwealth-funded ACCU purchases through reverse option contract auctions are supported in the interim. This will help ensure investments in projects continue, that ACCUs go to their highest value use, and least-cost abatement discovered and given effect. This is especially important while the SGM Crediting Mechanism (SCM) is commencing and its credits only tradable within that scheme; ACCUs on the other hand are tradable within and external to the SGM.

The Scheme is primarily a climate solutions measure and should retain its focus on least-cost abatement. It should avoid straying into prioritising other policy objectives such as non-CO₂ benefits (social, cultural, environmental, or economic). These other objectives are better suited to more targeted initiatives including the Nature Repair Market and the like.

The targeting of specific themes, technologies and/or project activities or banding auctions by solution should also be avoided unless proven to be highly complementary in the facilitation of least-cost abatement within the Scheme and/or the SGM. Observing our proposed Scheme principle of 'technology and competitive neutrality' in market regulation and operation is critical for a well-functioning ACCU market.

A minimum of 10 per cent of contracted volumes to be fixed (not able to be exited) is supported to ensure sufficient supply for the initial five years of the implementation of the SGM reforms.

Nascent and/or pre-commercial abatement technology projects (pilots, first of a kind projects), as already identified, also need a more pragmatic approach to the application of the additionality requirement to allow for Scheme eligibility.

Australian Energy Producers also recognises a need for the Government's articulation on how publicly funded purchasing of ACCU's might be sensibly managed over time given the Scheme's finite funding envelope; such an approach cannot be relied on to sustainably drive ACCU demand indefinitely.

2.2. Exit arrangements for fixed delivery contracts

Around half of all ACCUs contracted for delivery to Government under fixed contract arrangements have exited under the first [3 rounds](#); this has left the market with about 8.5M fewer ACCUs that could otherwise help SGM facilities meet their compliance obligations at least-cost.

While the Government is compensated by suppliers who choose to exit their delivery obligations, an important impact of the three exit pilot windows is upward price pressure on ACCUs as total supply volumes contract. Creating additional ACCU supply should be a primary objective of Scheme reforms to help place downward price pressure on ACCUs to help minimise compliance costs.

In 2021-2022, about 138MtCO₂-e was [covered](#) under the SGM coupled with 740K ACCUs surrendered for compliance purposes – with all SGM reporters found to be in compliance. This [compares](#) to the almost 18M ACCUs being issued annually and the 22.7M ACCU holdings in registered in the ANREU. With almost 23M ACCUs transacted in the secondary market annually, and ACCU demand and traded volumes likely to continue to grow rapidly in light of recent SGM reforms, there currently appears sufficient volumes of ACCUs available for compliance purposes. This may not be the case going forward, with a key issue being the impact of supply constraints on market price discovery.

Australian Energy Producers supports keeping early exiting arrangements with the proposed delivery of a minimum 10 per cent of contracted volumes; but it expects the propensity of suppliers wanting to exit may alleviate with the enhanced Scheme governance and transparency arrangements which should encourage the bringing forward of highly de-risked and commercially attractive and bankable projects.

3. Method development

3.1. Proponent-led method development model (Recommendation 5)

Australian Energy Producers supports in-principle a proponent-led method development model. As DCCEE's paper rightly identifies, there needs to be a balance struck between the Integrity Committee's assessment of a proposal and method developers having to invest significant resources prior to any future Ministerial approval.

The proposed modular approach may well ensure the development process is adaptive to changing circumstances by providing the Integrity Committee the authority to approve method modules (activities, technologies, measurement, emissions factors, global warming potentials) that meet the OIS.

The Expression of Interest (EOI) process seems sensible in establishing the abatement potential of prospective methods as well as OIS compliance and alignment with the new Scheme principles.

The onus and costs of method development should be equitably shared between the proposer, DCCEE (initial assessments as to method prospectivity regarding reducing national emissions and future market penetration) and the Integrity Committee (approval). Otherwise, significant barriers to entry could be imposed for many nascent, innovative, and highly prospective projects and abatement opportunities missed.

DCCEE's discussion paper indicates that methods must generate eligible abatement from sources and sinks under the Paris Agreement so that they are capable of being used to meet Australia's emission reduction targets. This is a design element of the Scheme as it is up to the Commonwealth to decide what project activities can be supported in the national interest.

Australian Energy Producers supports method development approaches that limit 'gaming' behaviours whereby methods are proposed to the exclusion of others and/or to simply maximise some kind of competitive or industry advantage. Again, 'technology and competitive neutrality' is an important principle to consider.

Further, a prioritisation approach that supports methodologies that enable technology advances and new industry development for Australia, in consideration of the increasing need for removal type offsets, and minimising risk of bias towards incremental improvement on existing methods, is

encouraged. Two important methods that should be supported going forward include Direct Air Capture and adding CO₂ utilisation to the current CCS methodology (i.e., CCUS).

3.2. Requirement to complete method development within a set timeframe

Every method development experience is different and so a fit for purpose approach to developing them is preferred. The International Standards Organization adopts at the outset of a standard development track a set period (18, 24, or 36 months). ACCU method development could similarly pass through a staged approach to approval and publication, with the timing determined by whichever track is chosen by the developer with advice from DCCEEW.

4. Transparency

4.1. Additional public information (Recommendations 4 and 8)

Individual account holding details should not be published (de-identified); but public access to information relating to project location, estimation approaches used, project plans, issuance information, and complaints resolution processes can serve to deeply inform investors, purchasers, independent ratings agencies, and non-government organisations in a manner that enhances project integrity.

Australian Energy Producers supports the Regulator publicly publishing in the [Project Register](#) how the EOIs have – according to the Integrity Committee – aligned with Scheme principles, and why they were approved or rejected; this would of course preclude commercially sensitive data.

Australian Energy Producers also notes that the International Sustainability Standards Board (ISSB) is developing an international standard on sustainability assurance ([ISSB 5000](#)) to guide corporate reporting and disclosure on sustainability, ESG (environmental, sustainability, governance), and climate-related information. It is understood that this standard is being considered by the Government in its consultations on establishing a climate-related financial disclosures framework. It will likely require entities to disclose their planned use of offsets to achieve their emissions reduction obligations and ambitions.

There must therefore be a consistency of reporting obligations across and between all Government schemes, including on timing to best coincide when companies formally and publicly release their information (i.e., annual reports).

4.2. Modern data management platform (Recommendation 4.2)

While it is not exactly clear to Australian Energy Producers what a modern data management platform might entail, if it improves transparency of ACCU project impacts especially on abatement outcomes, broader environmental matters and climate adaptation and resilience, then it is sensible to pursue and implement especially within a context of it already being a priority of the [Government's Nature Positive Plan](#) (p30).

4.3. Publishing information on co-benefits and complementary role of the (to be established) Australian Carbon Exchange

The Scheme needs to continue to deliver high integrity credits at increasing pace and scale. Australian Energy Producers supports the market and the role of the land sector in providing opportunities for biomass and soil-based sequestration; as well as a suite of non-CO₂ benefits such as repairing degraded landscapes, restoring river corridors, improving soil quality, conserving water use and quality (salinity), and biodiversity.

Recognising the value of or potentially monetising non-CO₂ benefits in an abatement focused measure is challenging, especially if property rights do not exist or are legally inseparable and/or identification and estimation is non-existent or unacceptably inaccurate. While there are no common standards or systems of categorisation or verification of co-benefits the market remains vulnerable to misinformation and false claims.

Australian Energy Producers considers markets are best placed to determine the respective values of co-benefits especially given the diversity of buyer preferences (environmental, social, geographical, methodological). The market is already factoring in price differentiation on ACCU sources according to perceived values of permanency and co-benefits.

It recommends excluding any attempt to value non-CO₂ benefits within the Scheme; and suggests there be at least an industry agreed and project level taxonomy cataloguing and categorising co-benefits. This should be coupled with further public discussion on how these non-CO₂ benefits might be credibly institutionalised and what kind of policy approach best suits given the ACCU market is not designed for this purpose.

What is clear is that all adjacent markets, including the emerging biodiversity market, must work in high complementarity to the carbon market and not impose inefficiencies or create competing incentives or challenges to the integrity of ACCUs or the delivery of least-cost abatement.

5. Native Title lands

Australian Energy Producers agrees that native title, land council and other indigenous organisations should be adequately consulted on the best means of providing advice to Indigenous communities on carbon market land tenure and Native Title considerations.

Consideration could also be given as to how consultation for ACCU development interfaces and/or aligns with other policies and measures.

Australian Energy Producers welcomes the opportunity to continue to engage with DCCEEW on this issue. For further information about this submission please contact Mark Bonner, Director of Climate Change Policy at mbonner@energyproducers.au.

Yours faithfully



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