GLOBAL CCS INSTITUTE

Consultation Submission

Implementing the recommendations of the Independent Review of Australian Carbon Credit Units (ACCU Review)

October 2023

Bernardene Smith

Deputy Principal Consultant – Policy and Finance

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1. About the Global CCS Institute

The Global CCS Institute (the Institute) is an international think tank whose mission is to accelerate the deployment of carbon capture and storage (CCS), a vital technology to tackle climate change and deliver climate neutrality. Working with and on behalf of its members, the Institute shares expertise, builds capacity and provides advice and support to drive the adoption of CCS as quickly and cost effectively as possible, so that this vital technology can play its part in reducing greenhouse gas emissions globally.

The Institute is headquartered in Melbourne, with offices in Washington DC, Brussels, Beijing, London, Tokyo and Abu Dhabi.

The Institute welcomes the opportunity to provide feedback on the implementation of recommendations from the ACCU Review, as well as non-ACCU Review policy positions.

2. Maximising ACCU Scheme transparency

2.1 Australian Government purchasing of ACCUs

Question 6

Should the government continue to focus its purchasing on least cost abatement? If not, what other considerations should it prioritise and why?

Since 2015, a total of 15 auctions have been held by government to purchase ACCUs from eligible projects, in which contracts have been awarded solely based on the lowest bid price. Across these auctions, average contract prices ranged between approximately $15 to $17 per unit, and the latest auction in March 2023 yielded an average price of $17.12.[1] In contrast, the market spot price has settled around $38 per unit for the March Quarter, 2023.[2] Spot prices are likely to increase in the foreseeable future as demand for ACCUs is expected to increase materially under the new Safeguard Mechanism obligations, with Safeguard Facilities seeking to hedge their forward liabilities. If this price gap continues to widen, it could lead to a significant decrease in ACCUs contracted to government and a potential strain on ACCU reserves held by government.

The new Safeguard Mechanism rules do not limit the use of ACCUs by Safeguard Facilities to meet their obligations (although there are greater reporting obligations for use above 30%). If the number of ACCUs in the market are insufficient to offset all relevant emissions, Safeguard Facilities will look to government to fill the gap. It is therefore imperative that sufficient ACCUs are available from government for this purpose.

One option for the government, to secure ACCU reserves, government is to move away from focusing its ACCU purchases solely on 'least cost' abatement and include a wider range of projects for ACCU purchasing. The types of projects mentioned in the discussion paper, i.e., those that represent new methods; or are pre-commercial or in early stages of commercialisation; or which will deliver additional social, cultural, environmental, and economic benefits, may be a good starting point to enhance the opportunity for projects to deliver ACCUs under new methods.

The Institute recommends, however, that an additional category of projects be prioritised – projects that could deliver large-scale emissions reduction, including CCS projects. Although the CCS method already exists, there is currently only 1 contract executed under this method (Moomba Carbon Capture and Storage Project). The prioritisation of CCS projects will support emissions reduction at scale, incentivise innovation in this area; and could deliver large quantities of ACCUs to government.

The large-scale deployment of CCS will not only contribute to climate mitigation efforts but will also add tangible social and economic value. The Institute suggests that CCS as an industry will create and sustain jobs – a key element to facilitate a just transition to net zero – and will support economic growth.

Question 7

Should the pilot exit arrangements for fixed delivery contracts be made permanent? Would requiring a minimum percentage be delivered to government in each window help strengthen market confidence and reduce risk?

As noted above, prices of ACCUs may see another spike from 2023/24, as a result of the new obligations for covered facilities under the Safeguard Mechanism. This raises the concern of non-delivery once again, which could be at a much larger scale than anticipated in 2021. To maintain continuity of delivery of ACCUs under fixed contracts and also provide flexibility to contract holders to sell ACCUs into the market, it would make sense to allow current contract holders to exit fixed contract arrangements in a structured manner, including a requirement to deliver minimum percentages to government in each exit window. This will ensure sufficient reserves of ACCUs and provide greater confidence to Safeguard Facilities who may need to offset emissions for the foreseeable future.

Notwithstanding market prices and increased demand in the near to medium term, the calculation of appropriate minimum percentages of ACCUs to be delivered to government should also consider declining baselines for Safeguard Facilities over the next decade and the ability of these facilities to continue to meet these obligations.

2.2 Non-ACCU Review policy positions requiring legislative change

Policy position 9

Amend definition to clarify that a project to avoid emissions by the storage of captured greenhouse gases can be an emissions avoidance project.

Several studies such as the Intergovernmental Panel on Climate Change (IPCC) 1.5°C Special Report, and analyses completed by the International Energy Agency have consistently highlighted the critical role of CCS in facilitating the global transition to a net zero emissions economy. IPCC, the International Energy Agency, and others consistently indicate that achieving global climate targets will require annual CO_2 storage rates of approximately 1 Gtpa by 2030, growing to around 10 Gtpa by 2050.[3] Three out of the four pathways modelled by the IPCC to limit global warming to 1.5°C by 2050 incorporate a significant role for CCS and require its widespread adoption, including the pathway with heavy reliance on renewable technologies.[4] The scenario that does not include CCS requires a significant reduction in global energy demand. It is therefore not surprising that the IPCC in their 2023 Summary for Policymakers indicates *"Carbon dioxide removal (CDR) will be necessary to achieve net negative CO_2 emissions".*[5]

The Institute welcomes the government's adoption of the IPCC's recommendation on CDR and supports in principle the government's position to amend the definition of an 'emissions avoidance project' to include greenhouse gas storage projects. The Institute further supports the government's intention to enable development of methods that may involve storage of carbon emissions as per the IPCC's recommendation, and the inclusion of Direct Air Capture (DAC).

The Institute highlights the following, with regard to the government's position:

- A distinction should be made between carbon dioxide removal and avoidance projects. Removal refers to the process of elimination of emissions after they have entered the atmosphere, while avoidance is the prevention of emitting carbon dioxide in the first place. It is recommended that government's policy position clearly states the definition of 'emissions avoidance project' will forthwith include the storage of captured greenhouse gases and that eligible carbon abatement projects may include 'removal projects' such as DAC.
- It should be clarified whether DAC is intended to be included in future method developments coupled with carbon storage (DACCS) or as a standalone capture technology.

- Section 7(3)(a) and (b) of the current CCS method specifically excludes storage of carbon dioxide captured via DAC technologies from eligible CCS projects. In the interest of time, consideration may be given to amending the existing CCS method, to remove the non-eligibility of DAC technologies.

References

[1] Clean Energy Regulator, Auction March 2023.
https://www.cleanenergyregulator.gov.au/ERF/auctions-results/march-2023

[2] Clean Energy Regulator, Quarterly Carbon Market Report March Quarter 2023.
https://www.cleanenergyregulator.gov.au/Infohub/Markets/quarterly-carbon-market-reports/quarterly-carbon-market-report-march-2023

[3] Intergovernmental Panel on Climate Change, Sixth Assessment Report of the Intergovernmental Panel on Climate Change, 2022.

[4] Intergovernmental Panel on Climate Change, Global Warming of 1.5°C: An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty, 2018.

[5] IPCC, Climate Change 2023 Synthesis Report, 2023. IPCC, 2023: Summary for Policymakers