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2020 Review of the Emissions Reduction Fund

Climate Change Authority

By email: submission@climatechangeauthority.gov.au

20 May 2020

Dear Mr Archer,

Re 2020 Review of the Emissions Reduction Fund

AGL welcomes the opportunity to make a submission to the *2020 Review of the Emissions Reduction Fund Consultation Paper*.

As the Consultation Paper notes, the ERF has performed well in encouraging and rewarding emissions reduction efforts in the vegetation, savannah and waste management sectors, but has not seen any significant activity outside of these sectors. To a large extent this is a function of the volume demanded and therefore the price at which ACCUs are clearing, with the complexity of registering projects also strongly influencing this outcome.

We note that the Final Report of the Expert Panel examining additional sources of low-cost abatement ('the King Review') was released yesterday, together with the Government response to its recommendations. The King Review considered the various barriers to participation in the ERF and made a number of useful recommendations to encourage greater participation in the ERF, incentivise voluntary emission reductions on a broader scale, and unlock transformative emissions reductions in hard to abate sectors. This submission was largely prepared prior to the release of that report but there are many common themes and AGL supports the principles that were adopted to guide the King Review in forming its conclusions.

Recognising that a number of factors will influence future demand (and hence price of ACCUs), AGL considers there are nevertheless opportunities to improve the market's ability to anticipate certificate demand, and to mature the ERF processes and architecture to better support ACCU trade into the future as the market evolves. We are also supportive of further exploration of ways to facilitate emissions reductions through the ERF across a wider range of activities while protecting the integrity of accredited emissions reductions and to underpin a deepening voluntary market. We recognise that this may entail – as contemplated by the King Review – alternative funding mechanisms for genuine abatement that do not involve the creation and purchase of ACCUs.

Maturing processes and architecture

Demand for ACCUs has been dominated by government purchases through the ERF. However, with a price rather than volume focus, the quantity of ACCUs purchased has tended to fluctuate between auction rounds. Intentions regarding the allocation of remaining ERF funds to future rounds is also somewhat opaque. While a positive long-term outcome would see private sector demand for ACCUs increase and overtake government purchases, this appears some way off and is heavily dependent on other policy settings. In the near term, setting annual ERF volume targets linked to Australia's Paris commitments would be one way to improve confidence in the market (demand) trajectory and encourage wider project registrations.

Although still dwarfed by government purchases, voluntary demand for ACCUs has risen sharply in recent years. In anticipation of further voluntary demand, there are opportunities to improve the transactability of the ERF architecture. This aligns to recommendation 7.2 in the King Review and would involve developing an ACCU registry that is updated daily by the Clean Energy Regulator, as per the REC registry. Registry data would allow market participants and environmental brokers to see which participants are holding various types of ACCUs. This would significantly increase market transparency and facilitate more active trading by enabling interested buyers in particular projects to contact ACCU owners and execute trades directly. This more up to date supply information would also allow market participants to more effectively analyse, and develop increased confidence in, the ACCU market.

From the perspective of projects seeking to register and bid in to create ACCUs, better information feed-back loops would assist projects to understand why they have been unsuccessful in a particular instance (whether at registration, or at auction) and to modify the future approach. Building up this kind of publicly available resource base would help to lower some of the barriers to participation and leave projects less reliant on expert resources to guide them through the complex process and able to make better judgements as to whether a particular project is worth pursuing. We note that this aligns to recommendation 8.1 of the King Review.

Broadening participation

AGL supports ongoing work to evolve the ERF and associated methodologies to encourage participation across a wider share of the economy. In the absence of a binding emissions mechanism in the electricity sector, this could include the creation of a methodology that allows large scale generation certificates (LGCs) to be traded (with appropriate conversion factor) as ACCUs where they have not been acquitted to meet obligations under the Renewable Energy Target. This is similar to recommendation 7.1 of the King Review.

In other areas where price and methodological hurdles to participation exist there may be scope for abatement funding to be provide outside of ACCU purchase. For example, for energy efficiency improvements embedded within production processes where additionality is difficult to establish to the extent required for ACCU creation or where there are risks of interruption to industrial production processes during commissioning. This would need to be appropriately funded, possibly through the creation of a different class of offsets and/or through a co-funding program – noting that a number of potential funding options are explored through the King Review. As a composite, these mechanisms would seek to mimic the abatement that would otherwise be called forth by broad based emissions reduction mechanisms (which have less administrative overhead).

In the current environment, co-funding may also be justified in some activities as a means of achieving co-benefits around economic recovery, recognising social and environmental co-benefits and proving up new innovative technologies. In all this, it will be important for the ERF to retain high integrity around emissions reduction given its central current role in meeting Australia's emission reduction targets.

We would be pleased to further discuss any of the themes raised in this submission.

Yours sincerely,

Barry Sterland

General Manager Policy & Strategy