

15 July 2019

Dear Emissions Reduction Assurance Committee

Thank you for the opportunity to make a submission to your review of the Facilities Method.

The Australian Conservation Foundation's broad position on the Facilities Method is that, in any form, it is not an appropriate methodology for the Climate Solutions Fund.

We are also concerned that the former Minister, Melissa Price, has asked for this review to "consider the ways coal-fired power stations can earn credits" under the Fund after intense lobbying from a company that stands to benefit from any such changes.¹

It is our view that any changes to the Facilities Method that would make it easier for coal-fired power plant upgrades to access funding under the Climate Solutions Fund, and thus potentially extend their operational life, would be inconsistent with Australia's climate change goals and our international commitments.

Nevertheless, we earnestly address the Committee's points in the consultation paper in this submission.

Reducing the emissions of large corporate climate polluters

The Facilities Method is designed to award carbon credits for activities that reduce emissions at facilities captured under the *National Greenhouse and Energy Reporting Scheme* (NGERS). NGERS, by definition, covers the facilities of Australia's largest corporate climate polluters.

¹ <https://www.abc.net.au/news/2019-04-02/coal-fired-power-station-lobbied-environment-minister-foi-reveal/10960544>



While we agree that these companies should be encouraged by the Federal Government to reduce their emissions, we believe that NGERs already provides a mechanism more appropriate to do so. Designated large facilities under NGERs are captured by the safeguard mechanism and grid-connected electricity generating facilities under NGERs are captured under the sectoral baseline.²

It is available to the Government to lower the threshold for determining which facilities are designated large facilities, and, to tighten the safeguard mechanism to encourage these facilities to reduce their emissions. Further, grid-connected electricity generating facilities could be transitioned to individual baselines to encourage facility-based accountability, rather than allowing old and inefficient facilities to continue with business-as-usual practices while renewables do the bulk of the work reducing sectoral emissions.

The Climate Solutions Fund has more relative value providing incentives to small-to-medium businesses, such as in the land sector, for initiatives that demonstrate genuine abatement or sequestration. Large corporate climate polluters would be more appropriately dealt with by sending a signal to the market, through the safeguard mechanism or alternative policies or regulations like a carbon price, that means climate costs are embedded in business decision-making.

In the electricity sector, as acknowledged in the consultation paper, the grid is decarbonising. Public money would be better spent further fostering this phenomenon and considering ways to accelerate the decommissioning of inefficient and outmoded coal-fired power stations. It does not make economic or climate sense to give public money to coal-fired power stations, especially when it incentivises changes that may extend the life of these facilities.

While we think it is important to discuss, we accept that the scope of this review is limited to the Facilities Method and not the Government's approach to climate policy – the remainder of this submission will focus on the points raised by the Committee in the consultation paper.

The Offsets Integrity Standards and requirements of the Act

The review is to address, among other things, whether the method continues to comply with the Offset Integrity Standards and the requirements of the *Carbon Credits (Carbon Farming Initiative) Act*

²<http://climatechangeauthority.gov.au/sites/prod.climatechangeauthority.gov.au/files/Consultation%20paper.pdf>



2011 (the Act). We have some general comments on these matters before speaking to the specific areas of interest for feedback.

We address most elements of the Offsets Integrity Standards in our responses below, however eligibility of abatement is not explicitly covered in the consultation paper and is worth discussion. If the Facilities Method allows for a coal-fired power station project to enter into an auction or to be awarded credits, Australia will be the only country in the world to use climate funding for upgrades at such a facility.³ We are concerned that this abatement cannot or soon will not be able to be used to meet Australia's international obligations.

As discussions are ongoing in the Conference of the Parties to the UNFCCC about what constitutes eligible abatement, we recommend a conservative approach is taken and the Committee, as part of this review, give consideration to whether the Facilities Method is likely to meet the eligibility requirement (currently and in the future).

Further, as the consultation paper notes, the Act requires that the method causes no adverse economic, environmental and social impacts. While we have already mentioned the economic misdirection of funding the extended longevity of coal-fired power stations, the environmental and social impacts must also be noted.

Aside from the additional emissions (leakage) that may be caused by Facilities projects that replace "essential components" at coal-fired power stations, extending the life of these facilities extends a legacy of toxic contamination. This carries with it immense social impacts, which have their own economic costs, alongside the obvious environmental consequences.

For example, heavy metal levels in Lake Macquarie from Vales Point Power Station have already led to restrictions on seafood take and consumption in the area. Further, the annual health cost of air pollution to the community has been estimated at \$11-24 billion, with toxic pollutants from coal-fired power plants significantly contributing to health impacts. We encourage the Committee to consider the holistic impacts of the Facilities Method, in the context of the requirements of the Act, in their review.

³ <https://www.theguardian.com/environment/2019/mar/01/out-on-its-own-australia-the-only-country-to-use-climate-funding-to-upgrade-coal-fired-plants>



Statement of activity intent

Additionality is a critically important element of the Offsets Integrity Standards. It ensures that the spending of public money through the Climate Solutions Fund is having a tangible impact on business-as-usual emissions and achieving its policy goals. Currently the Facilities Method requires a statement of activity intent by a company officer that demonstrates the project's additionality, making the person liable for penalties under the Corporations Act 2001 and the Criminal Code if this statement is false or misleading.

It is entirely appropriate and necessary for the proponent of a project to have to demonstrate the additionality of their proposal and to be held legally accountable for the veracity of any statement to that effect. If anything, this level of accountability is needed across the full suite of Climate Solutions Fund methods. Proponents of projects at large facilities registered under other methods (Industrial Electricity and Fuel Efficiency and Landfill Gas) have stated on the public record that the changes would have occurred in the absence of the Emissions Reduction Fund (Climate Solutions Fund).⁴

Stakeholders have expressed the view that the statement of intent is overly onerous and that it is difficult to justify that a project is "purely driven" by the incentive of the Fund when often there are myriad contributing factors. Facilities projects, by nature, are often major refurbishments that involve substantial upfront capital costs and the financial incentive provided by the Fund is noted to be "typically relatively small".

Our view is that this does not point to an issue with the statement of activity intent, but rather demonstrates an inherent incompatibility of these types of projects with the Climate Solutions Fund. The minimal uptake of this method is further testament to the meagre incentive the Fund adds to the balance of factors considered in major business decisions like Facilities projects.

The same relatively small financial incentive for a Facilities project could be significant to a landholder deciding to undertake carbon farming, for example, and these methods have accordingly had far greater uptake.

⁴ <https://www.abc.net.au/4corners/climate-of-change/10959830>
<https://www.theguardian.com/environment/2019/feb/25/emissions-reduction-fund-to-pay-for-fossil-fuel-plant-that-would-be-built-anyway>



Counterfactual emissions intensity

The grid average at the point of project declaration is currently used as a proxy for counterfactual emissions intensity when calculating the abatement of a given Facilities project. In other words, if a project was registered in 2015 the relative abatement would be calculated today against the emissions intensity of the grid at that time.

The consultation paper correctly identifies that, with the rapid decarbonisation of the grid, the emissions associated with electricity conserved or displaced by a project will be less over time. As such, (although all averages are only an estimate at best) the grid average at the point of project declaration is not conservative nor appropriate and will result in overcrediting.

Of the listed alternative options, the average of the values from the start to the end of the reporting period is most appropriate if the Facilities project reports according to the financial year. This will ensure the relative abatement is calculated against the most accurate data set for contemporaneous real emissions in the grid.

Replacing essential equipment at electricity generators

The Facilities Method has an additional adjustment for abatement calculations in order to deal with the potential leakage caused by replacing an “essential component” at, and consequently extending the life of, an electricity generating facility.

An upgraded unit will get zero credits if its emissions are still above the grid average. This is appropriate given the electricity sector is subject to the sectoral baseline under the safeguard mechanism. If individual facilities are only punished after the sector as a whole has exceeded its baseline, then individual facilities being rewarded for emissions reductions should (at the very least) meet the basic standards of the sector as a whole.

The current adjustment provides a proxy for the potential leakage and does not measure the actual impacts of any life extensions. The consultation paper notes that it is difficult for the adjusted abatement to adequately deal with the impacts that extend beyond the crediting period, and that it is difficult to categorically know to what extent a project will extend the life of a facility.

Leakage is a critical component of the offset integrity standards and a project should not be eligible for the Fund if the proponent is unable to quantify leakage and adequately address it through adjustments. This is particularly important for coal-fired power stations, as research from the



Parliamentary Library indicates that in order to avoid the catastrophic effects of climate change these facilities will need to close *earlier* (not later) than scheduled.⁵

We consider that any extension of life at a coal-fired power plant would be a perverse outcome for climate funding. Incentivising projects of this nature would only be made less perverse if proponents obtained technical expert advice on the remaining life of the existing unit and made a statement of intent to decommission the facility after such date.

Baseline setting

For facilities that are non-electricity generating or are not replacing “essential components” the baseline for emissions is set by the lowest emissions intensity over four to six years of NGERs data.

For electricity generating facilities, we believe the grid average is still more appropriate as a baseline even without the replacement of “essential components”. This is because, as mentioned above, electricity facilities are regulated as a sector by the safeguard mechanism and consequently should be rewarded based on their relative contribution to sector-wide emissions.

The consultation paper raises concern about the length of the baseline period. If the period is too short, there is a possibility that the lowest emissions have not been captured and crediting will occur for natural fluctuations in emissions (for example due to weather). If the period is too long, it may capture historical changes to the facility and not accurately reflect current emissions variance.

Without a clear understanding of how NGERs data is captured by proponents it is difficult to weigh in on this concern. However, theoretically, if enough data is collected with adequate detail, it is possible a statistical analysis of variance could determine with a degree of certainty the magnitude of emissions changes that are attributable to each ‘independent variable’ (e.g. weather, energy cost or the project itself).

⁵ <https://www.abc.net.au/news/2018-10-13/coal-power-stations-needed-to-close-to-meet-ipcc-target-report/10368194>



Standard seven year crediting period

The Facilities Method currently allows a seven year crediting period for projects, which is the standard for Carbon Solutions Fund methods and is not based on any activity-specific factors. Stakeholders have claimed that a longer period could be more appropriate for the long-term efficiencies gained by Facilities projects.

The consultation paper mentions that, on the other hand, if the crediting period is too long the assumptions underpinning the abatement calculations will not keep pace with the decarbonisation of the grid and transforming market. We agree with this concern and hold that any consideration of extending the crediting period should assess whether this would have perverse economic and environmental effects (like giving a competitive advantage to a relatively inefficient emissions-intense facility). Perverse outcomes are likely to occur in the existing seven year period and we strongly encourage the Committee to consider whether a shorter period may, in fact, be more conservative and appropriate.

We would further add that over seven years there is a likelihood that business-as-usual improvements to efficiency would have occurred at a given facility anyway. In the Industrial Electricity and Fuel Efficiency method, this phenomenon is built into the adjusted abatement by applying a decaying factor over time: the “improvement factor”. The improvement factor should also be applied to Facilities projects over the life of the project.

Usability and other improvements

The consultation paper welcomes any further suggestions for expanding the application of Facilities Method and enhancing its usability while continuing to meet the Offsets Integrity Standards.

The scope of the Facilities Method could be expanded to credit the abatement generated from early decommissioning of electricity generators such as old coal-fired power stations. Other improvements to the usability of the Method may be difficult as it appears the major impediment identified by stakeholders in the consultation paper is the Offsets Integrity Standards themselves.

The Facilities Method: in summary

The Climate Solutions Fund has a role as part of a suite of policies to reduce climate emissions and meet Australia’s international commitments. However, ACF does not feel that the Fund is an effective or efficient means of reducing emissions from the largest industrial polluters in Australia – those



captured by the NGER scheme. Weakening requirements for facilities to access the Fund would only lessen the overall effectiveness of the scheme.

ACF has particular concerns that if some of the changes contemplated in the ERAC consultation paper were implemented, Australia's centre-piece climate policy could be used more readily to upgrade coal-fired power plants, and these upgrades could extend the life of these plants. Further, publicly funded coal-fired power plant upgrades could have the unintended consequence of resulting in more climate emissions from the upgraded plant over time.

In terms of the specific measures contemplated in the discussion paper, ACF supports the most appropriate and accurate measures of counterfactual scenarios and baselines, we encourage the necessary conservatism in crediting periods and we strongly endorse measures in the Facilities Method designed to ensure projects meet the requirements of the Act, especially the Offsets Integrity Standards.

We suspect incorporating our suggestions for strengthening the rigour of the Facilities Method will further exclude proposed projects from accessing the Carbon Solutions Fund. This is because, in our view, the majority of proposed projects at NGER facilities would be inherently at odds with the Offsets Integrity Standards and the requirements of the Act.

As it stands, proponents are experiencing difficulty demonstrating that their projects are additional and not resulting in adverse leakage. We urge the Committee not to weaken the standards of the Method any further for usability. It will allow companies to access public money that they themselves have identified as "relatively small" and would not be a judicious use of the Fund.

As discussed, we firmly maintain that any project resulting in the extended life of a coal-fired power station goes against the basic requirements and purpose of the Act. We reiterate that there are more appropriate ways of doing the very necessary work of encouraging large climate polluting companies to reduce their emissions.

Kind regards,



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