



20 September 2022

Submission: Independent Review of Australian Carbon Credit Units

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors, and service providers of Australia's pipeline infrastructure, connecting natural and renewable gas production to demand centres in cities and other locations across Australia. Offering a wide range of services to gas users, retailers and producers, APGA members ensure the safe and reliable delivery of 28 per cent of the end-use energy consumed in Australia and are at the forefront of Australia's renewable gas industry, helping achieve net-zero as quickly and affordably as possible.

APGA welcomes the opportunity to contribute to the Independent Review of Australian Carbon Credit Units (the **Review**) undertaken by the Independent Panel Chartered by Professor Ian Chubb AC FAA FTSE (the **Independent Panel**) and supported by the Department of Climate Change, Energy, the Environment and Water (**DCCEEW**).

APGA supports this Review's intent of ensuring that Australian Carbon Credit Units (ACCUs) and Australia's carbon crediting framework is strong and credible and will be supported by participants, purchasers and the broader community. APGA's commentary is intended to be aligned with this intent.

APGA's engagement with the Review follows its development of a submission for the Safeguard Mechanism Reforms consultation by DCCEEW which is currently underway¹. In developing this submission, it became clear that the effectiveness, equitability, efficiency and simplicity of the Safeguard Mechanism Reforms were reliant on the schemes and frameworks which support it including the generation of ACCUs under the Emissions Reduction Framework (ERF).

Alongside its submission to the Safeguard Mechanism Reforms lodged on 20 September 2022², APGA raises concerns within its submission to this Review that the generation of ACCUs under the ERF risks compromising the ability of the Safeguard Mechanism to deliver least cost emissions reduction due to the restrictive and cumbersome nature of the framework and how it is administered.

¹ Safeguard Mechanism Reforms Consultation paper, Australian Federal Department of Climate Change, Energy, the Environment and Water 2022
https://storage.googleapis.com/converlens-au-industry/industry/p/prj2135e8da0cf17d76c70fc/public_assets/Safeguard-Mechanism-consultation-paper.PDF

² APGA Submission: Safeguard Mechanism Reforms Consultation paper, APGA 2022
https://www.apga.org.au/sites/default/files/uploaded-content/field_f_content_file/220920_apga_submission_-_safeguard_mechanism_reforms.pdf

Importance of ACCUs relative to the Safeguard Mechanism Reforms

The Safeguard Mechanism Reforms seek to deliver least cost emissions reduction through the reduction of Safeguard Mechanism Facility (SMF) baselines (carbon limits) over time. The reforms are intended to balance the principles of being effective, equitable, efficient, and simple. In order to achieve this, the Safeguard Mechanism Reforms propose the use of internal Safeguard Mechanism Credits as well as ACCUs as ways for SMFs with high-cost abatement opportunities to access lower-cost abatement opportunities across the broader Australian economy.

Circumstances

This will help SMFs to access least cost abatement opportunities, and hence drive least cost emissions reduction nationally, in two key circumstances:

Where a company owns SMFs and facilities not covered by the Safeguard Mechanism

A company that owns a mixture of SMFs and facilities not covered by the Safeguard Mechanism may be able to identify emissions reduction opportunities with lower cost of abatement within the facilities not covered by the mechanism. Without an alternative, companies will need to pursue the higher cost abatement opportunities within their SMFs in order to maintain Safeguard Mechanism compliances.

This outcome would not be in line with the Safeguard Mechanism Reform's principle of efficient abatement, nor would it represent the least cost economy wide carbon abatement pathway for Australia. This in turn risks Australia's ability to achieve its 2030 emissions reduction targets. For the Safeguard Mechanism to maintain its efficiency principle, the mechanism needs to include an effective ability for companies to use emissions reduction from facilities not covered by the Safeguard Mechanism in place of emissions reduced by SMFs.

Across the broader Australian economy

Similar to the point above, the limited nature of the Safeguard Mechanism coverage it is likely that Australia's least cost carbon abatement opportunities lay outside of the coverage of the mechanism. Without an effective ability to consider emissions reductions outside of the mechanism, it will not be able to allow the market to find the lowest cost of abatement wherever it occurs.

ERF features which risk impeding least cost emissions reduction

The creation of ACCUs under the ERF appears to be intended to address the circumstances highlighted above, in turn enabling SMFs access to least cost decarbonisation which occurs outside of Safeguard Mechanism coverage. However, the creation of ACCUs under the ERF is both restrictive and cumbersome.

The following is based upon anecdotal feedback provided by project proponents seeking to secure ERF Offset Project status and the ability to generate ACCUs. It is expected to align with concerns raised directly by some proponents through this Review.

Restrictive

It is not possible to create ACCUs under the ERF for all emissions reduction opportunities. This is because ACCUs can only be generated for activities covered by an ERF methodology, the sum total of which do not cover the full range of emissions reduction activities. As a result, many emissions reduction opportunities are left on the table, impeding the ability for the Safeguard Mechanism Reforms to adhere to its efficiency principle.

By their very nature, the creation of an ACCU must occur on an identified reduction basis. The solution to this problem applied under the ERF is the identification of specific ERF Methodologies – a time consuming process which is only pursued for the few perceived emissions reduction opportunities which can represent the largest opportunity for emissions reduction across the economy.

Where ACCUs are only intended to be a voluntary scheme this is not too big of an issue. However, the Safeguard Mechanism Reforms tie ACCUs to emissions reduction of a limited number of facilities within a mandatory emissions reduction scheme. As such, the inability to generate an ACCU from any legitimate emissions reduction activity limits the ability for these facilities to access least cost emissions reduction which occurs outside of the Safeguard Mechanism.

As highlighted above, companies which own both SMFs and facilities not covered by the Safeguard Mechanism may have access to legitimate emissions reduction opportunities elsewhere in their businesses. If those opportunities are not already covered by an ERF Methodology or are too bespoke to ever have an ERF Methodology created, they will be unable to facilitate the transfer of this least cost emissions reduction to the SMF. Further, if unrelated facilities not covered by the Safeguard Mechanism are also unable to generate ACCUs due to the uniqueness of their emissions reduction capability, the Safeguard Mechanism will be unable to incentivise these emissions reduction options through the purchase of their ACCUs.

Without the restrictive nature of the ERF being addressed, the Safeguard Mechanism risks being unable to access all least cost decarbonisation opportunities, hence driving higher cost decarbonisation outcomes for Australia.

Practical examples

The following are few practical examples of how the restrictive nature of the ERF prevents ACCU generation from genuine emissions reduction activities, impeding the ability of the Safeguard Mechanism Reforms from achieving its principle of efficient emissions reduction. This is not an exhaustive list, rather an indication of the challenge faced by facilities in generating ACCUs in legitimate emissions reduction circumstances.

Renewable Gases including Hydrogen and Biomethane

In many cases, the uptake of renewable gases will be the least cost gas use decarbonisation option for gas users. However, there is not yet an ERF method for the displacement of natural gas use by hydrogen, and only a constrained subset of Biomethane feedstocks is currently considered under the Biomethane ERF Methodology. This is despite the recognition in the National Hydrogen Strategy and Australia's Bioenergy Roadmap of the ability to

displace natural gas emissions through the injection of these renewable gases into gas pipelines and networks.

As is highlighted by Bioenergy Australia, the current feedstocks available for consideration under the Biomethane ERF Methodology does not include some of the greatest volume and least cost options for feedstock, namely animal waste products and agricultural crop residues. Despite Biomethane projects based on these feedstocks being able to deliver genuine carbon abatement, ACCUs are not able to be generated from projects based on these feedstocks. This restricts SMFs being able to access least cost ACCUs in order to drive least cost emissions reduction via the Safeguard Mechanism.

Fugitive Emissions

There is no ERF Methodology for gas infrastructure which reduces its fugitive emissions outside of the flaring of otherwise vented natural gas. Where a gas infrastructure service provider owns a combination of SMF and non-SMF gas infrastructure, reducing fugitive emissions across all infrastructure may be a least cost approach to emissions reduction overall. Unfortunately, due to the lack of ERF methodology, fugitive emissions reductions on non-SMF gas infrastructure are not able to generate ACCUs in order to be considered by the SMF gas infrastructure owned by the same company. This will drive the gas infrastructure service provider to act upon higher cost emissions reduction opportunities for its SMF at greater cost to consumers. APGA notes that this acts in opposition to the National Gas Objective and potentially the National Electricity Objective.

APGA recently held a member workshop considering actions which could be taken to reduce fugitive emissions of gas infrastructure. This workshop uncovered a range of potentially least cost carbon abatement options through fugitive emissions reduction. These included in order of potential scale:

- Recompression or use of compressor dry seal gas through facility upgrades³;
- Recompression of pressure vessel maintenance blowdown gas through operational technologies such as the ZeeVac⁴; and
- Replacement of gas actuated equipment with instrument air or electric actuated equipment.

While this could account for a substantial percentage reduction of exiting fugitive emissions from gas infrastructure, it is not possible to generate ACCUs from these activities.

Cumbersome

The team at the Clean Energy Regulator facilitating ERF project approvals and compliance are broadly recognised by those seeking to register ERF Offset Projects as a team of professionally helpful individuals who genuinely strive to facilitate carbon abatement through project access to ACCU generation. However, this team is faced with a highly

³ METHANE EMISSIONS REDUCTION SOLUTIONS FOR GAS COMPRESSORS, Solar Turbines 2022 <https://s7d2.scene7.com/is/content/Caterpillar/CM20190808-c2f10-ac20b>

⁴ Tremco Pipeline Equipment's DIY pigging and instant emissions reduction technologies, The Australian Pipeliner 2020 <https://www.pipeliner.com.au/2021/09/20/tremcos-diy-pigging-and-instant-emissions-reduction-technologies/>

bureaucratic system and insufficient resourcing to deliver timely accreditation of new ERF Offset Projects.

Difficulty in engaging with the ERF Offset Project approval process impedes the ability to deliver timely access to least cost carbon abatement opportunities under the Safeguard Mechanism. The Additionality requirements of engaging with the process prior to Final Investment Decision risks missing genuine additional abatement opportunities simply due to the timing of application, further missing the opportunity for ACCU creation for least cost abatement.

The difficulties faced by the Clean Energy Regulator and potential ERF Offsets Projects proponents alike are likely to increase as the Safeguard Mechanism increases demand for ACCUs. This is a challenge that is already impeding ACCU creation, can be predicted to worsen, and hence must be addressed in the immediate future.

Recommendations

APGA proposes the following recommendations while ensuring that the Australia's carbon crediting framework remains as strong and credible following implementation.

Restrictiveness of the ERF

Ideally, every potential emissions reduction opportunity would have its own ERF Method. This, however, is not practical considering the near infinite emissions reduction possibilities and the naturally constrained resources of any process for administering the ERF. In order to prevent the unavoidably limited number of ERF Methodologies from impeding ACCU generation from genuine least cost carbon abatement opportunities, APGA recommends the creation of a generic "ERF by Audit" method.

Such a method would enable the approval of any project which is able to satisfy a generic set of conditions through a bespoke audit process, rather than fitting into one of the ERF Methodology silos. While each individual audit would likely take longer than approval under an ERF Methodology, a lengthy process would be better than no process at all. Care would need to be taken to ensure robustness of emissions reduction accreditation is maintained through such a generic methodology.

Cumbersome nature of ERF engagement

In order to avoid departmental resourcing from impeding the creating of ACCUs for least cost carbon abatement opportunities, APGA recommends that efforts to streamline the process and remove green tape be pursued.

To discuss any of the above feedback further, please contact me on +61 422 057 856 or jmccollum@apga.org.au.

Yours Sincerely,



JORDAN MCCOLLUM
National Policy Manager
Australian Pipelines and Gas Association