



The Hon. Greg Hunt MP
The Minister for the Environment
Parliament House
CANBERRA ACT 2600
16 Jan 2013

Dear Minister

RE: Clarification of Mechanisms for Treatment of Voluntary Greenhouse Gas Abatement

Summary

Mechanisms were put in place by the previous government to ensure that voluntary action taken by the community created abatement that was additional to the target that the government had committed to meet. We now seek confirmation from the government that voluntary action taken will continue to be additional to the target. We also seek confirmation on how the government proposes to institute this in the context of its climate change policies.

About the VCMA

The VCMA promotes and supports voluntary action on climate change through creation and operation of mechanisms that encourage and formally recognise voluntary abatement by individuals and organisations beyond national targets and international obligations. We are an independent not – for – profit organisation established in 2008.

The VCMA represents all aspects of the voluntary market including businesses, local governments, communities and government agencies taking action on climate change, and, making environmental claims by purchasing carbon abatement.

We also represent providers of carbon accounting services, renewable energy, energy efficiency, and plantation offset services, and educational and training organisations developing the skilled workforce essential to the future growth of the market. We are working to ensure the voluntary market is credible and accountable so that investment made in a low carbon future delivers real, additional abatement. Our work includes research and advocacy on the latest issues that affect our members.

Background

In Dec 2007 the Australian government ratified the Kyoto agreement, binding Australia to an average annual emissions cap for the period 2008 – 2012 inclusive, of no higher than 108 % of the Australia's 1990 emissions. The agreement ensured that any excess emissions would create a liability for the government itself. The liability could be covered by the purchase and retirement of eligible "Kyoto" units. Conversely should Australia's emissions fall below the target, the federal government would be able to "bank" or sell unused Kyoto units already in its possession.

After the agreement was ratified various commentators including this organisation pointed out that as a direct consequence of the 108% cap, voluntary action by individuals, and organisations wishing to reduce their own impact upon the environment by either cutting emissions or purchasing GreenPower and other offsets created within Kyoto "covered" sectors within Australia, would simply be reducing the liability upon the government to purchase and retire units itself, or conversely increase the amount of units available for the government to bank or sell in future commitment periods. Thus, whilst any such voluntary action would have a financial impact on the federal government's budgetary position it would have no additional impact on global greenhouse gas emissions.

For this reason the Australian Competition and Consumer Commission advised the national GreenPower Program Manager that providers of GreenPower could no longer promote their products as having any environmental benefit other than the fact that it was stimulating the growth in renewable energy within Australia.

In 2009 the government conceded this argument and advised that sales of GreenPower (and voluntarily surrendered GreenPower RECs) would be taken into account when setting future caps, and that Kyoto units would be cancelled in proportion the GreenPower sales during the operation of the Kyoto cap. In doing so, those taking voluntary action could feel that they were doing more than simply assisting the government's financial position.

The government included in publications associated with the National Carbon Offset Standard the advice that, "*Under the Government's proposed CPRS, all purchases of GreenPower will be taken into account when tightening future caps. The Government has also committed to cancel an equivalent amount of international units to ensure that these GreenPower purchases achieve an emissions reduction beyond Australia's national targets.*"¹

Such statements provided some comfort to those taking voluntary action, however details regarding the mechanisms for affecting these commitments remained unclear. Consequently the VCMA made a number of representations to the government asking that it clarify:

- The timing of the cancellation of the Kyoto units
- Whether the cancellation of units would apply to all of the Kyoto commitment period or just the period post 1 Jan 2010.
- The method of calculation of the number of units to be cancelled in response to the sales of GreenPower and/or voluntarily surrendered GreenPower RECs given that RECs are denominated in units of energy where Kyoto units are denominated in tonnes of CO₂ equivalents.
- How GreenPower purchases will be taken into account when setting future caps.

The VCMA was not contacted with answers to these questions directly; however the following statement appeared following the release of the government's Clean Energy Future Plan.

"Recognising additional action under the Clean Energy Future Plan

Additional action to reduce carbon pollution beyond Australia's national targets will be recognised under the carbon price in four ways;"

.... "4. Purchases of accredited GreenPower generated from 1 January 2010 will be treated as additional to the national emissions reduction target. Accredited GreenPower purchases from 1 July 2012 will be taken into account when setting pollution caps."

Additional statements which pertain to the period for which the carbon trading mechanism applies, appeared following the release of the Clean Energy Future Plan.²

- **Pollution cap setting** - The Government will take voluntary action into account when setting pollution caps. Voluntary action will be treated as additional when accounting for Australia's post-2012 targets.

¹ NCOS Q&As. www.climatechange.gov.au/climate-change/carbon-neutral/national-carbon-offset-standard-ncos.

² Securing a Clean Energy Future -THE AUSTRALIAN GOVERNMENT'S CLIMATE CHANGE PLAN - Appendix A. Table 9: Treatment of voluntary action

- **Voluntary cancellation of units** - In the flexible price period, permit holders may voluntarily cancel their permits. These will not be counted towards meeting Australia's national emissions targets and their cancellation will reduce the number of permits available in the market. Holders of international units and ACCUs may voluntarily cancel their units at any time, as soon as the Registry is in operation.
- **Pledge Fund** - A Pledge Fund will be established from the commencement of the carbon pricing mechanism to help individuals access the carbon market and voluntarily cancel emissions units. The units the Pledge Fund will voluntarily cancel will include Australian carbon permits, Kyoto compliant and non-Kyoto compliant ACCUs, and eligible international units. Contributions to the Pledge Fund will be tax deductible.
- **GreenPower** - Any purchases of accredited GreenPower from the date that the carbon pricing mechanism commences will be accounted for as voluntary action. In the fixed price period, the Government will measure GreenPower purchases on an annual basis and take these into account when setting the initial pollution caps. As pollution caps are to be set by 31 May 2014, only those GreenPower purchases measured at the time of making regulations will be counted in the initial caps, that is, GreenPower purchases for 2012-13. The remaining GreenPower purchases during the fixed price phase will be accounted for in later caps. In the flexible price period, the Government will measure GreenPower purchases on an annual basis and directly take these into account in setting the pollution caps five years into the future. Adjustments to the pollution cap for GreenPower will be backed by a commitment not to count those emission reductions towards meeting the national emissions reduction target.
- **Additional voluntary action** - Voluntary action in addition to GreenPower and voluntary cancellation of units could also be recognised, on advice from the Climate Change Authority on whether a robust methodology can be developed to recognise additional voluntary action by households.

Further Clarification Requested

Given the recent change in government and the consequent changes in policy surrounding climate mitigation, both regulated and voluntary, the VCMA seeks clarification from the current government on the following matters.

1. First Kyoto commitment period

- 1.1. Does the government intend to adhere to the commitment of the previous government and cancel international (Kyoto compliant) units in response to GreenPower sales made during the first Kyoto commitment period, i.e. from 1 Jan 2008 to Dec 31 2012? We note that entities that purchased GreenPower during this period did so in the belief that they were reducing global greenhouse gas emissions. Furthermore the then government made statements in December 2009, along with the release of the NCOS, to the effect that such cancellations would be made. As a result purchasers of GreenPower from that time onwards, did so on the basis of those expressed commitments. Furthermore corporate and individual greenhouse gas accounting reports and environmental claims issued under the NCOS rely on these cancellations for their veracity.
- 1.2. When does the government anticipate that such cancellations will occur and how will GreenPower buyers be notified?
- 1.3. What will be the factor(s) used for converting Energy Units (MWh) of GreenPower into Carbon units cancelled? I.e. will the conversion utilise state based emissions factors or an average national emissions factor? We note that the VCMA has previously advocated for a state based factor to be applied in keeping with current carbon accounting principles.

- 1.4. Will the government also adhere to similar commitments by the previous government to cancel international (Kyoto compliant) units in response to the voluntary surrender of renewable energy certificates from GreenPower generators **where these surrenders occurred outside of the GreenPower program** (as is currently recognised under NCOS). We note that the VCMA opposed the practice of accounting for such surrenders as zero emissions electricity given that the verification of such surrenders would be difficult and the practice would undermine the GreenPower program itself. However given that the commitment was made we believe it should be followed through with for those surrenders made to date, but an amendment to the NCOS should be made for the future.

2. Second Kyoto Commitment Period

What mechanism is the government proposing to ensure that GreenPower and other voluntary action taken during the second Kyoto commitment period will be additional to the Australian government's own targets and commitments?

Specifically could you please advise:

- 2.1. Whether international units will continue to be cancelled in response to ongoing GreenPower sales and other voluntary action occurring under sectors covered by our Kyoto commitments. (Note: The VCMA has previously advocated that compliance units be estimated from previous sales data and set aside at the beginning of each year requiring only a minor adjustment prior to cancellation in the following year. Such systems are already in use in other jurisdiction internationally.)
- 2.2. Whether such sales or actions will be "taken into account" when setting further emissions caps and how will such cap adjustments occur that will ensure empirically verifiable, concomitant reductions in global emissions. (Note: the VCMA has expressed concern that such adjustments can be made independently of other cap setting considerations.)
- 2.3. With reference to the document 'Australia's Abatement Task and 2013 Emissions Projections, Commonwealth of Australia 2013' :
 - 2.3.1. What is meant by the footnote (p3) "1 The minus five per cent target includes a 2 Mt CO₂-e adjustment in 2020 for voluntary action in the form of GreenPower purchases." ?
 - 2.3.2. Is this 2 Mt CO₂-e an average annual adjustment? and,
 - 2.3.3. Will the figure be revised on an annual basis in response to increases or decreases in the annual GreenPower take up rate?
- 2.4. Will other forms of voluntary abatement as previously proposed be considered for inclusion in any such "additionality" considerations and how will methodologies for calculating such action be developed given that the Climate Change Authority will no longer exist to undertake such a role?
- 2.5. Whether the government will revise the NCOS to take into consideration recent changes in the regulatory framework and what mechanism /consultation processes will apply?

We welcome your response to the above matters.

If it assists we are happy to meet with you and your staff to discuss the above.

Yours faithfully



A handwritten signature in black ink, consisting of a stylized 'P' followed by a long horizontal stroke that ends in a small hook.

Peter Shuey

**Secretary
Director (Technical)
Voluntary Carbon Markets Association Inc**

When responding to this correspondence please contact the author in the first instance.

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