



WATER SERVICES
ASSOCIATION OF AUSTRALIA



2020 Review of the Emissions Reduction Fund

A submission to the Climate Change Authority
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1. Overall performance of the ERF

How is the ERF performing overall?

WSAA on behalf of the Australian urban water sector considers that the ERF is generally performing well, and agrees with the findings of the 2017 review, particularly in terms of the strength and integrity of the Australian Carbon Credit Unit as a rigorous demonstration of emissions reductions for the sector.

The urban water sector strongly supports the objectives of the review, particularly around ensuring the environmental integrity of the ERF, as feedback from customer engagement illustrates that the community is highly sensitive to utilities' involvement in offsets projects, due to perceived/real lack of clarity on the rigour of offsets.

What parts of the ERF could be improved and how?

Urban water utilities are interested in participating more fully in the ERF, but continue to meet barriers to entry, particularly in comparison to other sectors such as landfills that do not provide the same level of co-benefits to community and the environment.

Barriers to entry include:

- regulatory additionality
- scale of approved projects
- timing of registration and crediting periods
- lack of approved/clear methods for some carbon reduction activities; and
- recognition of co-benefits.

These issues are expanded upon later in this submission.

The urban water sector plays a large and increasing role in water-enabled liveability outcomes beyond their core service provision, and are working to incorporate an integrated and multi-benefit approach for the best whole of community value to their planning and operations. This broader approach to service provision can cost more than traditional approaches, as the social and environmental benefits are difficult to monetise. This approach is not well aligned with least cost abatement projects.

The ERF and the Department of Industry, Science, Energy and Resources more broadly could have regard to the Carbon Market Institute Code of Practice to help ensure integrity in the scheme and reduce the opportunity for perverse community outcomes.

2. Maintaining integrity and optimising governance of the ERF

Do you have any views on the operation of the offsets integrity standards and the additionality provisions as key principles supporting the integrity of abatement under the ERF?

The offsets integrity standards are an important part of the rigour that gives ACCUs high credibility, and as state-based emissions reduction targets become more common, ACCUs will have an important role to play for urban water utilities in tracking emissions reductions and retiring these against targets.

Additionality of emissions reduction is of critical importance, and we welcome any steps to ensure that reductions that may already be occurring due to specific state level requirements are not permitted into the program. Of particular concern are emissions from landfills already obliged to manage methane. Recommendations of the Emissions Reduction Assurance Committee's 2018 Landfill Gas Method Crediting Period Review Report should be fully implemented.

The urban water sector notes the recent updated guidance on meeting regulatory additionality released by the Clean Energy Regulator, and welcomes the ability for water utilities to generate ACCUs. However, the rules are still overly complicated, and a simpler process, particularly for low risk state-owned water utilities would support greater participation in the ERF.

In states with emissions reductions targets, water utilities are working towards those mandated targets. Under their state-based target rules, they may choose voluntary retirement of ACCUs as one mechanism by which to achieve reductions. The ERF should recognise and support the role of ACCUs in these schemes. We would encourage the Department actively collaborate with their state counterparts to ensure compatibility between the ERF regulatory additionality provisions and state-based targets is maintained and optimised. That is, should a state or territory legislate emissions reductions, it would be beneficial if ACCUs were one of a suite of options to take advantage of the strong governance and resulting trust in this type of offset mechanism.

Despite the new guidance on regulatory additionality, some other issues remain for water utilities, including:

1. Timing in the registration/accreditation process - the uncertainty around project development and time lag before ACCU generation means that the maximum 18 month timeframe between registration and commencement of the crediting period is insufficient. The industry would prefer to nominate a start date for the crediting period to avoid missing out on ACCUs. Projects under ERF methods that have only a 7 year crediting period are particularly sensitive to this issue. An example is Yarra Valley Water's planned second waste to energy facility that will take longer than 18 months to construct, and due to the crediting period having started already, will likely miss out on its first year of ACCU generation, representing up to 50,000 ACCUs.
2. Additional surety is needed around the impact of legislative changes. That is, should a state or territory legislate emissions reductions and a project is partway through its period of abating emissions, this should have no impact on its ability to claim ACCUs under its original ACCU schedule nor a requirement to voluntarily surrender.
3. Newness - there may be opportunities being missed with trials and pilots moving to being long term if they were proved to deliver the intended level of abatement. For example, a trial of a process to lessen the emission of nitrous oxide to the atmosphere could be run. The process wouldn't be implemented long term should it not demonstrate sufficient abatement. However, in the case that it does prove to reduce emissions, the business case for keeping it longer term would benefit from being able to register for ACCUs.

Currently, such a project would not be able to register for ACCUs before starting as it is uncertain whether it will reduce emissions. Should it demonstrate emissions reductions it would not be eligible to register as it is not a new project.

What are your views on method prioritisation, method development and method review processes in the ERF? Please include any thoughts on how these processes could be improved, including how the expertise of industry could be better incorporated.

Through WSAA, state governments and in association with interested utilities, we propose a greater level of consultation and collaboration with the Department on trialling new methods, including for food waste and hydrogen projects, and reviewing obstacles for abatement in urban and peri-urban settings

We are also interested in participating in consultation and collaboration with the Department on trialling modifications to existing methods such as enabling biodiverse forestry projects as these projects will increasingly need to be resilient to dynamic climatic conditions. Another method alteration that could be examined is to allow non-endemic trees that are more adept at capturing carbon and will survive future climates and/or that produce biofuels such as Pongamia.

It has been noted that the process for method development, prioritisation and determination is very slow to the point that it likely impedes innovation. There is a need for higher method throughput and quicker determinations. Perhaps enable new methods when adequate scientific proof is realised then apply a risk based approval filter. That is, with a medium level of understanding, grant a factor of 0.25 of all ACCUs produced and scale up/down when further scientific justification is/is not realised.

Through WSAA, urban water utilities would be keen to work with the Department on a roadmap for abatement through blue carbon, an area for which the sector is uniquely positioned.

3. Managing risks to abatement

What are your views on the suitability of the risk of reversal buffer?

Anecdotally, the sequestration calculations count recycled water irrigation to new vegetation as a negative in terms of ACCU generation. The urban water industry sees this as an example of where co-benefits are not being adequately incorporated in calculation methods. Greater transparency of the impact of risk of reversal buffer on ACCU generation would assist project development. In addition, moving away from a one size fits all approach to the buffer to account for the relevant risk factors.

What are your views on the risks posed to land-based abatement and the adequacy of ERF and project-level risk mitigation measures?

Local environmental risks are likely increased through lowest cost land-based carbon abatement projects involving reforestation or afforestation. WSAA members have indicated that high stem density monoculture plantations tend to provide the lowest cost carbon abatement but these projects provide very limited future biodiversity and recreational outcomes. Low stem density natural forest plantations designed to replicate local remnant vegetation provide excellent future biodiversity and liveability co-benefits but lower carbon abatement per hectare. It is recommended the assessment process for tree based carbon abatement projects should incorporate a base level of environmental protections for biodiversity enhancement, particularly in the vicinity peri-urban and future urban growth/priority development areas.

What are your views on the risks to contracted abatement resulting from ERF projects being concentrated geographically and by method type?

It is clear from the contracted abatement figures in the Consultation Paper that the ERF appears to support large scale regional abatement projects more easily than urban/peri-urban type projects. The urban water sector considers it difficult with current arrangements to develop a positive business case for urban and peri-urban scale projects with strong carbon abatement elements, particularly as part of multi-benefit projects where carbon may not be the major element or reason for doing the project

The current geographical concentration of high stem density monoculture also poses risks associated with climatic changes including fire, drought and severe storms.

Concentration of projects in certain geographic areas increases the risk of changing industry profiles in certain locations (eg increase in agroforestry) that can be perceived negatively by local communities as local economic opportunities change.

Concentrating projects in certain areas reduces the diversity of projects and increases the risk of reversal if climate or other changes cause a loss of projects or expected project benefits in a particular location. A greater distribution of projects across Australia including in urban and peri-urban areas will contribute to positive community sentiment around this program and government investment in general.

4. Opportunities for enhancing outcomes

What role could the ERF play in future economic recovery efforts?

The water industry invests around \$5 billion annually in capital expenditure to provide for resilient water, wastewater and stormwater systems to cater for growing populations while protecting public health and the environment.

We are committed to continuing these vital investments to the maximum extent possible to support jobs and the economy during the COVID-19 pandemic and in the recovery phase. In addition, we want to invest in resilience and liveability outcomes across metropolitan and regional areas to deliver lasting benefits to communities and the natural environment while maximising the short-term economic recovery.

Greater ability for urban water utilities to participate in the ERF will allow a greater range of benefits to be included, and therefore more projects to become economic, which will assist abatement while generating economic recovery benefits for communities and the environment.

Should the ERF more explicitly address climate resilience and impacts? If so, how?

Greater flexibility and ability for urban water utilities to develop urban and peri-urban projects that meet multiple outcomes including for climate resilience, would be beneficial to the sector, would meet the goals of the ERF and support projects in urban population centres where risks from climate change to infrastructure and population health are high. Widening the ERF scope to explicitly address climate resilience could improve the prospects of emissions reduction projects that deliver multiple benefits, leading to enhanced social, environmental, cultural and biodiversity outcomes.

Acting on mitigation of risk posed by concentration of type and method would help here. For example, the actions noted above relating to increasing diversity of type, location and co-benefits. Projects that help protect the environment locally should also be supported. For example, mangroves to provide protection from saltwater intrusion due to sea level rise but also providing carbon sequestration and other benefits to the environment and the people of the local area.

Is there a need for enhanced guidance on how to manage ERF projects for multiple benefits? If so, should this be part of the ERF or complementary programs and policies?

Yes, there is a need for enhanced guidance. Whether or not this should be part of the ERF or complementary programs and policies would depend on what the additional management costs are associated with each and this would need to be considered for the various pathways Federal Government policy may take. For example, should the recommendation of a cap and trade or similar mechanism be accepted at a federal level this would have a noteworthy impact. In all approaches to implementation, additional benefit should be included for an ERF project that creates low carbon transition jobs, ie in a region currently dependent on carbon intensive industry.

Projects that meet multiple utility outcomes and also enhance the carbon sequestration outcomes, often cost more than projects that don't have multiple benefits.

Co-benefits to communities and the environment are likely to be much greater in population centres (particularly with revegetation/reforestation type projects in terms of urban cooling/urban

amenity/biodiversity benefits) due to density and use of public open space. Therefore, it should be carefully considered how co-benefits to the community are to be measured and this is not necessarily by the number of people benefited.

Validating and/or accrediting beneficial co-benefits could enable more investment in these types of projects.

Community awareness of the ERF and its impact on reducing Australia's emissions would likely be heightened if water utilities were able to more freely participate and benefits across multiple outcomes realised.

5. About WSAA

The Water Services Association of Australia (WSAA) is the peak industry body representing the urban water industry. Our members provide water and wastewater services to over 24 million customers in Australia and New Zealand and many of Australia's largest industrial and commercial enterprises.

Contact details

WSAA welcomes the opportunity to discuss this submission further. If there are any details you wish to follow up on please contact:

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