



Consultation paper: Streamlining the Emissions Reduction Fund – Environmental Plantings Pilot

The Clean Energy Regulator is seeking your views on the design of a pilot to encourage uptake of environmental plantings projects by farmers and landholders.

Background

The Emissions Reduction Fund (ERF) is a voluntary scheme that supports investment in carbon abatement projects across all sectors of the Australian economy. It is helping Australia to meet its emissions reduction targets, as well as providing business and employment opportunities. In addition to carbon abatement, many ERF projects provide important environmental, economic, social, and cultural co-benefits.

A wide range of activities are eligible under the scheme and participants can earn one Australian carbon credit unit (ACCU) for each tonne of carbon dioxide equivalent (tCO₂-e) stored or avoided by a project. ACCUs can be sold to generate income, either to the Government through a carbon abatement contract, or to private buyers in the secondary market.

The ERF is administered by Australian Government Clean Energy Regulator. Its role in administering the scheme includes developing new methods (the legislative rules for ERF projects), registering projects and issuing ACCUs, purchasing ACCUs through competitive auctions, and ensuring compliance with scheme obligations. The ERF administrative framework is designed to ensure integrity, that each ACCU represents one tonne of genuine and additional carbon abatement.

In May 2020, the [Report of the expert panel examining additional source of low cost abatement](#) (the King Review) identified substantial administrative and financial barriers that restrict accessibility and participation of smaller-scale projects in the ERF. These include complex technical registration, reporting and crediting processes, which can create challenges for farmers and other landholders whose core business is not undertaking carbon abatement projects.

The King Review made several recommendations to reduce transaction costs and encourage greater uptake of ERF projects by farmers and small landholders, including:

- Recommendation 6.6 – create a fixed price purchasing desk for small projects under the ERF.
- Recommendation 6.7 – reducing transaction costs to drive participation from small agriculture projects.
- Recommendation 6.10 – continue efforts to streamline ERF audit requirements at an administrative level and to explore the potential to use alternatives to more traditional audit processes.

To test an approach to help implement aspects of these key recommendations, the Clean Energy Regulator is seeking your views on the design of a pilot for projects using the [*Reforestation by Environmental or Mallee Plantings—FullCAM Methodology Determination 2014*](#) (the environmental plantings method).

The environmental planting method involves planting native species (by tube-stock or direct seeding) to establish new and permanent forest cover. A project area must have been clear of existing forest for a minimum of five years. ACCUs are issued for the carbon stored in the trees as they grow, estimated using the Full Carbon Accounting Model (FullCAM)¹.

Pilot Overview

The proposed environmental plantings pilot has three components: streamlined registration and crediting, access to a fixed price Australian Government purchasing desk in addition to ERF auctions and reduced auditing requirements.

The objective of the pilot is to encourage the uptake of environmental plantings projects by removing or reducing some of the key administrative and financial barriers that currently restrict participation. This will allow farmers and other landholders greater access to the benefits of the ERF and provide an opportunity to diversify their incomes streams. Environmental plantings projects are likely to be attractive as they can provide important co-benefits in addition to carbon abatement, such as shelter for livestock and pastures, restoring degraded land, biodiversity and promoting a healthy ecosystem.

The pilot will be open to new projects using the environmental plantings method that meet the following eligibility criteria:

- The project proponent² is the owner, leaseholder, or native title holder of the land.
- The project must have a total carbon estimation area (CEA)³ of 200 hectares or less.
- The project must be modelled in FullCAM by the Clean Energy Regulator as a mixed-species block planting with generic calibrations.
- The project is subject to monitoring and verification by the Clean Energy Regulator using geospatial tools (alternative assurance).

While the project proponent must be the landholder, leaseholder or native title holder, they would be able to engage a carbon service provider to act as an agent⁴ on their behalf.

Participants that are eligible for the pilot will be able to either participate in the pilot or register under the standard ERF process. Pilot registration and access to streamlined processing and the Fixed Price Purchasing

¹ Full Carbon Accounting Model (FullCAM) is a calculation tool for modelling Australia's greenhouse gas emissions from the land sector and used to produce the annual totals for Australia's National Inventory Reports. FullCAM is available at: <https://www.industry.gov.au/data-and-publications/full-carbon-accounting-model-fullcam>

² A project proponent is the person that is responsible for carrying out a project, will be issued any ACCUs generated by the project and has a legal relationship with the Clean Energy Regulator.

³ The total carbon estimation area is the number of hectares of plantings in a project area that is modelled and able to be credited for carbon abatement.

⁴ Agents can undertake a range of services to assist project proponents to meet their obligations in the ERF such as registration, modelling abatement, reporting, and claiming ACCUs. Agents are usually engaged for an agreed fee or percentage of earnings.

Desk will initially be open for two years, after which the eligibility and process would be evaluated and may be refined. Projects registered in that time would still have access to the streamlined processing component as well as a reduced audits schedule throughout the life of the project (provided the projects continue to meet requirements for reduced audits).

Streamlined Processing: Registration and Crediting

To register an ERF project under the environmental plantings pilot an application would need to be submitted to the Clean Energy Regulator outlining how the project meets scheme eligibility criteria and is consistent with the method. It also requires the project proponent to identify themselves and become a fit and proper person according to the requirements of the *Carbon Credits (Carbon Farming Initiative) Act* (CFI Act). The Clean Energy Regulator needs this relevant information to be satisfied that scheme and method requirements are being met.

Once a project is registered and the activity has commenced, proponents are required to report at regular intervals to verify and monitor the project activity (in this case establishing and maintaining an environmental planting) and to claim ACCUs for any carbon abatement achieved during that period.

Under the pilot, a new registration and crediting application process is available for environmental plantings projects that meet the eligibility criteria including being run by farmers and landholders. The pilot has been designed to reduce some of the administrative complexity, costs associated with ERF projects and make it easier to participate.

However, ERF environmental plantings projects registered under the pilot need to meet the requirements of the method and the scheme, including relating to newness, legal right, eligible interest holder consent and permanence obligations.

The newness requirement is a core element of the ERF and requires that the activity to be undertaken cannot have commenced before the project is registered. This helps ensure that the scheme only incentivises projects that would not have otherwise occurred. Under the environmental plantings method, to meet the newness requirement, site preparation and planting cannot begin prior to the project being registered with the Clean Energy Regulator.

Table 1: Key design features of the streamlined processing (registration and crediting) component

Streamlined Processing: Registration and Crediting	
Proposed key design features:	<ul style="list-style-type: none"> • Simplified registration and crediting forms • Guidance materials on establishing an environmental plantings project and a guide to participating in the pilot • The Clean Energy Regulator would: <ul style="list-style-type: none"> » Input project and planting data into FullCAM on behalf of the project proponent » Model project planting areas in FullCAM on behalf of the project proponent » Use geospatial tools and other capabilities to assist with monitoring and reporting requirements.

Pilot participants will have access to streamlined versions of the standard registration and crediting online forms to make it simpler and easier to participate in the ERF. To ensure that pilot participants see returns on their projects more quickly, they will be encouraged to report and be credited for ACCUs annually. Participants will be assisted to do so by the Clean Energy Regulator.

At registration, pilot participants will be required to provide the address of the property and identify the project area boundary. The Clean Energy Regulator will input the data into FullCAM on behalf of the participants. Easy to follow guidance materials and resources will be developed and supplied to support participants in all stages of project development and maintenance. The Clean Energy Regulator is considering the use of Apps to support farmers and landholders to meet scheme and method requirements, including mapping project boundaries and providing evidence that the plants are growing.

Under the streamlined registration and crediting process, the Clean Energy Regulator will model the planting area(s) in FullCAM as a mixed-species block planting (FullCAM block model)⁵ to produce carbon abatement estimates so that ACCUs can be issued. The modelling date will be from the date of the last planting in a carbon estimation area. The model settings will be as per the updated 2020 FullCAM guidelines.

Under the FullCAM block model, farmers and landholders may plant the mixed species vegetation in any shape provided that the plantings form more than a single row of plantings (in either a “block” or “belt” configuration). This flexibility allows for a variety of co-benefits for landholders whose core business is not undertaking carbon abatement such as shelter for livestock and pastures, restoring degraded land, biodiversity and promoting a healthy ecosystem. It also means that the Clean Energy Regulator can employ alternative assurance mechanisms, such as enhanced geospatial tools and capabilities, to monitor and verify the planting activity without relying on the more costly audits or adversely affecting scheme integrity. It is important to note that participants eligible for the pilot may choose to opt into the pilot and access streamlined registration and crediting, the fixed price purchasing desk and no audits, or they can use the standard ERF pathways for project registration, crediting and government purchase.

Under the proposed design, opting for the pilot over standard ERF processes could involve some trade-offs. The standard ERF pathway potentially generates more ACCUs if proponents are able to meet the more onerous method requirements for a belt model of plantings. According to the method, belt plantings must be established and maintained with specific spatial configurations, distance and boundary requirements. These additional requirements reflect the fact that trees planted in belt formation with land buffers around them tend to grow better and store more carbon as they have better access to water, sunlight and soil nutrients, and therefore may receive more ACCUs.

It is worth noting the block configuration of plantings can be in many different configurations including being planted in strips or alleys to follow fences or ridge lines to provide shelter to stock – the “belt” restrictions in the model apply more to how far apart the trees are planted from each other than the actual shape they are planted in.

However, the belt plantings are not as easy to assess using GIS or other assurance techniques and are therefore much less suited to the alternative assurance process needed to avoid audits. The Clean Energy Regulator is interested in stakeholder views on the two options: on the one hand, quicker project

⁵ As this model is already validated, it removes the need for conducting destructive biomass surveys (sometimes known as destructive sampling) and ongoing measuring or estimation requirements for the landholder.

registration, access to ACCUs and no audits or the possibility of more ACCUs but a more burdensome and costly set of requirements for the configuration of the environmental plantings.

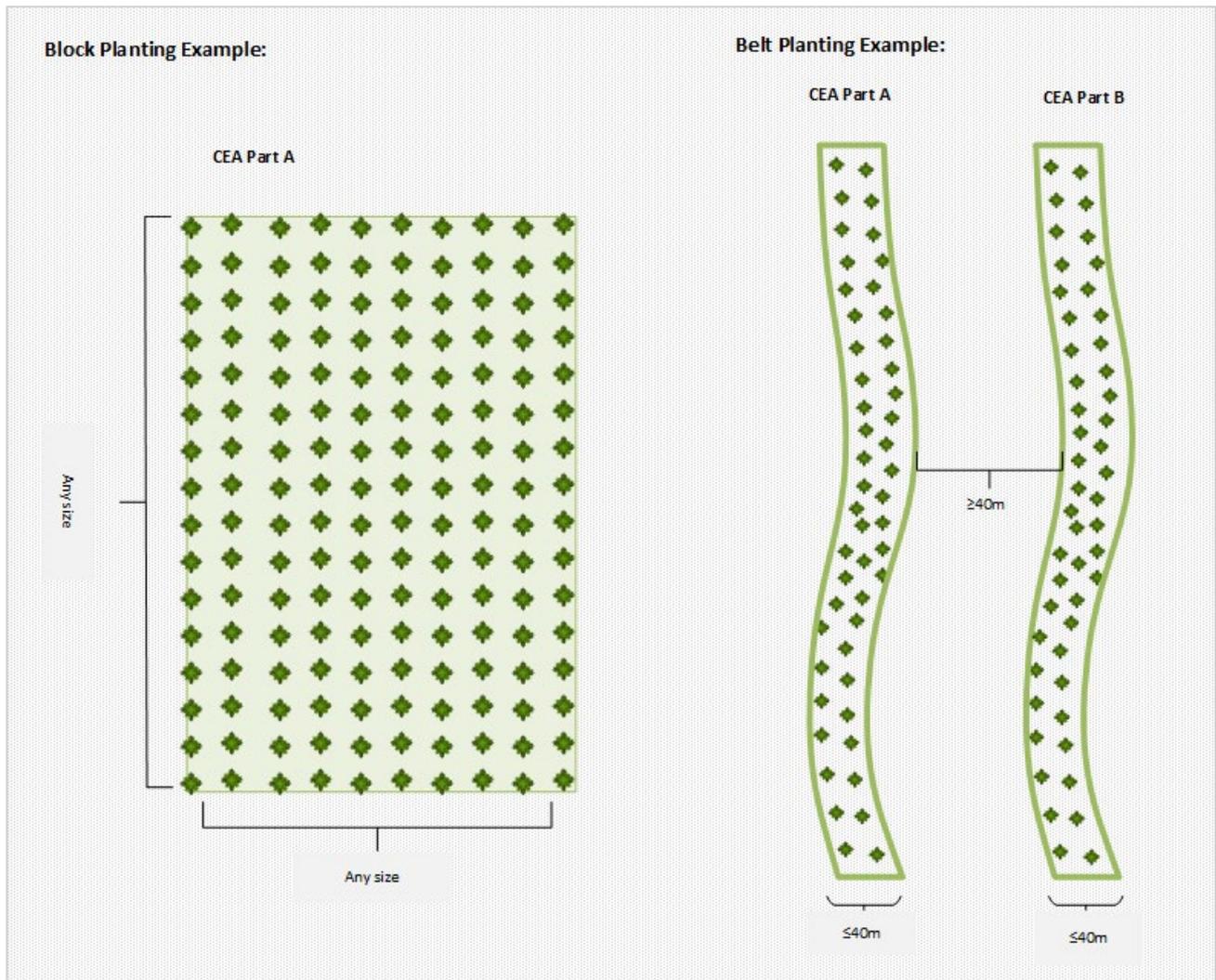


Diagram 1: Example of a configuration of Block and Belt planting



Do you have any feedback on the proposed streamlining measures?



Are there any Apps currently available in the market that could support ERF participants to meet scheme and method requirements? Is there a need for purpose-built products? If so, should the private sector or Government develop these?

Fixed Price Purchasing Desk

ACCUs generated by ERF projects can be sold to the Government or to private buyers in the secondary market. To sell ACCUs to the Government, a proponent first needs to obtain a carbon abatement contract⁶, awarded through a reverse pay-as-bid auction. These auctions involve parties submitting bids privately, the government ordering the bids from lowest to highest price and then considering how many of the ordered bids to accept. Under current arrangements, a project is required to generate a minimum of 2000 ACCUs per annum on average for the duration of the contract period to be eligible to bid in an auction.

While there are private buyers in the ACCU market, a contract to sell ACCUs to the Government secures a fixed and secure revenue stream, cash flow predictability and reduced exposure to volatility in the ACCU market price. Contracts can be for short durations and may be for a portion, rather than all, of the ACCUs from a project.

There are two types of contracts available: fixed contracts where the seller must sell a specified number of ACCUs to the Clean Energy Regulator at the agreed price and optional contracts where the seller has the right but not the obligation to sell up to a specified number of ACCUs at the agreed price. Optional delivery contracts are now a standing feature of ERF auctions, representing 98% of purchased abatement at Auction 12. The Clean Energy Regulator is aware of stakeholder feedback that suggests the auction process is viewed as complex and the minimum bid threshold is also a barrier preventing landholders from participating in an auction. These barriers may even limit the development of some projects.

The fixed price purchasing desk is the proposed alternative to the auction process for pilot participants. It would be designed to address the key barriers of price and success uncertainty related to auction participation, and the administrative burden of auction participation by providing a simple and predictable way to sell ACCUs to the Clean Energy Regulator.

Table 2: Key design features of the fixed price purchasing desk component

Fixed Price Purchasing Desk	
Proposed key design features:	<ul style="list-style-type: none"> • Offer open for a 28-day window after each auction • Average price of the accepted bids across both fixed and optional bid stacks from the most recent auction • Immediate delivery contract • No minimum amount of ACCUs that can be sold • No maximum amount of ACCUs that can be sold, however all ACCUs sold must be generated by an environmental plantings project participating in the pilot.

It is proposed that pilot participants will have the option to either participate in the traditional auction process (if eligible) or to sell their ACCUs at a fixed price offered during a 28-day window immediately following each auction.

⁶ A carbon abatement contract is a commercial arrangement to sell ACCUs to the Clean Energy Regulator at an agreed price and to a nominated schedule for up to ten-years.

The fixed price purchasing desk will make a standard offer based on the average accepted price of both fixed and optional bid stacks of the preceding auction. The seller will enter into a contract with the Clean Energy Regulator to sell a specified amount of ACCUs at the specified price. The contract will be for immediate delivery, with the ACCUs to be provided within 28 days of an application being approved.

There is no limit on the amount of ACCUs that can be sold at the fixed price however, all ACCUs sold must be from an eligible project and a proponent cannot participate in the auction immediately preceding the next fixed price purchasing desk offer and that fixed price offer. Additionally, projects covered by existing Carbon Abatement Contracts (CACs) will be ineligible, to ensure that ACCUs under contract are delivered to existing contracts first. These exclusions are intended to minimise any potential adverse impact on the auction process, whilst also making crediting more accessible and equitable for scheme participants.



Do you have any feedback on the proposed fixed price purchasing desk?

Auditing Arrangements

ERF projects are required to be audited by an independent auditor to establish reasonable assurance that the calculation of carbon abatement reported by a project is accurate. The number and frequency of audits is dependent on the type and size of the project. The cost of audits was identified as a key financial barrier to scheme participation for smaller projects.

Following recent changes made to the ERF audit framework⁷, the Clean Energy Regulator is now able to reduce the number of audits required for certain classes of projects for which appropriate alternative assurance can be achieved.

Environmental plantings projects that meet the eligibility criteria for the pilot are able to be classed as alternative assurance projects and subsequently will not require audits. For these projects the Clean Energy Regulator considers that the audit burden is not proportional to the risk of method and scheme requirements not being met. Instead, the Clean Energy Regulator will employ alternate monitoring and assurance mechanisms to ensure ERF scheme and method requirements are met.

Table 3: Overview alternative assurance mechanisms required for reduced audits

Alternative Assurance Mechanisms:	
Biophysical characteristics of plant species	<ul style="list-style-type: none"> • Can reasonably predict forest potential for each planting species • Provided by the participant for offset reports (as required).

⁷ The Clean Energy Regulator and the Department of Industry, Science, Energy and Resources consulted on [proposed changes to the ERF audit framework for projects subject to alternative assurance arrangements](#) in May 2021.

Geospatial Tools and Capabilities

- Project proponents provide mapping data or GPS coordinates of plantings and the Clean Energy Regulator will input data into FullCAM on their behalf
- Remote sensing (i.e. satellite imagery) will verify and monitor forest cover and disturbances to carbon stock
- Geo-referenced photo tools will also be required.

The Clean Energy Regulator will use enhanced geospatial capabilities and other tools to provide alternative assurance (rather than audits) to participants in the environmental plantings pilot.

Participants will be able to provide mapping data using geographic information software (free or paid) or by supplying GPS coordinates of planted areas, and the Clean Energy Regulator will input data into FullCAM for participants. Forest potential can be reasonably predicted from the biophysical characteristics of each planting species and participants will be able to use geo-referenced photo tools to complement GIS data. The Clean Energy Regulator will use remote sensing to verify and monitor forest cover over the life of the project. This would attain a comparable level of assurance that would otherwise be provided by an audit, at a lower cost to the proponent.

Throughout the pilot, the Clean Energy Regulator will review the development of emerging geospatial technologies and consider whether they can be integrated in the future.

The Clean Energy Regulator reserves the right require the provision of other information or for participants to undertake an audit if necessary.

Make a submission

Submissions are due by **5 pm, Tuesday 28th September 2021 (AEST)**. Any submissions received after this date will be considered at the Clean Energy Regulator's discretion.

It is preferred that submissions be submitted electronically to the below email address. Submissions may be posted to the below postal address if required.

Please include the submission coversheet with your submission.

Email address (preferred):

ERFstrategy@cleanenergyregulator.gov.au

Postal address:

ERF Policy
Clean Energy Regulator
GPO Box 621
Canberra ACT 2601

[Contact the Clean Energy Regulatorⁱ](#) for more information.

Confidentiality and privacy

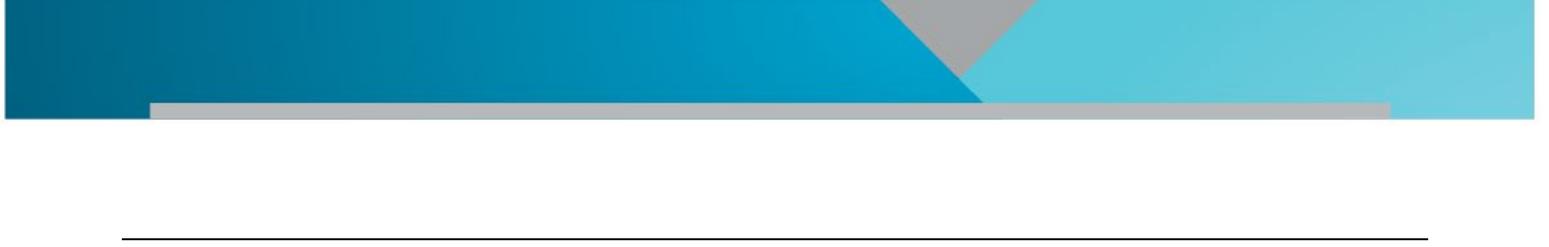
The Clean Energy Regulator will treat all submissions as public documents, unless the author requests the submission be treated as confidential. Public submissions may be published in full on the Clean Energy Regulator's website. If published, the Clean Energy Regulator will publish the name of the individual or name of the organisation and state or territory with your submission.

A request may be made under the *Freedom of Information Act 1982* (Cth) for a submission marked 'confidential' to be made available. Such requests will be determined in accordance with provisions under the *Freedom of Information Act 1982*.

The Clean Energy Regulator will deal with personal information contained in, or provided in relation to, submissions in accordance with the [Clean Energy Regulator's privacy policyⁱⁱ](#)

ⁱ <http://www.cleanenergyregulator.gov.au/About/Contact-us>

ⁱⁱ <http://www.cleanenergyregulator.gov.au/About/Policies-and-publications/privacy-policy>



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