10th November 2014

Mr Rick Baker
CFI Review Director
Climate Change Authority
Via email: submissions@climatechangeauthority.gov.au

Dear Mr Baker,

RAMP Carbon is pleased to provide the Climate Change Authority with a submission in response to the issues paper released in October. Our submission relates to the challenge of project aggregation under the CFI and ERF.

Carbon Farming Initiative Review Submission

For agricultural offset projects to be effective, farm-level GHG emissions reductions need to be aggregated into larger, multi-landowner projects. Aggregation is one of – if not *the* – most important factor in the development of agricultural offset projects that are cost-effective and that will allow for the engagement of the agricultural sector in GHG mitigation efforts at a scale that matters.

Similarly, residential and commercial building energy efficiency projects also require multi-building aggregation in order to be able to generate emissions reductions at levels where participation in carbon crediting schemes such as the Emission Reduction Fund (ERF) is commercially feasible.

Aggregation is critical where emission reductions are delivered by individually small activities, where audit requirements mean that transaction costs associated with compliance and administration would otherwise preclude these activities from delivering emission reductions.

This paper sets out several issues with the current design of the ERF (and its precursor, the Carbon Farming Initiative (CFI)) which we believe impede successful aggregation. In addition we provide a brief overview of aggregation models successfully adopted under two carbon crediting schemes: the Clean Development Mechanism, and the NSW Greenhouse Gas Abatement Scheme (now the Energy Saving Scheme, ESS). Finally, we highlight how through the development of flexible approaches under the *legislative rules* governing the timing and frequency of audits, aggregation may be assisted under the ERF.

Issues Impacting CFI/ERF Aggregation

1. Definition of a project

While it is possible to create a CFI project with multiple properties, buildings or carbon estimation areas, a project proponent is required to define these at the time of registration of their project with the Clean Energy Regulator. Once a project is registered the opportunity

for adding additional abatement activities (eg. Further building energy efficiency upgrades, or additional farms seeking to build soil carbon) is limited. Any new activities implemented by the same proponent or aggregator would need to be registered as a new and separate project.

From a practical perspective this model is challenging for project developers wishing to achieve economies of scale by aggregating activities, as it requires a large number of individually small 'sub-projects' to commence implementation simultaneously (a challenge that is even more pronounced under the ERF's newness requirements that require registration with the CER prior to *any* activities occurring). Our experience across residential and commercial building energy efficiency and agriculture suggest that pooling large numbers of building or property owners, delaying project implementation until critical mass has been achieved and then registering a single, large scale project is essentially impossible. This "bundling" approach was attempted under the Kyoto Protocol's Clean Development Mechanism and has not been utilized by project developers, or delivered significant volumes of emissions reductions.

2. Audit Regime

Flowing through from the constraints around project definitions are the way in which audit regimes are structured under the CFI/ERF. Compounding the limited feasibility of aggregating of large numbers of individually small abatement activities, is the fact that ERF projects are audited on an individual basis. There does not currently appear to be any capacity for a single aggregator implementing multiple similar projects to undertake an audit across a group of projects, thereby spreading administrative costs across a larger volume of emission reductions.

Aggregation under other carbon crediting schemes

In contrast to the CFI/ERF, many international and domestic carbon crediting scheme have created dedicated aggregation mechanisms that explicitly seek to overcome the commercial and administrative barriers to the roll out of a large number of individually small projects.

Programmatic CDM

A CDM Programme of Activities (PoA) creates a regional, national or international abatement framework to which an unlimited number of individual projects can be added, each of which is eligible to receive certified emission reduction (CERs). The features of a PoA can be summarized as follows:

- A PoA involves establishing an "umbrella" framework to deliver an unlimited number of individual projects that reduce emissions.
- The PoA provides the organizational, financial and methodological framework for emissions reductions to occur.

- Component Project Activities (CPAs) are the projects covered by the PoA that involve a single, or set of interrelated measures which generate emission reductions.
- An unlimited number of CPAs can be added to the PoA for the duration of the PoA crediting period (28 years).

Figure 1: PoA Structure

The great potential of PoA lies in the aggregation of large numbers of small, homogeneous low-cost greenhouse gas abatement activities previously overlooked by traditional CDM.

The RAMP Carbon team is responsible registering and implementing the first CDM PoA: a Mexican household energy efficient lighting program. Since then we have assisted in the development of further residential lighting PoA in South Africa, a commercial buildings energy efficiency PoA covering South Africa, Botswana and Kenya, solar lanterns PoA in Kenya and a biodigestor in Mexico. Without the option to use a programmatic approach, it would not have been feasible to access carbon finance for these small scale technologies.

There are three major advantages to PoA which increase their attractiveness to investors and project developers:

1) ***CDM Regulatory Efficiency*** – For the initial PoA registration only one CPA must be documented. Once the PoA is registered by the CDM Executive Board, each subsequent CPA included only requires sign-off by an accredited auditor. CPAs therefore avoid considerable regulatory risk and time inefficiencies incurred during the normal registration process.
2) ***Scale through aggregation*** – An unlimited number of CPAs can be added to the PoA framework enabling a PoA to generate large volumes of emission reductions from sectors that involve individually small, highly dispersed technological interventions (eg. residential, rural and SME).
3) ***Efficient Verification*** – The verification of emission reductions occurs at the PoA level. That is, all CPAs are simultaneously verified with audits often involving sampling across multiple, homogenous CPAs in order to check monitoring data and procedural compliance. This enables the cost of audits to spread across the entire PoA, not loaded into a single small project.

NSW Greenhouse Gas Abatement Scheme

GGAS (now ESS) allows registration to be undertaken at the level of project implementer, rather than at an individual project activity level. Under this approach, a project proponent

would be recognised as eligible to generate abatement for a particular activity or technology. There is no need for the abatement provider to define up front where and when their abatement activity will occur. The actual locations, specific mix of technologies and the emissions reductions achieved are verified on a rolling basis post implementation.

This allows a project developer or aggregator to progressively roll out new abatement activities over time, gradually accumulating and selling carbon credits. Once a certain number of credits have been created, the scheme regulator will require an audit to be undertaken.

Again, this approach enables effective aggregation over time as well as amortizing the costs of audits over a commercially relevant number of carbon credits, rather than restricting it to defined project with limited abatement.

Opportunities for Aggregation under ERF Legislative Rules?

We believe that it is critical for the ERF facilitate aggregation of energy efficiency, agriculture and other project types. To do this will require the development of a dedicated mechanism similar to the programmatic approach under the CDM or accredited certificate provider under GGAS/ESS. However, we feel that given it is unlikely that this will occur in the short term, an interim step will be to allow flexibility within the legislative rules governing audits.

If the Clean Energy Regulator were to have the flexibility to develop audit regimes that could bring together multiple projects using the same methodology, same or similar technology, implemented by the same proponent, this would go a long way to overcoming the current financial barriers to participation of these project types within the ERF. These audit regimes could be designed in a similar fashion to those under GGAS or for PoA, where a project proponent would be able to verify emission reductions across multiple projects or installations at a point where a carbon credit volume trigger had been reached (eg. An audit no more than once per year, or every 100,000 ACCUs depending on the scale of the activity undertaken).

By allowing auditing across multiple but similar projects, a major barrier to aggregation could be overcome. With the experience gained dealing with these aggregations during audits, in the longer term we would hope that a policy mechanism could be developed to formally recognise and facilitate aggregation under the ERF.

Any questions regarding this submission should be directed to:

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