EMISSIONS REDUCTION ASSURANCE COMMITTEE

C/- ERAC Secretariat
GPO Box 787
CANBERRA ACT 2601

The Hon Josh Frydenberg MP
Minister for the Environment and Energy
Parliament House
CANBERRA ACT 2600

Dear Minister

On behalf of the Emissions Reduction Assurance Committee, I am pleased to inform you the Committee has considered the draft *Carbon Credits (Carbon Farming Initiative—Industrial Equipment Upgrades) Methodology Determination 2018* (our reference: 034EE2016) and advises it is suitable to be made into a Determination.

The draft Determination allows businesses and others to earn carbon credits from energy efficiency upgrades to industrial equipment including boilers, pumps and process heating systems. While existing methods can credit emissions reductions from some of these activities, the proposed method is intended to support smaller projects and situations where calculations in existing methods are unsuitable.

The draft Determination was developed by the Department of the Environment and Energy in collaboration with a technical working group of experts from the industrial and energy services sectors and the Clean Energy Regulator. The Department invited public submissions on the draft Determination and also commissioned a separate technical assessment.

Having considered the information from these processes, advice from the Clean Energy Regulator, the draft Explanatory Statement and the text of the draft Determination, the ERAC concluded the draft Determination complies with the offsets integrity standards specified in section 133 of the *Carbon Credits (Carbon Farming Initiative) Act 2011*. On this basis, the Committee agreed it was suitable to be made into a Determination.

Further details of the reasons for the ERAC's advice are included in the attached notice.

Yours sincerely

Andrew Macintosh
Chair
Emissions Reduction Assurance Committee

2 March 2018

EMISSIONS REDUCTION ASSURANCE COMMITTEE

Notice of advice to the Minister for the Environment under subsection 123A(2) of the *Carbon Credits* (*Carbon Farming Initiative) Act 2011* (the Act)

Draft *Carbon Credits (Carbon Farming Initiative—Industrial Equipment upgrades) Methodology Determination) Methodology Determination 2018* (draft Determination)

On 22 February 2018 the Emissions Reduction Assurance Committee (ERAC) agreed the draft Determination is suitable to be made into a Determination.

In forming this view, the ERAC considered:

1. the offsets integrity standards specified in section 133 of the Act;
2. the public submissions received during the public consultation period;
3. an independent technical assessment; and
4. advice from the Clean Energy Regulator.

The ERAC was not directed to have regard to any additional issues under section 123B of the Act in providing its advice on the draft Determination.

1. Assessment against the offsets integrity standards

Section*	Requirement	Statement
133(1)(a)	The draft Determination's requirements and method should result in carbon abatement that is unlikely to occur in the ordinary course of events (disregarding the effect of the Act).	The draft Determination specifies clear requirements to ensure projects deliver abatement that is unlikely to occur in the ordinary course of events, including the following: - Upgrades must be recommended in a formal energy audit report to the Australian Standard or in a report from a qualified third party - Upgrades must go beyond normal maintenance or normal replacement - Upgrades to equipment not in operation before the upgrade are not eligible. Accordingly, the ERAC considers that the draft Determination complies with this offsets integrity standard.
133(1)(b)	Estimations of removal, reduction or emission, as the case may be, are measurable and capable of being verified.	Appropriate equations are specified for the calculation of emissions reductions and project emissions. The calculation of abatement is based on comparing the measured energy consumption of the upgraded equipment before and after the upgrade. The draft Determination specifies energy boundary requirements for each project component that capture all material emissions caused by the upgrade. The draft Determination also requires verification of estimates through data collection, monitoring and reporting. Accordingly, the ERAC considers that the draft Determination complies with this offsets integrity standard.
133(1)(c)	Carbon abatement used in ascertaining the carbon dioxide net abatement amount for a project must be eligible carbon abatement from the project.	The carbon abatement used in ascertaining the abatement amount is eligible carbon abatement from the project. Changes in emission levels resulting from eligible projects would be reflected in the Australian national inventory, which is the main basis for determining Australia's compliance with international emissions reduction targets.

		The boundary and calculation requirements in the draft Determination ensure that calculated abatement is a result of the project activities. Therefore the ERAC considers emissions reductions calculated by the draft method would be eligible carbon abatement as defined in the Act.
133(1)(d)	The draft Determination is supported by clear and convincing evidence.	The draft Determination is supported by clear and convincing evidence. The calculation of the abatement is based on direct measurement of emissions before and after implementing a project, with measurements undertaken under similar conditions. The calculation and measurement approaches have been examined by technical experts and are adjusted for energy intensity to ensure additionality and conservativeness. Accordingly, the ERAC considers that the draft Determination complies with this offsets integrity standard.
133(1)(e)	Material amounts, in carbon dioxide equivalent, of greenhouse gases that are emitted as a direct consequence of carrying out the project are deducted.	Net abatement is calculated after deducting the emissions generated as a direct result of carrying out the project. The calculation of abatement is based on comparing the energy consumption of the upgraded equipment before and after the upgrade. The draft Determination specifies energy boundary requirements for each project component that capture all material emissions caused by the upgrade. Accordingly, the ERAC considers that the draft Determination complies with this offsets integrity standard.
133(1)(g)	Estimates, projections or assumptions included in the methodology are conservative.	The assumptions and estimates included in the draft Determination are conservative. The net abatement estimate is conservative. The abatement calculation includes a decay coefficient to account for the increasing uncertainty that the operating measurement period will be representative of output in each successive reporting period. The decay factor provides an incentive to measure output for the entire crediting period.

		The abatement calculation also adjusts for energy intensity where this yields a more conservative result. Accordingly, the ERAC considers that the draft Determination complies with this offsets integrity standard.
133(1)(h)	Such other standards that are set out in the legislative rules.	Not applicable.

* Section of the Act

2. Submissions received during public consultation period

The ERAC received three informal email submissions on the exposure draft *Industrial Equipment Upgrades* determination. The draft *Industrial Equipment Upgrades* determination was circulated to the group of technical experts and a meeting was held to discuss the draft on 3 August 2017.

3. Relevant advice from the Clean Energy Regulator

The Clean Energy Regulator advised the ERAC that it supports the draft Determination.

Conclusion

On the basis that all the offsets integrity standards are met, the ERAC agreed the draft Determination is suitable to be made into a Determination.