

# Submission to the Emissions Reduction Fund Green Paper

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## Opening

Local Government NSW (LGNSW) is the peak body for councils in NSW, representing all 152 NSW general-purpose councils, the special-purpose county councils and the NSW Aboriginal Land Council.

LGNSW is a credible, professional organisation that represents the views of councils to NSW and Australian Governments; provides industrial relations and specialist services to councils; and promotes NSW councils to the community. LGNSW facilitates the development of an effective community-based system of Local Government in NSW.

LGNSW welcomes the opportunity to make a submission to the Emissions Reduction Fund (ERF) Green Paper. Local Governments have already shown a willingness and enthusiasm to mitigate, or reduce their emissions, and the emissions of their communities. Over the past two decades Local Government has actively engaged in programs to reduce greenhouse gas emissions from council operations and also community greenhouse abatement programs. Councils have participated in the Cities for Climate Protection program, developed their own programs, policies and processes and forged partnerships with government agencies and the private sector.

LGNSW understands the need to adopt better technologies and practices to reduce emissions to meet Australia's commitment to reduce carbon emissions to 5% below 2000 levels by 2020. LGNSW position has been that this is best achieved through a polluter pays market mechanism such as an emissions trading scheme or carbon tax rather than financed through limited public funds.

## Response

### Design Principles

A focus on lowest-cost emissions reduction may not translate into best value abatement. Of primary concern is that lowest-cost emissions reduction will not achieve additional abatement as these projects would proceed without ERF support. A rate of return threshold (similar to the NSW Energy Savings Fund where projects with rate greater than 6% were eligible) could be introduced for abatement actions to determine if lowest-cost emission reductions offer additionality. This would increase the administrative burden, however, it would direct funds to projects that would not necessarily proceed without additional support.

The focus and operations of Local Government are very different to constitutional corporations and councils will more often deliver projects with co-benefits such as a native forestry project that also delivers water quality, biodiversity and erosion control benefits or a renewable energy project that partners with a community engagement program. An abatement project that has significant co-benefits may not be able to compete under the lowest-cost provisions despite the overall value of the project.

There is also concern that the low-cost provisions will disadvantage innovative technologies that are high cost with potential for large scale abatement.

Local Governments run many community facilities and along with the collection of municipal waste and landfill management there are multiple opportunities for abatement. However, one of the best opportunities for large scale, low-cost emissions abatement is upgrading street lighting assets with potential abatement nationally of 635,000 tonnes CO<sub>2</sub>eq (Revised Draft

National Street Lighting Energy Efficiency Strategy, 2012). Large scale upgrades have not occurred to date due to significant barriers.

While legal responsibility for providing street lighting rests primarily with Local Government, most street lighting in Australia is owned by 14 public and privately held electricity distribution utilities. This circumstance resulted from the amalgamations of the former county councils by State governments into corporatised utilities in the 1990s. An unfortunate legacy of these amalgamations is that there is no clear basis for the street lighting service in most Australian jurisdictions with no service level agreements, no binding regulations covering street lighting service levels nor clearly defined contestability for street lighting should councils wish to choose another service provider. The main barriers to the rapid deployment of energy efficient lighting in Australia are:

- a) Utility reluctance to adopt and widely deploy energy efficient lighting technologies;
- b) The lack of a clear governance framework for the street lighting service and, in particular, the inability of most councils to choose an alternative service provider; and
- c) High residual asset values placed on the existing assets by the utilities in many areas of Australia (e.g. a huge financial hurdle to overcome before new lights can be installed).

### **Crediting Emissions Reductions**

LGNSW is supportive of including both activity methods for specific actions and facility methods to aggregate multiple activities. This offers flexibility to cover a range of abatement projects across the portfolio of Local Government's operations.

Additional activity methods that would benefit Local Government include building energy efficiency and street lighting efficiency which may be met through existing schemes such as the NSW Greenhouse Gas Reduction Scheme.

Activity methods for various waste abatement projects such as the diversion of organic waste from landfill and landfill gas capture may prove to be complex. Waste diversion projects may not meet additionality tests as the NSW Government's Waste Avoidance and Resource Recovery Strategy includes ambitious recycling and diversion targets. Achieving additional abatement above these targets may prove difficult.

Local Government NSW does not have the expertise or the resources to participate in discussions on appropriate measurement methods for landfill emissions. However, Local Government requires a simple and low cost measurement method to limit the administrative burdens of participating in the ERF. Any measurement method should be fair and equitable across the waste sector.

The aggregation of abatement actions across Local Government could be facilitated at the regional level (by Regional Organisation of Councils) and the state level (by state local government associations) or at the national level (by the Australian Local Government Association). However, resourcing such a task may prove challenging without additional funding.

### **Complementary Measures**

Regulatory reform would be required to achieve large-scale abatement from street lighting. A governance framework is needed for improved service provision of street lighting and a realistic assessment of asset value.

### **Purchasing Emissions Reductions**

Any tender or reserve auction process for the purchase of abatement should be streamlined to reduce administrative burden. This could be achieved through pro forma specifying the required information. A standard contract is preferred to reduce the administrative burden, costs and time.

### **Safeguarding Emission Reductions**

LGNSW is strongly supportive of measures to mitigate climate change impacts and reduce greenhouse gas emissions. However, in the absence of penalties to businesses who fail to reduce their emissions or even increase emissions it is hard to see how a safeguard method would be effective in ensuring that Australia meets its emissions target.

### **Coverage**

Generally, the NSW Local Government sector is not covered by the National Greenhouse and Energy Reporting Scheme.

### **Setting Baselines**

Using a historical data set may disadvantage those facilities that have already achieved significant abatement and make further abatement for those businesses uncompetitive in a low-cost abatement auction. Historical benchmarking (or “grandfathering”) could result in an oversupply of emissions credits which could drive down prices on the carbon trading market such as occurred early in the European carbon market. Best available technology benchmarking across sectors, similar to the 2011 the European Emissions Trading Scheme, would be a more suitable approach.

### **Compliance**

Without strong compliance mechanisms there is no signal to businesses who fail to meet their emission reductions or even increase their baselines. Flexible arrangements are desirable to ensure continued economic growth. The domestic market of carbon credits should also be encouraged and not devalued through make good provisions that allow the purchase of international carbon credits.

### **Carbon Farming Initiative**

There are 3 Local Government registered Carbon Farming Initiative (CFI) projects in NSW. These projects will potentially be disadvantaged under the ERF initiative as the generated carbon credits may not be sold into the ERF. While these credits can be sold into voluntary markets, the return on ratepayer-funded infrastructure will be significantly lower than forecast. Local Government NSW would prefer a commitment to purchase the carbon credits generated through the CFI, as these projects will be financial disadvantaged by a change in policy and beyond the control of the CFI project owner.

The short-term policy window of the ERF is also a hindrance to long-term land-based abatement projects. Land-based abatement projects such as revegetation have significant co-benefits that are not factored in through the lowest-cost provisions. Land-based abatement projects are further disadvantaged by the minimum bid provisions which would require further administrative effort to measure and then aggregate a large number of smaller projects, particularly where activity methods could vary site to site.