Carbon policy and waste management – July 2014 update

The debate over the repeal of the Carbon Pricing Mechanism (**CPM**, or carbon tax) has once again shone the political and media spotlight on carbon policy. For the waste and other industry sectors, the policy turbulence and uncertainties remain as challenging as ever.

This brief document responds to requests from within the industry for updated information on the intricacies of carbon policy and how it might affect the sector. It has been produced by members of WMAA's Carbon and Landfill divisions as listed at the foot of the update.

The document focuses on current issues as they affect the waste sector. It is very important to note that the issues are fluid, and this should not be taken as the final word on any aspect of carbon policy.

The NGERS continues

The National Greenhouse and Energy Reporting System (**NGERS**) is expected to continue without significant modification. The NGERS is the primary method for collecting information on Australia's greenhouse gas emissions, which is important for international obligations. It is also likely to play a role in the Emission Reduction Fund (**ERF**, discussed below).

The NGERS is reviewed annually and changes are implemented with one year delay. WMAA has played a key role in negotiating amendments to the NGERS rules. Reporters from the waste sector will be familiar with the improvements made in relation to climatic conditions, sub-facilities, DOC_f values, homogenous wastes, and reduced emission factors for composting.

The version of the NGERS Determination for financial year 2014-15 provides two default values for municipal waste – one for where councils provide an organics bin as standard, and one where they do not. However, the methane generation potential of these two defaults is very similar.

The end of the Carbon Price Mechanism

The Government has succeeded in repealing the previous government's CPM. There will be no liability under the CPM for financial year 2014-15.

Implications for council NGERS reporting

The repeal of the CPM means that councils that had to report under NGERS due to a CPM liability will return to their pre-CPM position, in which they do not have to report under NGERS unless they are a 'constitutional corporation'. Councils should seek legal advice on the question of whether they are a 'constitutional corporation'.

Liable landfills

Landfills that directly emit over 25,000 tonnes of carbon dioxide equivalent emissions (including emissions from legacy waste), as reported under NGERS, remain liable to pay a carbon price for methane emitted in financial year 2013-14 that was derived from waste deposited in financial year 2012-13. This liability must be acquitted by February 2015. The liability must be worked out using the Clean Energy Regulator's Solid Waste Calculator.

Carbon cost impacts on landfills

Under the CPM, landfills needed to calculate their future liability in advance and charge their customers at the time of deposition. This cost was then passed on to waste collectors and ultimately to customers.

Repeal of the CPM may leave some liable landfills with revenue collected to fund a future CPM liability that no longer exists. The fate of the funds collected for future liability remains unclear. It should be noted that many landfill owners have made significant investments in programs and landfill gas systems to reduce their emissions. Without the CPM their investments may no longer be viable.

The landfill industry has been discussing legislative and contractual options with the Government and it is expected that these discussions will continue. Landfill operators that have been liable under the CPM should monitor these developments closely.

The Carbon Farming Initiative

The Carbon Farming Initiative (**CFI**) was established to allow sectors not covered by the CPM to generate Australian Carbon Credit Units (**ACCUs**) by reducing or sequestering emissions. They could then sell these into the CPM compliance market or voluntary markets. In the waste sector, methodologies were developed to allow ACCUs to be generated by reducing landfill emissions from 'legacy waste' (deposited prior to the establishment of the CPM in July 2012), and also for diverting legacy waste from landfill to alternative waste treatments (**AWTs**).

The *Carbon Farming Initiative Amendment Bill 2104* (CFI Amendment Bill) was tabled in Parliament on 18 June 2014 and aims to facilitate a transition from the CFI to the broader-based ERF (discussed below). Under the CFI

Amendment Bill, existing CFI projects would continue to be recognised and transitional arrangements would be in place to allow new projects to be approved under existing CFI methodologies until 30 June 2015. From 1 July 2015, new projects would be assessed and approved under the new ERF rules and methodologies.

The Emission Reduction Fund

The ERF is the centrepiece of the Government's Direct Action policy. It proposes to build on the CFI by expanding the range of activities that can generate credits to a broader range of non-land sector activities (e.g. commercial, industrial and aggregated energy efficiency; transport; and coal mine fugitive emissions).

Similar to the CFI, the ERF will allow registered projects to generate ACCUs by applying formally approved methodologies. The Government proposes to purchase the cheapest ACCUs on offer, to the limit of its budget, in so-called 'reverse auctions'.

Participants in the ERF could potentially generate ACCUs but be unsuccessful in the ERF auctions. Their options would then include:

- attempting to bid again at a subsequent auction
- sell their ACCUS into voluntary markets
- selling their ACCUS to successful ERF bidders who have failed to generate the ACCUs they are contracted with the Clean Energy Regulator to deliver.

As discussed above, the Government intends to implement the ERF via the CFI Amendment Bill. The Bill has passed the House of Representatives but, at the time of writing, appears to lack majority support in the Senate. However, the Government has stated that if the legislation is not passed, it can implement the ERF using its regulatory or administrative powers.

Key aspects of the ERF for the waste sector

Key aspects, as proposed by the CFI Amendment Bill, include the following:

- Existing CFI waste projects can continue generating ACCUs and, if the ERF legislation is passed by Parliament, project proponents can bid into ERF auctions to sell the ACCUs to the Government under a standard carbon abatement contract (currently being developed by the Clean Energy Regulator).
- Existing CFI landfill gas projects, and those approved prior to the commencement of the ERF, will continue to operate under current CFI rules. However, the first crediting period will end upon the commencement of the ERF and there is provision for an automatic second crediting period of seven years.
- New landfill gas projects approved after the commencement of the ERF but prior to 1 July 2015 will be able to operate under existing CFI rules but with a single seven-year crediting period.
- New landfill gas projects will be subject to the new ERF rules (including new additionality requirements) and methodologies (see below), and will also only be eligible for a single seven-year crediting period . Reduction of emissions from non-legacy waste deposited after the end of the CPM (likely to be 1 July 2014) will be eligible. This will be facilitated through amendments to existing CFI methodologies (see below).
- Waste diversion projects will be given an extended accounting period. Although the crediting period will be limited to seven years (as with other emissions reduction projects), they are expected to be eligible to generate credits for an additional seven years.

ERF methodologies for the waste sector

Development of ERF methodologies has begun, involving participation of industry representatives and Department of the Environment staff in technical working groups. In the waste sector, three ERF methodologies are currently under development. WMAA's carbon and landfill divisions are well represented on the relevant technical working groups.

Two of these ERF methodologies build on pre-existing CFI methodologies, which are discussed above. Essentially they will expand the scope of these methodologies from legacy waste to all waste. The methodologies will cover:

- reducing emissions from landfill by capture and combustion of methane
- diversion of organic waste from landfill to AWTs.

The government has been keen to streamline the existing CFI processes, including for monitoring and reporting. The complex baselines under the CFI landfill methane methodologies are likely to be simplified for the ERF.

The third ERF methodology would provide for credits for oxidising landfill methane using biofilters. A draft of this methodology is currently under review.

It is expected that these methodologies will become operational during 2014.

Additional ERF methodologies are likely to be subsequently developed. These may include:

- increasing soil carbon by adding compost – the Department of the Environment has already expressed interest in developing this methodology
- recycling
- waste reduction
- energy from waste or generation of process engineered fuel

WMAA's carbon division will also press for an ERF methodology for diverting source-separated organic waste to composting or other processing.

The ERF should allow government funds to flow into the waste sector for emission reduction activities.

The Renewable Energy Target

The Renewable Energy Target (**RET**) was established in 2001 and extended in 2009. It aims to ensure that at least 20% of Australia's electricity supply comes from renewable energy sources by 2020. The RET has been a crucial element in establishing the viability of many projects that use organic waste to generate energy, especially through landfill gas collection and combustion. The RET can be responsible for up to a half of the overall income stream.

Early this year, the Australian Government established a review of the RET, focusing on its impact on energy prices. The expert panel undertaking the review is due to report in mid-year. The review has created great uncertainty in the renewable energy industry – the value of large-scale generation certificates plummeted on establishment of the review, and lending to the sector is largely on-hold.

If the RET is discontinued, as appears to be possible, some projects that use landfill gas to create energy may convert to flaring operations, and others may be discontinued entirely.

Further information

More detail can be found in WMAA's April 2013 'Carbon policy and waste management' information bulletin, which is available from the WMAA website in the carbon division resources. However, some of the information in that bulletin is now outdated.

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