



ICRC

independent competition and regulatory commission

**ACT GREENHOUSE GAS ABATEMENT SCHEME
COMPLIANCE AND OPERATION OF THE SCHEME
2006**

May 2007

Introduction

The ACT Greenhouse Gas Abatement Scheme (the “Scheme”) was established in the ACT pursuant to the *Electricity (Greenhouse Gas Emissions) Act 2006* (the “Act”) and commenced on 1 January 2005. The Scheme is designed to reduce or offset greenhouse gas emissions associated with the production of electricity. The Scheme is modelled on the NSW Greenhouse Gas Abatement Scheme, administered by the Independent Pricing and Regulatory Tribunal (IPART), which commenced in January 2003.

Under the Act, The Independent Competition and Regulatory Commission (“the Commission”) is the regulator of the Scheme in the ACT.¹ One of the Commission’s functions as regulator is to determine the greenhouse gas reduction target, or ‘benchmark’ for the ACT in any given year.² Participants are allocated a share of the benchmark based on their market share of electricity sales in the ACT.

Benchmark Participants for 2006

The ACT Scheme is a mandatory Scheme for all electricity retailers.³ There were fifteen entities licensed to retail electricity in the ACT in 2006.

Large customers can elect to become benchmark participants and manage their greenhouse gas emissions in accordance with the Scheme. Any person or customer who is likely to use at least 100 gigawatt hours (GWh) of electricity at one or more sites over a calendar year qualifies as a large customer.⁴ In the ACT, there are currently no users that operate on a large enough scale to qualify as large customers.

The Act also provides for market customers, that is, customers whose electricity load qualifies as a market load and who supply that electricity to the ACT, to qualify as benchmark participants. There are currently no market customers in the ACT.⁵

Consequently, all participants in the ACT Scheme in 2006 were electricity retailers and as such were mandatory participants.

Compliance process

All benchmark participants must demonstrate compliance with the Scheme through the submission to the Commission of an Annual Greenhouse Gas Benchmark Statement. The statement calculates a benchmark participant’s greenhouse gas benchmark, shortfall and any consequent liability for a greenhouse penalty. As part of

¹ Act, s 49

² Act, s 13. The benchmark for 2006 was at 7.62t of carbon dioxide equivalent per capita. The electricity sector benchmark was set at 2,372,928 tonnes of CO₂ equivalent in the Electricity Greenhouse Gas Emissions Determination NI2006-431.

³ Act, s 9(1)(a)

⁴ Act, s 9(1)(c); *Electricity (Greenhouse Gas Emissions) Regulation 2004* s 8, s 6 (1)

⁵ Act, s 9(1)(b)

the compliance process benchmark statements must be independently audited, Auditors must be selected from IPART's "Audit and Technical Services Panel".

The Act requires that the reports be submitted to the Commission by 1 March of the year following the compliance year, or at a later date as set by the regulator. To align with the NSW reporting times, the Commission agreed to a later submission date, 18 March.⁶

Benchmark participants who exceed their greenhouse gas benchmark may abate their liability through the surrender of greenhouse gas abatement certificates ("abatement certificates"). Benchmark participants also have the option of carrying forward a shortfall equal to up to 10% of their respective benchmarks to the next compliance year.⁷ The only years when this is not permitted are 2007 (the first year to meet the eventual target of 7.27 tonnes per capita level) and 2012 (the final year for which targets have currently been set). Benchmark participants that have not supplied electricity in the ACT during the compliance year are not required to surrender abatement certificates and may demonstrate compliance by completing a declaration.⁸

If a benchmark participant does not comply with its allocated benchmark a penalty is payable to the Territory.⁹ The amount payable is currently \$11 per tonne of carbon dioxide equivalent emitted over and above the allocated benchmark that was not offset by the submission of abatement certificates.¹⁰

Compliance outcomes

The Commission assessed that all ACT benchmark participants met their obligations under the Scheme in the 2006 compliance year. Specifically:

- fourteen benchmark participants surrendered sufficient abatement certificates to meet their greenhouse gas benchmark;
- no benchmark participant elected to carry forward part of their liability to 2007;
- one benchmark participant had no sales in the ACT in 2006 and was not required to surrender any abatement certificates;
- no benchmark participant was required to pay a penalty.

Table 1 provides a summary of benchmark participants' performance against compliance requirements.

⁶ *Guide to Completing the Annual Greenhouse Gas Benchmark Statement for Benchmark Participants in the ACT*, p 2.

⁷ Act, s12(1), (6).

⁸ An electricity retailer supplier that has not supplied electricity in the ACT in a given compliance year may demonstrate compliance by completing an "Annual Greenhouse Gas Benchmark Statement – Form 2" (*Guide to Completing the Annual Greenhouse Gas Benchmark Statement for Benchmark Participants in the ACT*, pp 21-22).

⁹ Act, s16(1)

¹⁰ *Electricity (Greenhouse Gas Emissions) Regulation 2006* s12

Table 1: Benchmark participants' compliance for 2006

Surrendered sufficient certificates to meet 2006 benchmark	Did not sell electricity in the ACT in 2006 and were not required to surrender certificates
ActewAGL Retail Ltd	Red Energy Pty Ltd
AGL Sales Pty Ltd	
AGL Electricity ^a	
Aurora Energy Pty Ltd	
Country Energy	
Energy Australia	
Energy One Pty Ltd	
Integral Energy Australia	
Origin Energy Electricity Ltd	
Powerdirect Australia Pty Ltd	
Powerdirect Pty Ltd	
Sun Retail Pty Ltd	
TRUenergy Pty Ltd	
TRUenergy Yallourn Pty Ltd	

a Alinta AE Ltd purchased AGL Electricity on 20 March 2006 and inherited its greenhouse gas liability, and also surrendered the certificates on AGL Electricity's behalf.

Certificates surrendered

Type of abatement certificate surrendered in 2006

There are five types of abatement certificate that can be surrendered to offset a benchmark shortfall:

- Generation Certificates are created through the generation of electricity in a way that results in reduced greenhouse gas emissions;
- Demand Site Abatement Certificates are created at the "user" end through activities that reduce, or increase the efficiency of, electricity consumption;
- Renewable Energy Certificates (RECs) are created through the generation of electricity through eligible renewable means pursuant to the *Renewable Energy (Electricity) Act 2000* (Cth): RECs are not equivalent to abatement certificates and there is a limit on the number of RECs that may be counted towards a benchmark participant's greenhouse gas benchmark in any given year¹¹;
- Large User Abatement Certificates (LUACs) are non-tradeable certificates that can be created by large electricity customers to claim credit for reducing greenhouse gas emissions from non-electricity related industrial processes at sites that they own and control;
- Carbon Sequestration Certificates are certificates created through the storing of carbon in forest growth for a guaranteed 100 years.

¹¹ Act, s 19(2); Electricity (Greenhouse Gas Emissions) Regulation 2006,

Generation Certificates, Demand Side Abatement Certificates, Large User Abatement Certificates and Carbon Sequestration Certificates are collectively known as NGACs (NSW Greenhouse Gas Abatement Certificates). IPART regulates the creation and sale of NGACs as part its role as Scheme Administrator.

Other than NGACs, benchmark participants may also surrender RECs to abate their greenhouse gas emissions. There is a limit to the number of RECs that the benchmark participant may surrender in any given year. For 2006 the limit on the number of RECs is 2.17% of total energy acquisitions by the benchmark participant. The Australian Government Office of the Renewable Energy Regulator regulates the creation and sale of RECs. NGACs account for the majority of abatement certificates that are surrendered in the ACT Scheme.

Number of abatement certificates surrendered

A total of 207,379 abatement certificates were surrendered under the ACT Scheme in 2006. These certificates were surrendered to the NSW and ACT Greenhouse Gas Abatement Scheme Registry, administered by IPART as part of its role as Scheme administrator. Out of the NGACs surrendered only Generation Certificates, Demand Site Abatement Certificates and Renewable Energy Certificates were surrendered to the ACT for the 2006 compliance year. A breakdown is provided in the following table.

Table 2 Breakdown of Certificates Surrendered to the ACT in 2006

Abatement Certificates (total)	Generation Certificates	Demand Site Abatement Certificates	Renewable Energy Certificates
207,379	127,027	15,266	65,086

Table 2 shows that 61% of certificates surrendered were generation certificates. Renewable certificates accounted for 31% of the total and 8 % were demand side abatement certificates.

Decrease in benchmark level

The Commission, as compliance regulator, determines a number of key factors that benchmark participants use to determine their individual greenhouse gas benchmarks. These factors are ACT pool coefficient, total ACT electricity demand, and the total ACT population. These factors are used to calculate the annual electricity sector benchmark, which represents the total amount of greenhouse gas emissions allowable for the consumption of electricity in the ACT. Benchmark participants are allocated a share of this benchmark based on the volume of their electricity sales as a proportion of the total ACT electricity demand.

The estimate of electricity demand for the ACT is determined using the methodology developed by IPART and based on the medium projections of end-use electricity consumption for NSW and the ACT, as estimated in the Transgrid NSW Annual Planning Report for the particular compliance year. As this data is aggregated for NSW and the ACT, IPART has used its best endeavours to estimate the ACT's share. The figure IPART arrived at for the ACT, and which up until 2005 was the figure used, was 4.5% of the combined demand. The Commission has since obtained details of the ACT's projected demand directly from Transgrid. These data demonstrate that the ACT's share is actually less than IPART had previously estimated, i.e. 3.9%.

The Commission estimates total ACT population based on the estimates made by the Australian Bureau of Statistics (ABS) in their publication, "Population Projections, Australia". Data are provided for three main series of projections: series A (high growth), B (medium growth), C (low growth). In 2005 the Commission used the series B projections to estimate the ACT population. However, it was felt that Series C more accurately represented the ACT's current population growth, and low range data were used to estimate the ACT population for 2006.

As a result the benchmark determined for the ACT benchmark participants for 2006 was significantly lower than the 2005 benchmark, as were benchmark participants' liabilities under the Scheme for 2006.

Regulation of the Scheme in 2006

Apart from a small number of mistakes in the completion of benchmark statements the Scheme ran smoothly in 2006. All benchmark participants met their obligations and none of the benchmark participants was required to pay a penalty. A few benchmark participants over surrendered NGACs and were given the choice of either un-surrendering the excess NGACs or carrying them forward for use in 2007. Only two benchmark statements were not submitted by the due date.

Most benchmark statements were completed correctly. Errors that were made in 2005 were generally not repeated. In 2005 four benchmark participants used the NSW distribution loss factor instead of the ACT's. In 2006 only one benchmark participant, Country Energy, used the wrong distribution loss factor. As a result of this Country Energy surrendered more NGACs than it was required to and the Commission allowed Country Energy to un-surrender the surplus. The only other error was that Powerdirect Australia included Powerdirect's electricity sales as part of its own and as a result calculated a higher liability than it actually had. Powerdirect Australia elected to carry forward the small number of over-surrendered NGACs for use in 2007.

The performance of the auditors was mixed. Though on the most part the audit reports were thorough and covered all the issues that they were required to cover, a number did not. A few auditors missed errors made by the benchmark participants. Also some of the audit reports themselves contained mistakes and did not provide enough detail to answer questions about some key issues. Lastly a number of audit reports were provided late and unsigned. The Commission was able to acquire signed copies later after a number of requests were made.

The Commission has drawn any errors to the attention of individual auditors. The Commission will also amend its “Guideline to completing the Annual Greenhouse Gas Benchmark Statement for Participants in the ACT” to clarify the particular areas in which there were problems and will also advise IPART, which has responsibility for training auditors for the Scheme. The Commission expects that these measures will improve the performance of the auditors in the future.

Delegation of Functions

The Act allows the Commission to delegate its regulatory functions to a member of staff or anyone else approved by the Minister.¹² No functions were delegated in 2006.

¹² Act, s 50(3)