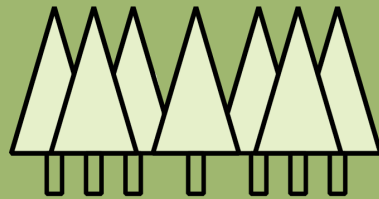




Australian Carbon Credit Unit (ACCU) Scheme

Compliance and Assurance Framework



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Australian Carbon Credit Unit (ACCU) Scheme Compliance and Assurance Framework

The Australian carbon credit unit market is complex and the Independent Review of Australian Carbon Credit Units (ACCUs) identified a need for simple documents to better explain the scheme. This paper outlines the Clean Energy Regulator's (CER) compliance and assurance approach for the ACCU scheme. It assumes some familiarity with the ACCU scheme and the Human Induced Regeneration (HIR) method. For a simple explanation of the HIR method, please see [Human-induced regeneration of a permanent even-aged native forest](#). For broader information on the compliance posture of the CER see [Compliance Policy for Administration, Monitoring and Enforcement activities](#).

Summary

- The ACCU Scheme is created by:
 - » legislation that creates the overall scheme framework
 - » statutory rules that detail additional administrative procedures, with legal effect, including for project eligibility, measurement and the period of time for which projects can be issued ACCUs
 - » methods that provide for the registration of projects that are eligible to receive carbon credits if they undertake the required activities
 - » tools that can be used to estimate carbon abatement if the abatement is not directly measured.
- The CER is responsible for administering the registration and crediting of projects under the ACCU scheme. It is important to note that crediting does not occur automatically after a project is registered. Activities that lead to abatement are required to earn credits. Compliance obligations rest on project proponents/scheme participants and CER assesses compliance at various stages.
- The CER applies an active upfront assurance framework to ensure that ACCUs that are created represent real abatement according to the legislation, rules, and relevant method and applied tools. Upfront assurance framework is in effect 'preventative' compliance for the ACCU scheme with careful checking that is applied when projects are registered and when ACCUs are credited. This is important because ACCUs are a carbon accounting unit and are used to demonstrate a firm's compliance with regulatory or voluntary emissions obligations.
- The CER has a commitment to continuous improvement and uses sophisticated analytic tools that have been developed to utilise 'big data' to ensure that projects are in accordance with methods.
- If ACCUs are nevertheless created and the CER subsequently determines, based on new data, that credits should not have been created, the CER can and has required crediting to be paused for an equivalent number of credits to be surrendered by the project proponent for zero value. This brings overall credit creation back into balance.
- Enforcement action is also taken to ensure compliance when preventative steps have not been successful – but in practice, this is rare because compliance levels are high. The CER can initiate investigations and may pursue civil action or refer matters for criminal prosecution. The CER can also enter into a voluntary but enforceable undertaking with the scheme participant.
- Prior to registering projects, scheme participants must pass security and other checks to be assessed by the CER as a 'fit and proper person' (FPP). The FPP assessment includes checking for criminal convictions, whether the scheme participant is solvent, and whether they have the necessary competence to fulfil their role in the ACCU scheme. FPP status is further assessed at each crediting application.

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- The CER can and does act so that ACCU projects are revoked if they do not meet scheme requirements.
- Before any ACCUs are issued, project proponents must provide the CER with a report on how abatement has been generated, in accordance with the requirements of the legislation, rules and method. For vegetation projects, many scheme participants provide detailed information in the form of farm records, geolocated time stamped photos, drone footage or high-quality GIS images. The CER carefully checks offsets reports before ACCUs are issued – see [ACCU Review Recommendation 8: HIR Implementation](#).
- For project registration and ACCU issuance, the CER uses assurance and compliance (checking) tools developed through a continuous improvement program to utilise big data and sophisticated analysis. This has resulted in a sustained investment in remote sensing tools using geospatial (GIS) (satellite) imagery equipped with machine learning, to check that projects are performing in accordance with method requirements and other scheme rules.
- These tools are more sophisticated than “looking” at low resolution satellite images. They are used to assess applications for registration and crediting and assist human decision makers. Where doubt remains, further investigation is triggered including through requests for further information, to examine ground-based evidence.
- ACCU projects must have at least 3 independent audits, generally on-site, at the proponent’s expense, where project performance is checked against scheme requirements. The first of the 3 audit reports required for each project must accompany the first ACCU crediting report, to provide further assurance that credited abatement is robust. Auditors are independent, and the CER maintains a register of accredited auditors with relevant qualifications. The CER can and has excluded auditors from this program where there are concerns that audits have not been up to standard. The CER can and has initiated additional compliance audits where the CER wishes to further assess compliance. These additional audits are done at the expense of the CER.
- The CER has a broad range of compliance powers under its legislation. Where there is deliberate non-compliance with evidence of intent, the CER initiates investigations and may pursue civil action or refer matters for criminal prosecution. The CER can and does remove ‘bad actors’ from the scheme using the requirement that scheme participants maintain FPP status.
- The CER can revoke the registration of an ACCU project or enter into a voluntary but enforceable, undertaking with the scheme participant. The CER can also obtain court injunctions to prevent or require action to occur on project land. The use of these court injunction powers has not been needed to date because overall compliance is high and typically, when the CER raises issues, the project proponents take remedial action. If remedial action is not taken the CER can and has taken action to exclude a proponent on the basis that they are no longer fit and proper.
- For particular types of projects there are additional ‘gateway’ checks done once every 5 years to closely assess forest regeneration. If there is insufficient evidence of progress, the CER halts crediting, known as a crediting pause. If the regenerating vegetation has not reached forest cover by a specified time, the rule provides for proponents to be required to relinquish credits to the CER. Following implementation of the ACCU Panel review report, the CER will conduct a further external independent audit of forest regeneration as part of gateway checks.

Background - the Australian Carbon Credit Unit (ACCU) scheme

The ACCU scheme offers landholders, communities and businesses the opportunity to run projects in Australia that avoid the release of greenhouse gas emissions or remove and sequester carbon from the atmosphere. It is enacted through the [Carbon Credits \(Carbon Farming Initiative\) Act 2011](#) and the Carbon Credits (Carbon Farming Initiative) Rule 2015.

ACCU projects are activities to reduce emissions or store carbon such as planting trees or removing grazing animals so that trees can re-grow. Each ACCU represents one tonne of carbon dioxide equivalent (tCO₂-e) emissions stored or avoided by a project.

ACCUs can be sold to generate income, either to the Australian Government or to companies and other private buyers in the secondary market. The government uses contracts to purchase ACCUs generated by projects covered by a given method. Contracts are awarded through competitive auctions.

Participation in the ACCU scheme is voluntary and parties that opt into the scheme by registering a project take on a substantial level of compliance obligations, i.e. compliance obligations rest with scheme participants.

The remainder of this paper outlines some further points relevant to CER's compliance and assurance of the ACCU scheme.

Project registration

Scheme participants must have a legal right to run the project (which usually requires a lease or property ownership) and over time, obtain consents from anyone with a relevant interest in the land.

For vegetation and soil projects, CER checks that projects are being registered on land that meets all the requirements of the method. To do so, the CER uses a set of sophisticated tools including geospatial imagery with machine learning (algorithms) calibrated to detect precise gradations in vegetation.

Estimating abatement

All ACCU projects are subject to method rules on how abatement (emissions reductions or carbon drawn down from the atmosphere) must be calculated. The methods rely on direct measurement or well-established science to calculate abatement using approaches, similar to those used in the national emissions inventory.

Independent audits

All audits must cover:

- accuracy of the measurement of abatement to date
- operation of the project
- all other matters relating to the establishment and operation of the project in accordance with the Carbon Credits (Carbon Farming Initiative) Act 2011 and method relevant to the project.

Audits usually include fieldwork and site inspections to confirm the implementation of project activities to reduce emissions or store carbon and check record-keeping procedures.

The requirements for registered auditors for the ACCU scheme are laid out in a legislative instrument under the [National Greenhouse and Energy Reporting Act 2007](#). The instrument requires: knowledge of scheme legislation (including methods); knowledge of and experience in auditing, including certification in assurance and audit team leadership, and that the auditors themselves pass the fit and proper person test.

Fit and proper person

The Fit and Proper Person (FPP) test considers past compliance with the law, whether the company or individual is insolvent, and whether they have the necessary capabilities and competence to effectively fulfil their role in the ACCU scheme. FPP is applied at various stages of a project lifecycle including when ACCUs are issued.

Relinquishments

One aggregate indicator of compliance is the number of ACCUs that have been relinquished (paid back to government) to correct incorrect reporting of abatement. The ACCU register shows that 211,000 ACCUs from 18 projects have been relinquished because of this compliance activity. This is less than 0.2 per cent of the 120 million ACCUs issued to date.

If there has been a significant reversal of carbon stores, the CER can issue a notice requiring the scheme participant to relinquish (in effect pay back) the ACCUs to the CER. Relinquishment of ACCUs for lack of permanence has however not been required to date even as a result of the very severe 2019-20 bushfires. Only 3 projects were affected by these severe bush fires (less than 1 per cent of out of 466 vegetation projects then registered in the scheme). The affected scheme participants are working with the CER to restore the lost carbon.

Attachment A

Human-induced Regeneration method – assurance and compliance in action

One of the methods reviewed by the ACCU review panel was the Human-induced Regeneration method (HIR).

The CER has made improvements to compliance for HIR projects since 2019 when legislative requirements for the HIR method were tightened, including new Rules for evidence collection and record keeping. These changes were made to implement recommendations and findings from a review by the Emissions Reduction Assurance Committee.

The CER assesses HIR project registration and crediting applications carefully using geospatial imagery to determine areas within a project that has the capacity to sustain trees that can reach ‘a forest (as defined by the method)’. This is known ‘forest potential’.

If an HIR project is to be registered in a new region, where there are questions whether the land may not sustain a forest, the CER undertakes additional checks as part of its assessment process including requiring a positive assessment of forest potential for each project by an independent scientific expert.

The legislative framework for HIR projects includes checks by the CER every 5 years to assess HIR project’s progress towards becoming a forest. Where a project is found to be non-compliant, crediting at the project level will be paused until the project is brought back into compliance. This can include allowing the project to either ‘catch up’ as trees grow or in some cases, projects nearing the end of their crediting period may be required to repay ACCUs.

The HIR method also states that areas that already have forest are not eligible for crediting. The CER ensures that removal of areas of forest from crediting occurs as part of its compliance activity using a range of compliance tools.

If the CER determines that areas of land with the CEA are ineligible because they contain areas without forest potential or areas of forest, the CER will require the proponent to remove those ineligible areas from the CEA through a process known as “restratification”. In effect, restratification involves redrawing the boundaries of the CEA to exclude ineligible areas or, in some cases, to add new eligible areas. This is a continuous process, which project proponents do voluntarily as well as at the request of the CER. CEA boundaries are therefore fluid rather than fixed across the life of the project.

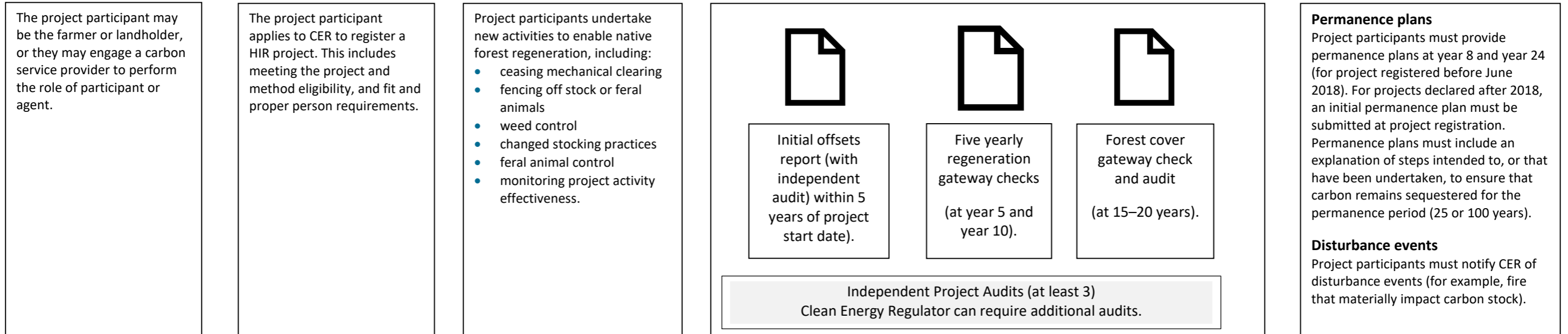
In a sophisticated analysis, a report by eminent agricultural statisticians Steven Beare and Ray Chambers on HIR project additionality and rainfall identified 8 projects (out of 123 projects assessed by them) that appeared to have forest and may not been removed from crediting in accordance with the HIR method and [Carbon Credits \(Carbon Farming Initiative\) Amendment Rule \(No.1\) 2019](#). The CER has conducted an in-depth assessment of these 8 projects using the range of GIS tools at its disposal and is satisfied that 4 of these projects are in compliance with the requirements of the method. The remaining 4 projects are each being subject to an additional audit under the CER’s annual audit program. This is in addition to the 3 audits required by all HIR projects under the ERF legislation.

Attachment B provides an example of the end-to-end reporting and auditing processes for the Human-induced Regeneration method.

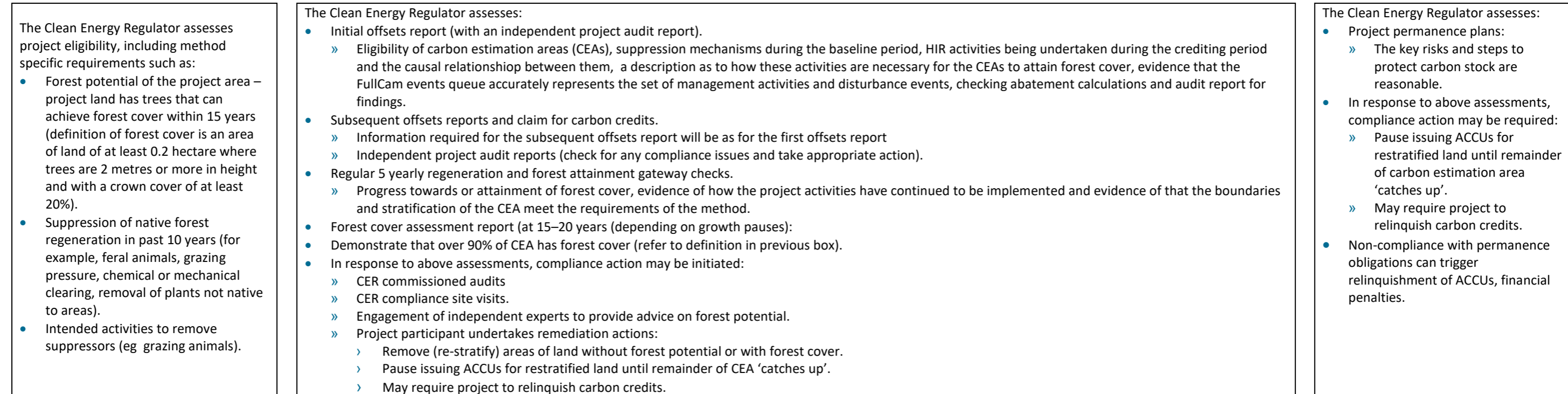
Attachment B

Compliance and assessment for the Human-induced Regeneration (HIR) method

Project participant



Clean Energy Regulator



Timeline - Human-induced Regeneration (HIR) Method: reporting and auditing requirements

