

Environment Protection Authority

Carbon credit income from FOGO manual

Information for NSW councils



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Acknowledgement of Country

The NSW Environment Protection Authority (EPA) acknowledges the traditional custodians of the waters and land on which we live and work, and we pay our respects to Elders past, present and emerging.

We recognise the connection to their land, their waters and surrounding communities and acknowledge their history here on this land.

We also acknowledge our Aboriginal and Torres Strait Islander employees who are an integral part of our diverse workforce and recognise the knowledge embedded forever in Aboriginal and Torres Strait Islander custodianship of Country and culture.

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Glossary

Term	Description
ACCU	Australian carbon credit unit
AFSL	Australian financial services licence
ANREU	Australian National Registry of Emissions Units
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
AWT	Alternative waste treatment
CAC	Carbon abatement contract
CER	Clean Energy Regulator
DISER	Department of Industry, Science, Energy and Resources
EPA	Environment Protection Authority
ERAC	Emissions Reduction Assurance Committee
ERF	Emissions Reduction Fund
FO	Food organics
FOGO	Food organics and garden organics
GO	Garden organics
JOs	Joint organisations
LGA	Local government area
MWOO	Mixed waste organics output
NGER Determination	National Greenhouse and Energy Reporting (Measurement) Determination 2008
PEF	Process engineered fuel
ROCs	Regional organisations of councils
SSOW	Source separated organic waste

Councils that are planning to provide a food organics garden organics collection service for residents may be eligible to register and operate carbon projects under the Commonwealth Emissions Reduction Fund (ERF).

This manual provides councils with a step-by-step guide on how to plan, register and implement projects using the legislated source separated organic waste methodology (the Carbon Credits (Carbon Farming Initiative – Source Separated Organic Waste) Methodology Determination 2016).

1. About this manual

The NSW Environment Protection Authority (EPA) engaged Corporate Carbon Advisory to develop a manual to provide targeted advice to NSW local government. The purpose is to help these organisations establish and monetise single and aggregated carbon projects associated with new or expanded food organics and/or garden organics collection services, commonly referred to as FOGO, FO and GO services.

This manual aims to help councils register and operate carbon projects under the Commonwealth Emissions Reduction Fund (ERF), using the legislated source separated organic waste methodology (the Carbon Credits (Carbon Farming Initiative – Source Separated Organic Waste) Methodology Determination 2016) to reduce carbon emissions and be rewarded with carbon credits.

Councils have a significant opportunity to help their community reduce methane and other emissions if they can prevent organics going to landfill. An increasing number of councils around Australia are introducing FOGO collection services.

This manual has been developed by the NSW Environment Protection Authority in collaboration with Corporate Carbon Advisory. It is designed as a step-by-step guidance document to help local government plan, register, and implement a carbon project under the ERF's source separated organic waste (SSOW) methodology. An [overview of the SSOW method](#) as it applies to councils implementing FOGO services is also available on the EPA website.¹

This manual does not discuss the mechanics behind FOGO, FO or GO service design or detailed options for services and processing. Nor does it cover other projects potentially eligible under the SSOW method, such as food donation to a charity and anaerobic digestion of food waste.

¹ On the page <https://www.epa.nsw.gov.au/your-environment/recycling-and-reuse/business-government-recycling/food-organics-and-garden-organics>, see the link to 'Fact sheet: Carbon credit income from FOGO (PDF 240KB)'.

2. Background

2.1. How can emissions reduction programs help?

The Emissions Reduction Fund (ERF) was introduced by the Australian Government as a voluntary scheme to provide incentives to organisations for reducing their emissions. The scheme is administered by the Clean Energy Regulator (CER) and is enacted under the following:

- *Carbon Credits (Carbon Farming Initiative) Act 2011*
- Carbon Credits (Carbon Farming Initiative) Regulations 2011
- Carbon Credits (Carbon Farming Initiative) Rule 2015.

The CER is an Australian Government agency responsible for approving eligible carbon projects and crediting organisations that reduce their emissions.

For a project to be eligible for registration under the ERF, it must be registered before it begins (newness requirement) and it must not be required by a Commonwealth, state or territory law (additionality requirement).

Crediting involves determining the amount of eligible emission reductions the project will deliver. The CER will issue one Australian Carbon Credit Unit (ACCU) for each tonne of eligible emissions reduction and credits can then be sold to the government through a reverse auction or sold on the secondary market.

ACCUs are awarded for eligible emission reductions measured by an available methodology determination (method). A project is undertaken using one of the 30-plus methods available. These are like a set of rules and cover the areas of agriculture, energy efficiency, facilities, transportation, mining, oil and gas, vegetation management, waste and wastewater.

The CER is in the process of developing an Australian Carbon Exchange that will make the trading of ACCUs simpler and support the rapidly increasing demand from the corporate and local government sectors for ACCUs.²

2.2. Opportunities for organics waste

The Carbon Credits (Carbon Farming Initiative – Source Separated Organic Waste) Methodology Determination 2016 (referred to as the SSOW method in this guideline) was first tabled in Parliament in 2016. The SSOW method was made in consultation with industry and government bodies and issued by the Minister under Subsection 106(1) of the *Carbon Credits (Carbon Farming Initiative) Act 2011*.

The purpose of the SSOW method is to set out the detailed rules for implementing, monitoring and reporting on eligible projects that avoid greenhouse gas emissions by sorting organics waste at its point of origin and diverting it from landfill. This method presents an opportunity for councils to participate in the ERF, drive down their LGA emissions, work towards net zero targets and gain credits that can be used to financially support project operations.

‘Source separation’ refers to sorting waste where and when it is generated, such as by placing organics waste into a dedicated organics bin rather than a general waste bin. The separated organics materials must then be sent to a treatment facility rather than to landfill disposal.

When councils send source separated organics waste to eligible treatment facilities, such as for composting, this avoids the generation and leakage of methane from landfills.

² <http://www.cleanenergyregulator.gov.au/Infohub/Markets/australian-carbon-exchange>

Councils planning to introduce a FOGO project can take advantage of the economic incentives provided by the ERF. Applications for an ERF project need to be made before councils have made a financial commitment to introducing new kerbside services. Councils (either individually or as a group) can register a potential project and then withdraw it without penalty.

To date (2022) there have been 15 SSOW projects registered under the ERF scheme to divert organics to composting facilities.³ Nine of the registered projects are councils, five of them in NSW.



Figure 1 FOGO can improve soil health. Credit: EPA

³ <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register>

3. An overview of source separated organic waste projects

3.1. What constitutes a source separated organic waste project for a carbon offsets project?

A source separated organic waste project under the ERF will separate 'eligible organics material' (defined as food, textiles, garden and park waste, wood and wood waste, sludge, nappies, rubber and leather) at its source and divert it from landfill to a processing facility or unit using an eligible treatment technology (defined in the SSOW method). To be eligible, the operation and outputs of the technology also need to comply with state laws, such as the Resource Recovery Exemption and Order for composting.

3.2. What is an eligible waste treatment technology?

As defined by the SSOW method:

- enclosed composting technology
- open windrow composting
- one or more anaerobic digesters and the transfer of biogas to a combustion device for destruction
- process-engineered fuel manufacture.

The organics material must be separated in dedicated bins where the waste is generated. The overall processes involved in an SSOW project are depicted in Figure 2. The emissions are calculated by comparing the new processing to the old landfill baseline scenario.

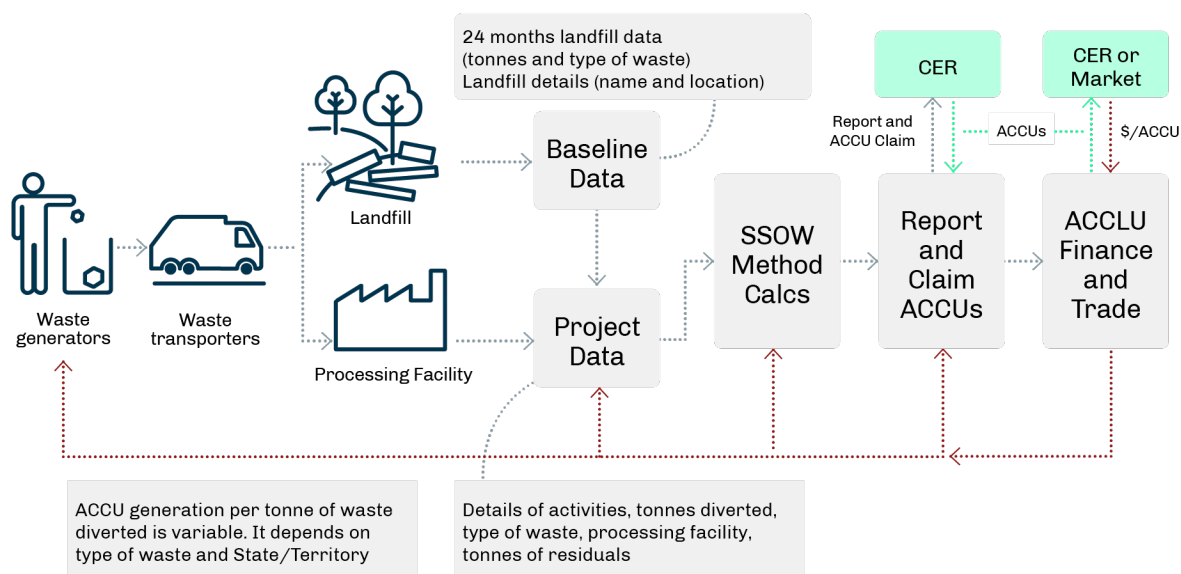


Figure 2 SSOW project flow. (Source: Corporate Carbon © 2022)

Example: Food waste is eligible organics material that can be separated out of municipal waste by using a dedicated food organics and garden organics (FOGO) bin. The FOGO bin can be collected by a licensed waste contractor to take it to a composting facility that is licensed to receive and

process the waste (and thus divert it from landfill). There are definitions in the SSOW method to further explain eligible waste, eligible waste treatment, and an eligible waste treatment facility.

3.3. Types of SSOW projects

There are three main activities that define a project under the SSOW method.

3.3.1. New waste diversion activities

These are new activities to separate eligible organics material and divert it from landfill.⁴ For example, a council that did not have an organics service decides to transition to a full or partial FOGO service or transition from a garden organics (GO) service to a FOGO service. Each of the households adopting the activity to source separate the organics material would then be considered a 'new waste diversion activity'. The organics material must then be sent for processing at a facility within NSW.

3.3.2. Expansion waste diversion activities

These consist of expanding an existing source separation activity to increase the amount of eligible organics material diverted from landfill. An example would be councils increasing GO or FOGO bin size and/or quantity where an organics service is currently provided. Each household increasing the volume or quantity of GO/FOGO bins would then be considered an 'expansion waste diversion activity'. The organics material must then be sent for processing at a facility within NSW.

3.3.3. Aggregated waste diversion activities

Aggregated activities may involve multiple new or expansion activities (sub-activities) that divert waste to a single processing facility or unit. An example would be a single council or a group of councils that roll out FOGO in their respective local government areas (LGAs) and send the source separated organics material to the same facility, within NSW, for processing into compost.

⁴AWT operators have had the opportunity to claim ACCUs for stabilisation of red bin waste into mixed waste organics output (MWOO). Material going to land or landfill post AWT treatment in the two years preceding a FOGO service is therefore not eligible for ACCUs under the SSOW method.

In October 2018 the EPA revoked the general and specific Resource Recovery Orders and Resource Recovery Exemptions for the application of MWOO to land due to risks associated with chemical and physical contaminants. More information is available on the EPA website (<https://www.epa.nsw.gov.au/your-environment/recycling-and-reuse/resource-recovery-framework/mixed-waste-organic-material>).

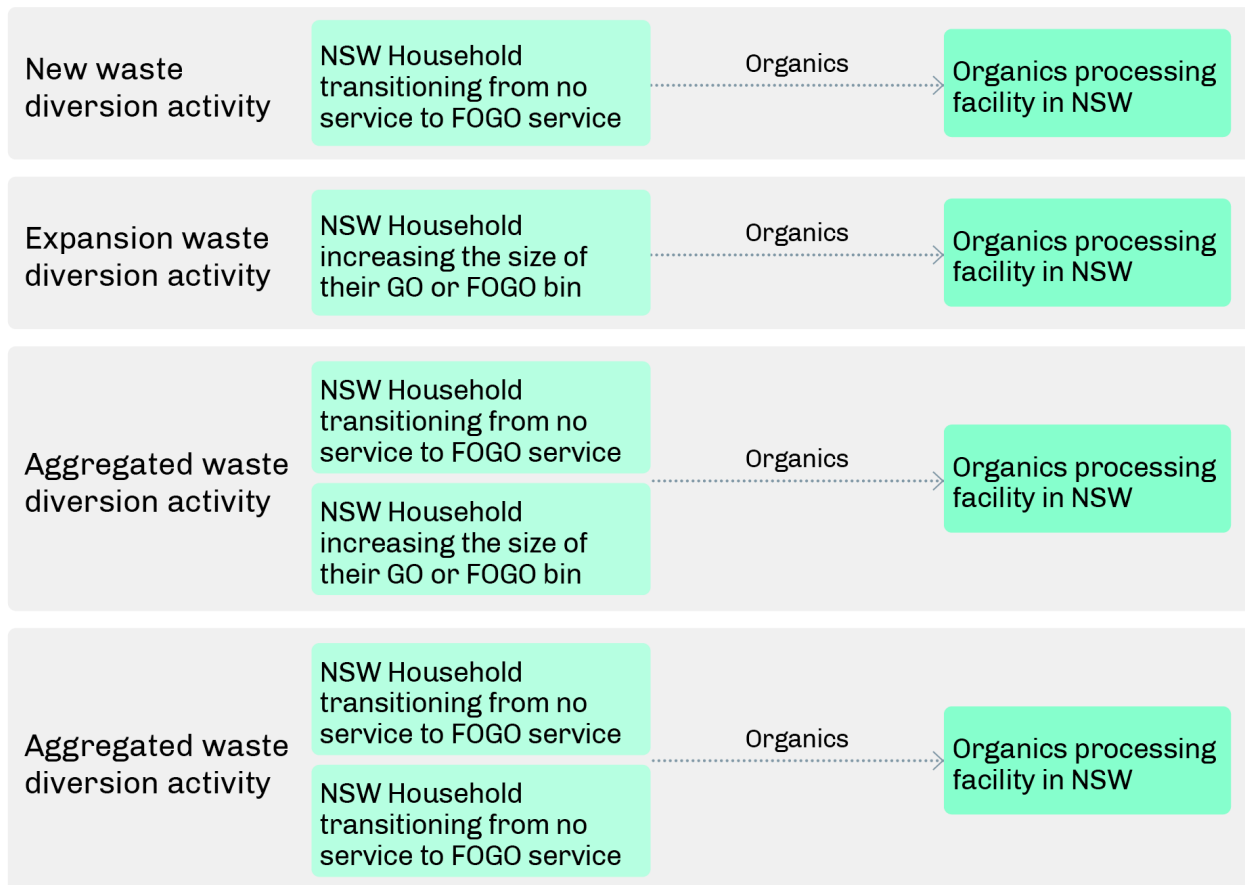


Figure 3 Examples of SSOW activity types

3.4. How are emissions measured and credited under the ERF?

Emissions reductions, or abatement, are calculated as the difference between baseline and the emissions from processing the new source separated organics material. Abatement is measured in tonnes of carbon dioxide equivalents (t CO₂-e), where 1t CO₂-e = 1 ACCU.

Before a project can begin it is necessary to have data that show what organics were going to landfill for the previous two years. Examples of suitable data include landfill weighbridge dockets and waste service agreements for the two years before the project begins, for example the start of a new FOGO service. This two-year (24-month) period is known as the baseline period for the project. It is used to calculate the methane emissions associated with landfilling.

Baseline emissions are calculated in line with the approaches set out in the National Greenhouse and Energy Reporting (Measurement) Determination 2008 (the NGER (Measurement) Determination) for the calculation of emissions from landfill. The baseline scenario includes deductions for landfill gas capture and destruction and oxidation of near-surface methane that would have occurred had the material been disposed of in landfill. These factors are based on average NSW landfills and the SSOW method requires the use of an average methane capture rate for NSW landfills of 0.37.

Project emissions are those generated from processing eligible organics material at the new processing facility. Project emissions are calculated either as a default proportion of baseline emissions (15%), or by using measurement-based approaches to determine the emissions from purchased electricity, fuel used in processing waste, and the waste treatment process (for example, compost emissions).

The default proportion option simplifies the reporting and administrative requirements for councils that may not have access to all the data needed to monitor project emission sources, such as fuel used in processing the organics material to produce compost. This is a general factor and may not accurately represent the actual project emissions, therefore resulting in under-crediting for the project. As part of their new organics processing contracts, councils should consider requiring their processor to provide data that would enable them to use actual rather than default processing emissions.

Submitting abatement information to the CER is done at each **reporting period**. Reporting periods are nominated by the person responsible for a project and may be as frequent as every six months and as infrequent as every two years. For SSOW projects, a reporting period would typically be annual for up to seven years. Monitoring and reporting are discussed in later sections of this manual.

A **crediting period** is the period of time the SSOW project generates eligible ACCUs. Crediting periods for SSOW projects are **seven years**, meaning ACCUs can be claimed for the additional tonnes of organics diverted from landfill for the first seven years of the new FOGO service.

ACCUs generated by project activities in each year of the crediting period are issued in seven equal tranches over seven years.

Figure 4 shows how these crediting and accounting periods are calculated. In this figure, the SSOW project commenced diverting FOGO from landfill in 2023. After the end of the first year of operations, an abatement report is submitted to the CER and council receives the first portion of ACCUs in 2024. Council repeats the project flow until 2030, when the crediting period ends. From 2031 onwards, council only needs to claim accrued abatement on an annual basis until 2036 and does not report on diversion tonnage as no further diversion is eligible past the first seven years of the new FOGO collection service.

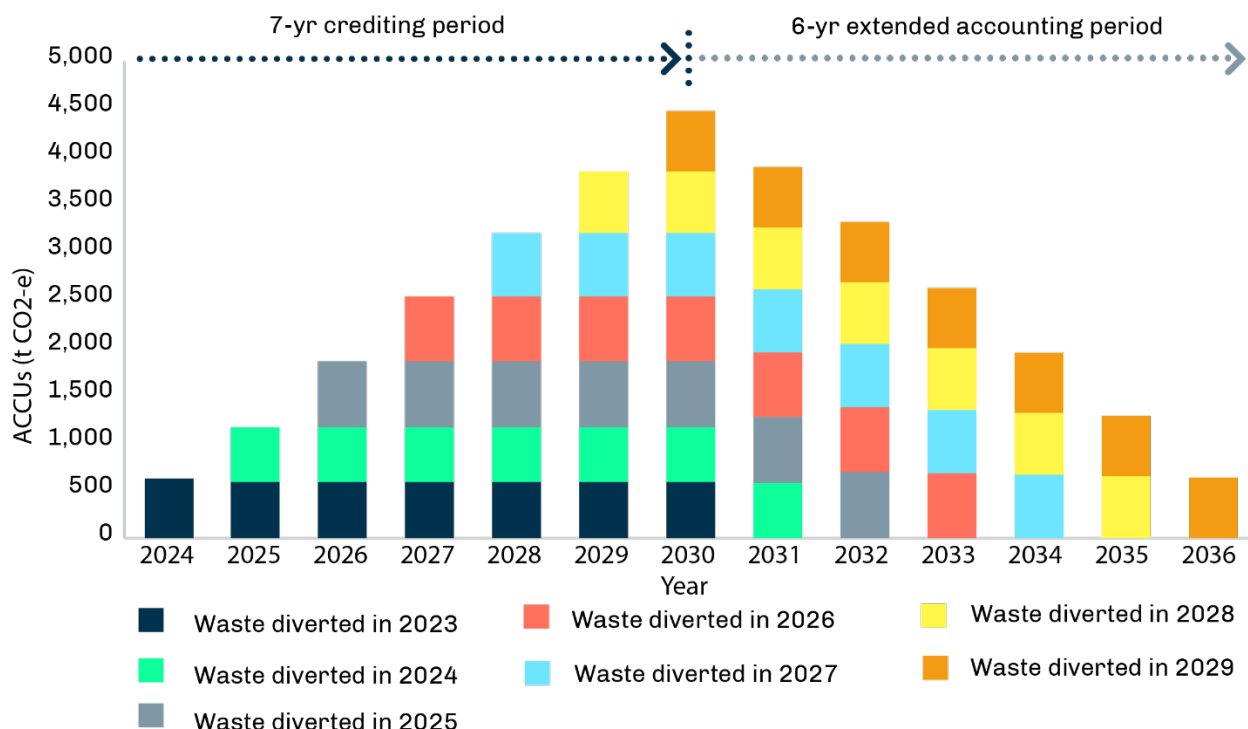


Figure 4 ACCU issuance timing. (Source: Clean Energy Regulator 2015)

3.5. How can councils monetise carbon credits?

Councils can monetise their carbon credits by selling them on either a primary or secondary market. In the primary market, the Commonwealth – represented by the CER – is the buyer. About twice a year, the CER conducts an ERF ‘reverse auction’, in which the bids are the cost of carbon abatement for various ERF projects. The projects with the lowest cost of abatement ‘win’ and the successful bidders are awarded carbon abatement contracts (CACs). Contracts can be for ‘optional delivery’. As the name suggests, this gives the bidder (such as a council) options: it can either secure a floor ACCU price with the CER, or it can sell in the secondary market if that market offers a higher price.

The secondary market operates based on market supply and demand, and therefore can be subject to price fluctuations (Figure 5). Buyers in the secondary market buy ACCUs for various reasons, including meeting compliance requirements.

The average CAC price was \$17.35 per ACCU in the April 2022 auction, while the secondary market price fluctuated between \$28 and \$30 per ACCU around that time.

Given the carbon price volatility, councils are advised to consult trusted resources, such as the CER Quarterly Carbon Market Reports, and seek qualified commercial and financial advice to inform themselves and to define their commercial strategy to monetise ACCUs.

The [CER Quarterly Carbon Market Report](#) can be found on the CER website.⁵

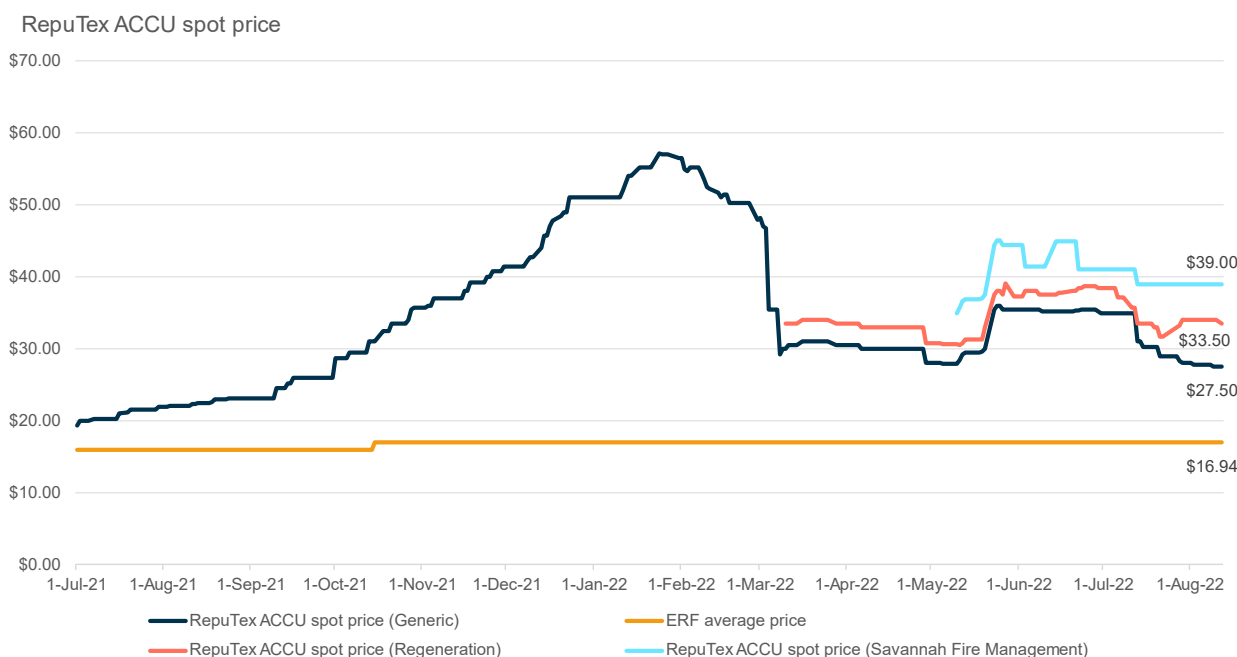


Figure 5 Historic ACCU price. (Source: Reputex EnergyIQ Platform, as of 12/8/22)

3.6. SSOW project barriers

The SSOW method has been available since 2016 but there has not been as much uptake as for other waste methodologies. To date (2022) there have been 15 SSOW projects registered nationally under the ERF scheme, nine that are councils (five in NSW) diverting organics to composting facilities. Some projects that have achieved registration under the ERF have been revoked or not reported abatement to date.

⁵ <http://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/Quarterly-Carbon-Market-Reports.aspx>

Some of the observed issues and barriers to participation for SSOW projects include the following.

Previous low monetary value

As shown in the historic ACCU price graph (Figure 5), the price of ACCUs had fluctuated below \$20/ACCU for several years. Moreover, ACCUs from SSOW projects are issued in seven equal portions over seven years, which means it takes longer and more abatement to make an SSOW project economical. However, this barrier has changed with the recent dramatic increase in the price of ACCUs.

Extended accounting period

The SSOW method issues ACCUs in seven equal allotments, resulting in projects having a total life of up to 13 years: seven years of crediting period plus six years of extended accounting period.⁶ This extended period can make a project of this kind more onerous than other carbon abatement projects because of the need for management and follow-up over a longer period.

Complexity

The requirements to monitor and report data, as well as the abatement calculations, have proven complex for participants. It is also complex from a governance point of view as it involves participation and data from multiple stakeholders. Most project proponents to date have needed help from consultants and carbon service providers. Some councils have decided to not report on their FOGO operations because of the complexity of the SSOW method. These operations therefore appear as registered SSOW projects, but the councils have not claimed any ACCUs to date.

Multiple stakeholders

The SSOW method requires waste generators and processors to be involved and in synchronisation for a SSOW project to be successful. Stakeholders need to put in place agreements and procedures for participation and data sharing.

Timing eligibility

One of the main requirements for participation in the ERF is that projects must be registered and declared before they begin – for example, they must show a commitment to go ahead with a FOGO project and tendering services. Many councils have tripped up over the newness requirement by committing to go FOGO before registering a SSOW project. Some councils have registered a project well ahead of tendering for FOGO services, sometimes too soon, resulting in not being able to report waste diversion activity.⁷ The CER has asked that some of these inactive SSOW projects be revoked.

Early advice, good planning and setting up robust data collection and reporting arrangements can help to overcome many of these issues, and the improving value of ACCUs increases return for effort.

⁶ Definitions of crediting periods and extended accounting periods can be found on the Clean Energy Regulator website, <https://www.cleanenergyregulator.gov.au/ERF/Choosing-a-project-type/Opportunities-for-industry/landfill-and-alternative-waste-treatment-methods/source-separated-organic-waste>.

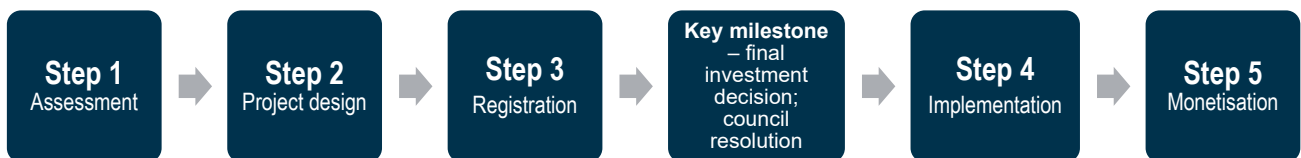
⁷ The crediting period for a SSOW project can start up to 18 months after the project is declared as an eligible ERF project.

4. Summary steps

There are five main steps in developing an ERF SSOW project. These include:

1. **Assessment** – looking at eligibility and financial feasibility
2. **Project design** – drafting a project plan, determining delivery options and establishing a project team
3. **Registration** – taking administrative and legal steps to register a project under the ERF program
4. **Implementation** – rolling out the project, making investment decisions and contractual arrangements, monitoring and collecting SSOW project data, reporting abatement and auditing offsets reports
5. **Monetisation** – trading/retiring ACCUs to meet financial, risk minimisation and carbon neutrality objectives.

These steps will be clearly outlined in the following sections of this manual. Figure 6 is an overview of the stages in the SSOW project process.



Project Management (Operations and Maintenance) for 7 + 6 yrs.

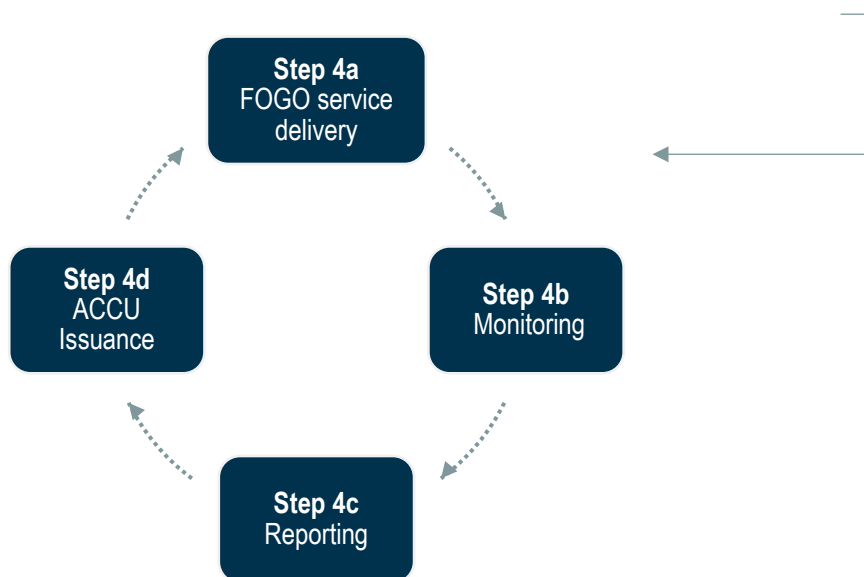


Figure 6 ERF project process flow: project development (design and register)

4.1. Key milestone, outputs and timing

Table 1 Key requirements for each stage and when they need to occur

Step	Milestone(s) descriptor	Output(s)	Timing
1: Assessment	<p>Assessment of eligibility for an ERF SSOW project</p> <p>Identification of key stakeholders</p> <p>Assessment of financial feasibility and carbon abatement potential</p>	<p>A 'carbon assessment report' by a suitably qualified person that can be presented to council</p>	<p>At planning stage before registration</p> <p>Consider undertaking this step before council's current collection and processing contracts expire and before planning a new contract.</p>
2: Project design	<p>Suitable options for delivery and options analysis e.g. individual or aggregated project, council- or consultant-led project, seek CAC or not</p> <p>ERF eligibility checks/forms completed</p> <p>Seek approval from council</p> <p>Enrolment with the CER to enable submission of online forms</p> <p>ERF project set-up: monitoring and reporting systems</p>	<p>Project proposal for presentation to council</p> <p>Project flow, tools/templates and responsibilities chart</p>	<p>At planning stage before registration</p> <p>Consider undertaking this step before commencing the drafting of new collection and processing tender documents to ensure FOGO options are included as well as data collection and reporting requirements to make any potential claiming of ACCUs easier.</p>
3: Project registration	<p>Provide evidence of waste for 24 months prior to submitting registration application</p> <p>Application documents developed and submitted to CER</p>	<p>Declaration of eligible ERF project</p>	<p>When ready to go but needs to be at least three months before any final investment decision</p> <p>This step needs to be undertaken no later than collection and processing tenders are put to market for quote and can be up to 18 months before any FOGO service is likely to be rolled out.</p>

Step	Milestone(s) descriptor	Output(s)	Timing
4: Implementation	Final investment decision Commencement of new FOGO service Start of crediting period Monitoring First offsets report and ACCU claim (within two years of start of crediting period)	Project data Offsets report and audit report Issue of first project ACCUs	From the time of final investment decision and until the end of the seven-year crediting period This step will be aligned with the timing of the FOGO service rollout. Data monitoring will commence as the FOGO service commences
5: Trading	Carbon market review ACCU sales or retirement to claim emissions reductions	Commercial strategy (noting no final investment decisions are to be made prior to project registration) Cash or emissions reduction claim	At planning stage before registration, and reviewed each year There is no time frame requirement between receiving and selling or retiring ACCUs

4.2. Key time frames

Table 2 Key activities that may impact the project time frame

Item	Time frame	Description
SSOW project registration	Before a financial investment decision for the project is made, this can mean one or several years pre-FOGO implementation	To achieve eligibility under the ERF, FOGO projects must be registered and declared as SSOW projects under the ERF before councils commit to undertaking FOGO services e.g. before tendering for FOGO services or committing to allocate budget to implement a FOGO service. Councils should consider assessing project feasibility before any financial investment decision is made, which can mean the SSOW project is registered several years before the actual FOGO service is rolled out. The ERF provides for the SSOW project commencement date to be pushed back up to 18 months, which means councils could align the processes of ERF registration, FOGO tendering and SSOW project implementation.

Item	Time frame	Description
Crediting period and extended accounting period	Total project life of up to 13 years from SSOW project declaration date	<p>Once a SSOW project is declared an eligible ERF project, it will have a project life of up to 13 years, consisting of a 7-year crediting period, when ACCUs can be created from diversion of waste from landfill, plus a 6-year extended accounting period, where ACCUs are issued for accrued abatement generated during the crediting period.</p> <p>Councils must report the sites/households where the source separation activities will take place e.g. where new FOGO bins will be implemented. FOGO waste from these sites/households can contribute to the creation of ACCUs for the 7-year crediting period of the SSOW project.</p> <p>Where additional sites/households will implement FOGO at later stages (e.g. stage 1 houses, stage 2 multi-unit dwelling), it is recommended that a separate SSOW project be registered to ensure the latecomers are able to create ACCUs for the whole of the 7-year crediting period. Otherwise, councils can add such additional sites/households to their existing project and claim ACCUs only for the remainder of the original project.</p>
Review of the SSOW method	Expected in 2022, or as determined by the Emissions Reduction Assurance Committee (ERAC)	<p>The SSOW method was issued in 2016 and the first few SSOW projects were registered in 2016. Typically, the ERAC conducts method reviews to ensure methods are compliant with the Offsets Integrity Standards and to determine whether existing methods should have their crediting period extended. These reviews are typically undertaken before the end of the first registered project. It is expected that the ERAC will conduct a review of the SSOW method in 2022, before the first projects reach the end of their crediting period in 2023.</p> <p>This review will determine whether or not existing projects under the SSOW method should be able to extend their crediting period. The method review could also include a technical review of eligible technologies or default factors used in the method.</p>
NSW Government mandate for FOGO	By 2025 for large food-waste-generating businesses and by 2030 for households	<p>NSW Government has announced it will require NSW councils to provide food and garden waste collections to all NSW households by 2030 and for large food-waste-generating businesses to source separate food waste by 2025.</p> <p>This program will drive the increased recovery of organics and the implementation of FOGO services. Councils should consider how this requirement aligns with their organics contracts and FOGO transition plans, and make sure to register a SSOW project so that the financial benefits can be achieved through the sale of carbon credits.</p> <p>If your council has not registered for the SSOW projects associated with their new FOGO services before 2030, it will miss out and will not be able to claim ACCUs from their new FOGO operations.</p>
SSOW method sunset clause	By 1 April 2026	<p>The Australian Parliament sunset clauses relate to bookkeeping and good practices in drafting legislation. The sunset clause date represents the date when the legislation must be introduced anew. However, the CER, through ERAC and consultation with industry, undertakes periodic reviews of ERF method before implementing variations or superseding methods.</p>

5. Step 1 – Assessment

5.1. Eligibility

The feasibility of an ERF SSOW project should be evaluated when planning the rollout of an organics service (FOGO or FO). It could be a source of revenue for your council or an instrument to claim emission reduction efforts made in line with councils' sustainability strategies.

The CER website provides a range of information and tools to help council participate in the ERF, including an [interactive questionnaire](#), which enables councils to find out if the project meets the eligibility requirements.⁸

A pass/fail eligibility assessment is a screening process that reviews key criteria for participation in both the ERF and the SSOW method.

ERF eligibility criteria include:

- proving that the relevant council has the **legal right** to carry out the project
- demonstrating that council meets the **additionality** and **newness** requirements
- proving how council meets the **SSOW method eligibility** criteria and activity definitions.

5.1.1. Legal right

The responsible entity for the SSOW project, or project proponent, must consider all stakeholders associated with the FOGO rollout and secure legal right to the carbon project through commercial or legal arrangements to make sure the project proponent has:

- the right to carry out the project activities
- a lawful and exclusive right to **all** ACCUs created by and issued by the project.

For new FOGO or FO projects it is important to be clear in the contract about who owns the legal right to the ACCUs and what their role and responsibilities are. Legal right is typically established through negotiations and documentary evidence of how responsibilities are shared, and other considerations associated with the project. For example, relevant documents could be a contract establishing who is the project proponent receiving the project ACCUs and what ACCU/revenue shares are to be paid to the stakeholders involved in the contract.

If your council is wanting to participate as a project proponent, it should include contract terms to retain legal right when procuring and rolling out FOGO services. The contract terms must show the transfer of legal right from the waste generator (households) to your council (project proponent) and from the processing facility to council, for example, by adding relevant sections or clauses in waste service contracts or through legal right agreements and Participation Deeds.

The councils contracting out waste collection and transport services should ensure these terms are included in the relevant contracts. This will ensure that your council, as a project proponent, can register the project and make ACCU claims. As the new household organics collections can't happen without the council's coordination and involvement, a viable option is that the legal right rests with your council. However, clarification in tender and contract documents makes proving legal right easier and ensures those bidding to supply the new collection and processing services commit to providing data necessary for claiming ACCUs.

Four examples of establishing a legal right to a SSOW project are shown below.

⁸ <http://www.cleanenergyregulator.gov.au/ERF/About-the-Emissions-Reduction-Fund/eligibility-to-participate-in-the-emissions-reduction-fund>

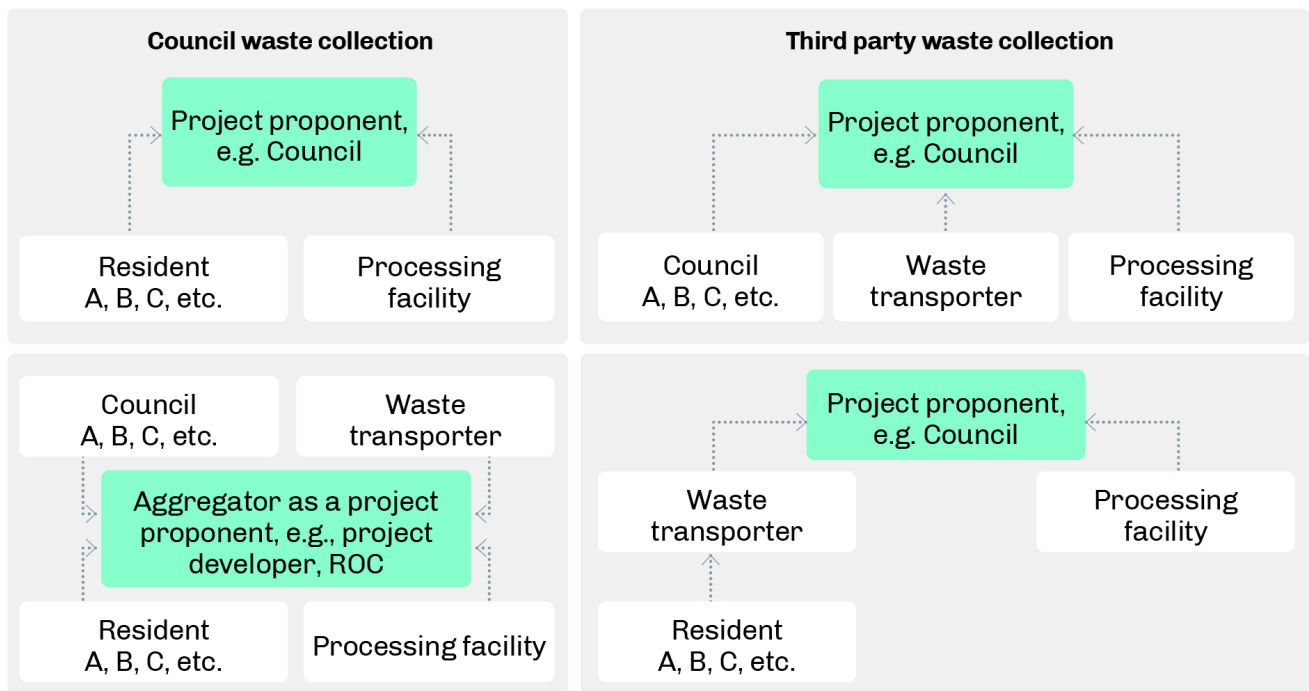


Figure 7 Examples of establishment of legal right

Councils do not always have to take the role of project proponent – for example, a project proponent could be a third-party council, a group of councils, or a project manager such as a consultant or carbon service provider appointed by a council.

If your council appoints a project manager as the SSOW project proponent, roles and responsibilities of your council and the project manager should be stipulated in a contract between both parties. These will vary depending on the contractual arrangement and the level of responsibility and risk your council wants to take. Roles and responsibilities can include all, some or none of the following:

- project management
- data collection and monitoring
- data consolidation
- preparation of offsets reports
- SSOW project audit stewardships
- liaison with CER
- claim of ACCUs
- sale or retirement of ACCUs.

The contract should also stipulate how project costs will be covered by the parties, as well as the ACCU or revenue shares received as consideration for their contribution to the project.

ACCUs are specified as financial products in the *Corporations Act 2001* (Corporations Act) and the *Australian Securities and Investments Commission Act 2001* (ASIC Act). If considering an aggregation arrangement, for example with a group of councils, participating councils should seek advice on the need to hold an Australian financial services (AFS) licence. If you are a council entering into an aggregation arrangement where your council is not the project proponent, your council should seek financial advice on benchmark revenue/ACCU sharing arrangements.

Aggregation will be covered in later sections of this manual and further guidance is available on the [ASIC website](http://www.asic.gov.au)⁹ and from the [carbon industry Code of Conduct signatories](https://carbonmarketinstitute.org/code/signatories/current-signatories/).¹⁰

5.1.2. Additionality and newness

For a SSOW project to be eligible, it must meet the ‘additionality’ and ‘newness’ requirements at the time of registration.

Newness

The project must not begin **before it has been registered and declared as eligible** under the ERF. Actions that show a project has started might include:

- a final investment decision related to the project
- acquiring or leasing tangible assets, for example kitchen caddies or mobile garbage bins that are wholly or mainly for the purposes of the project
- commencing construction work for the purposes of the project.

Additionality

The project will also need to demonstrate that it is ‘additional’, that is, not required by Australian regulation or law. Specifically, for NSW, implementation of residential FOGO services will not meet this requirement from 2030 onwards because the source separation of organics will be mandated for households.

5.1.3. SSOW method eligibility criteria

The key eligibility criteria a council must meet under the SSOW method include:

- Each activity area for a source separation activity must be in one state or territory only
- Eligible organics material consists of any of the following waste types: food, textiles, garden and park, wood and wood waste, sludge, nappies, rubber and leather.
- Ineligible organics material includes biosolids or wastewater, and paper and cardboard.
- The eligible organics material must be separated at the point of generation from a single waste stream, such as municipal solid waste.
- There must be evidence that the eligible organics waste was going to landfill for 24 months prior to project commencement.
- Your council will need to make sure there is no regulatory requirement to undertake separation of organics from source. Council will be required to declare (yes/no) whether the project meets the ‘additionality requirement’ in the client portal registration form.
- The proposed activity must not include a location where a suburban development (creating more than 400 dwellings) has occurred in the 24 months prior to project commencement or will occur while the project is implemented. At the time of registration your council will need to state, as part of the project description, that this requirement is met.
- Your council will need to show evidence that the organics waste will be processed using eligible technology. Details of the intended facility to receive and process the material will be sufficient at the time of assessing eligibility.
- Your council will need evidence of its legal right to the waste and ACCUs generated from the project.

⁹ <http://www.asic.gov.au>

¹⁰ <https://carbonmarketinstitute.org/code/signatories/current-signatories/>

5.2. Carbon abatement potential

Before registering an eligible project, your council should also make a carbon assessment of the SSOW project. This will include analysis of data, such as the number of existing households, available food and garden organics in the red bin, likely new diversion tonnages using council audits or NSW averages to help identify the potential number of ACCUs that can be generated.

Your council may wish to engage a 'carbon service provider' to develop a carbon assessment report, or feasibility assessment, to better understand the potential carbon abatement over the lifecycle of the project, as well as to look at the financial feasibility and risks of a project. A carbon service provider should be registered under the Australian carbon industry Code of Conduct and have an Australian financial services licence.¹¹

At a minimum, a carbon assessment report should include:

- key eligibility criteria
- monitoring, reporting and notification requirements
- baseline data and/or volume of organics material to be diverted from landfill
- projected ACCUs – volume and timing of issuance over the life of the project
- projected revenue from sale of ACCUs.

5.3. Financial feasibility

A cost-benefit analysis should be conducted to work out whether potential carbon earnings and/or reduced carbon emissions adequately cover the administration and project costs.

5.3.1. Administration costs

Administration costs may be covered in-house with support from consultants or completely outsourced to a carbon service provider. The total cost of implementing and undertaking services associated with a SSOW project varies depending on project type and size. Table 3 provides an indicative breakdown of what those costs might be for a typical project under a fee-for-service model, in line with typical council operations where specialist skills are fully outsourced.

Alternatively, a council might work with a carbon project developer on a revenue-share basis. In that case the fees would typically be 15–30% of the value of the ACCUs generated.

Table 3 Indicative costs of developing and managing a SSOW project as a fee for service

Applicable to projects at individual company level e.g. one council.

Costs	Days	Day rate	First year	Total for remaining years
Feasibility study	10	\$1,300	\$13,000	-
Registration	10	\$680	\$6,800	-
Initiating the project and first report	15	\$1,300	\$19,500	-
Administration and project management (excl. ACCU trading)	12	\$1,300	\$15,600	\$109,200
Annual reporting	10	\$1,300	-	\$78,000
Third-party records and activity audits* [^] (excl. cost of bin audits)	30–60	-	\$25,000	\$40,000

¹¹ <https://carbonmarketinstitute.org/code/>

Costs	Days	Day rate	First year	Total for remaining years
Activity audit	10	\$1,300	\$13,000	\$26,000
Other ad hoc	5	\$1,300	\$6,500	\$45,500
Total		-	\$99,400	\$298,700

Notes

*Audits may not be required on an annual basis. The number of activity audits required for an ERF project depends on the forecasted and actual volume of abatement, typically three audits (included above) are required for SSOW projects.

^Councils may choose to use assumed bin compositions detailed in the SSOW method or undertake FOGO bin compositional audits. The number of bin audits varies from a minimum of three (>50,000 ACCUs/yr) to a maximum of five (>150,000 ACCUs/yr), depending on the expected average annual ACCUs created by the project. The cost of bin audits is not included in this table.

Should your council not be able to deliver economies of scale with its desired SSOW project, there may be opportunities for it to work with other councils, regional organisations of councils (ROCs) or joint organisations (JOs), or waste transporters or processors involved in FOGO services, to aggregate abatement under one SSOW project. In an aggregated SSOW project, administration costs can be shared between the parties involved, making them more economical. Note that these administration costs may also increase, depending on the project size and complexity.

Where SSOW projects cannot be explored because of limited capacity or resources to run such projects, or given this may not be council core business, there are third parties such as consultants and carbon service providers that may be able to lead projects on behalf your council. The level of engagement will probably affect the project administration costs.

5.4. Risk management

Your council should implement its standard risk management framework to assess the key risks associated with the SSOW project and understand any key barriers to participation and resourcing. Some typical risks councils should be aware of include the following.

Performance risk

The SSOW project may create fewer ACCUs than anticipated if low levels of education and behaviour change mean households don't embrace the new service and keep disposing of food waste to their landfill rather than into their FOGO bin. This risk can be mitigated by using:

- education material to increase diversion efficiency
- face-to-face/online enforcement and engagement methods
- other yearly FOGO education as a requirement of new collection contracts.

The SSOW project may also create fewer ACCUs than anticipated if the required project data, such as records of monthly FOGO collections, is not collected or recorded as required by the SSOW method. This risk can be mitigated by developing and implementing a monitoring plan to make sure the required data is recorded, and project activities are undertaken in line with the SSOW method requirements.

The price of ACCUs may change over time

The carbon markets have proven to be volatile due to the different factors affecting demand and supply (policy context, corporate responsibility, social awareness etc.). These factors can cause the price of ACCUs to vary over short periods of time. This risk may be mitigated by developing and implementing a commercial strategy that includes modelling low, medium and high ACCU price scenarios, evaluating ACCU sale options and entering into offtake contracts securing fixed or

floor ACCU prices. The commercial strategy for monetisation of ACCUs should be developed with expert financial advice.

Project costs may change over time

Project administration costs can change depending on the needs of the project and arrangements between service providers. The costs can also change over time due to changes in the professional services market. This risk may be mitigated by having efficient and effective project monitoring and reporting processes established at project inception, tendering for carbon project auditing services and minimising the number of contractors involved in the project. For example, you could engage the service providers who assist with offsets reports to also carry out carbon project audits. They will be familiar with your council's record keeping arrangements and so would be more efficient and cost-effective. Another option for mitigating the variability of project costs is to tender for the provision of carbon services for the duration of the SSOW project.

Compliance risk

If the project registration, reporting and notification of changes are not carried out on time it may result in a breach of the law, civil penalties, a review of your council's fitness to participate in the ERF, project revocation or loss of potential ACCUs. This risk may be mitigated by developing and implementing a project management/monitoring plan outlining steps, responsibilities and staff involved in the project. Your council should develop this plan in advance of project registration, ensuring allocated staff/parties are aware of and responsible for project registration, monitoring and reporting to the CER.

At the end of this step, your council should be able to:

- articulate the financial outcome of a SSOW project
- have a better idea of whether to proceed with pursuing ACCUs
- know whether a standalone or aggregated project should be pursued to make financial sense.



Figure 8 A kitchen caddy makes it easy to handle food scraps. Credit: EPA

6. Step 2 – Project design

The project design will be informed by the feasibility study, the carbon abatement potential and an assessment of costs and risks. A preliminary project design is the best way for your council to outline the ‘what, how, who and when’ of the project.

The main thing to decide at this stage is the most suitable delivery model. There are several options for delivery that your council will need to consider:

1. doing it yourself
2. aggregation
3. outsourcing all or some of the project delivery components
4. transferring responsibility to a third party.

In delivery models 1 and 2 it is likely your council will need to have expert advisers in carbon and waste. In delivery models 3 and 4 these skills and expertise are outsourced or contracted out to third parties. These delivery models have been described in more detail below.

Apart from the selected delivery model, the project design should include the design and development of monitoring and reporting systems and a commercial strategy to monetise ACCUs.

6.1. Doing it yourself

Your council would need to have the relevant carbon and waste expertise in-house to deliver the project internally. In doing it internally, your council should consider enabling resources and capacity to complete the CER client set-up, establish monitoring and reporting systems (within the council and with the council’s waste processor), regular completion of offsets reports, file keeping and implementing the ACCU sale strategy. The relevant staff for the project should be responsible for complying with ERF and SSOW method requirements, such as project auditing, to make sure the project operates seamlessly. If your council chooses to enter a CER auction and have an ‘optional delivery’ carbon abatement contract, resources will need to be assigned to any contractual needs.

Doing it internally will give council full operational control and decision power over the project. At larger councils with emissions targets and net zero or climate active certification, experience in managing ACCUs and reporting emissions based on specific methodologies may already exist. Other councils may have less experience with ACCUs.

6.2. Aggregation

Aggregation is the process of bringing multiple sources of carbon abatement together. Aggregation can be undertaken by individuals or organisations.

Aggregators provide a range of services that support and facilitate participation in the Emissions Reduction Fund. Aggregators might be agents, groups of councils, project developers, holding companies or project proponents willing to aggregate projects on behalf of multiple project owners. Aggregation can introduce economies of scale, reduce transaction and other business costs and help manage performance risk.

A group of councils rolling out FOGO could aggregate their FOGO services under one SSOW project to achieve economies of scale from carbon credits. The aggregated project would be simpler to manage if the councils were beginning the new FOGO service in the same year and processing the collected organics at the same processing facility. The project could be managed by an aggregator as the project proponent/developer, a council interested in taking that role, or the regional waste group.

As an example of how aggregation could operate in practice, an aggregator might form an agreement with each council and register the project. Each of the councils would monitor the relevant data and make sure their FOGO services were implemented as intended. At agreed reporting periods, such as annually, waste data from each council and the composting facility would be consolidated by the aggregator, who would prepare the offsets report and lodge a claim for ACCUs created during that reporting period. The aggregator, as the project proponent, then receives the project ACCUs when issued by the CER. It is then the aggregator's responsibility to meet its contractual obligations to keep, sell or share ACCUs with the parties involved. The parties can then dispose of their ACCUs in line with their ACCU commercial strategy, which might be to sell or retire and claim emissions reductions. The aggregator is also responsible for project auditing when required.

6.3. Outsourcing

To minimise the obligations and risks of participation in the ERF, council may choose to seek assistance from a carbon service provider. There are several different types of carbon service providers that might help you in understanding and participating in the ERF. They include legal services, financial advisory services, agents, consultants and aggregators. The Clean Energy Regulator has released a fact sheet to help participants understand the roles of carbon service providers and to choose a provider.¹² You can also conduct a web search to find relevant providers, using terms such as 'carbon services', 'carbon farming services' or 'carbon service providers'.

The Carbon Market Institute also administers the industry's voluntary Code of Conduct, promoting best-practice carbon market integrity, transparency and accountability for Australian consumers.¹³

Signatories to the Code of Conduct support the vision of achieving a well-functioning carbon industry in Australia at the scale needed to significantly contribute to greenhouse gas reduction commitments under the Paris Agreement.¹⁴ They are committed to best practice and will ensure that all the issues raised in this manual are addressed.

Outsourcing ERF capacity and skills may reduce project management, reporting and compliance risks your council. However, it will come at a greater financial cost and potentially reduced control and input over some matters relevant to the project. This depends on how these services are outsourced and can vary between fee-for-service and revenue-share models.

If your council decide to outsource all or part of the carbon services required for its SSOW project, an assessment of both models should be made for council to select the one that better aligns with the intended goals and outcomes. For example, consider whether the service provider's interests align with the council's interests, or with any procurement requirements and approaches to project management and risk mitigation.

6.4. Transferring to a third party

Carbon rights could be transferred to entities such as a waste processing or collection contractor, a regional group of councils or a carbon project developer.

Transferring project responsibilities to a waste contractor linked to the project is another way of outsourcing carbon services. The main difference in this model is that the waste contractor will become the project proponent and will have access to and control of all or some of the waste data and operations. Waste contractors who could take the role of project proponent include waste

¹² <https://www.cleanenergyregulator.gov.au/DocumentAssets/Pages/Carbon-service-providers-and-FPP---Factsheet.aspx>

¹³ <https://carbonmarketinstitute.org/code/>

¹⁴ <https://carbonmarketinstitute.org/code/signatories/current-signatories/>

transporters and waste processors. Skills and expertise in both waste and carbon are required for a waste contractor to be able to take this role.

Similarly, revenue or ACCU share arrangements can be made between council(s) and waste contractors for the share of project benefits and costs, where required.

In this model, council reduces project risks but gives the waste contractor control and inputs over the project. These matters, as well as the relevant commercial arrangements should be considered by your council when choosing this delivery model.

6.5. Project design template

The following is an outline of a project design that is useful for mapping out project details and how the project meets the requirements of the SSOW method. Designing a project using a template like the one below will help with subsequent steps such as registration, reporting and project auditing.

Table 4 Information on each section required when designing a project

Item	Description
Purpose and objective	Explain how the project fits into council's strategy and waste management/carbon goals
Project location	Where is the activity area? Is it the whole LGA, aggregated LGAs or one town/locality within the LGA?
Nature of the activity	A detailed description of what you want to do, how it will be implemented, and the nature of the new, expanded or aggregated SSOW activity
Eligible organics material	What kind of eligible organics material will be diverted from landfill, what landfill was the material going to, and what quantity per year? Would the new organics tonnage (food if garden service already in place or FOGO if no service currently in place) increase or decrease over time and how much? How will the SSOW project change total waste to landfill and what is the likely abatement savings based on the calculation methods in the SSOW method? Does your council undertake regular bin composition audits? Is your council interested in using waste bin audit data or using the assumed compositions in the SSOW method?
Treatment technology	What eligible waste treatment technologies are likely to be used to process the eligible organics material diverted from landfill by the activity? Where are they located? Does your council own these facilities or are they operated by a waste contractor? If the latter, has your council included in draft tender documents, who will have the legal right to project ACCUs?
Delivery model	Select the preferred delivery model from those outlined in Stage 2 of this manual: do-it-yourself, aggregation, outsourcing all/part of the SSOW project delivery components, transferring responsibility to the waste contractor, or other (if identified).
Stakeholders and project partners/advisers	Identify all the key stakeholders, partners, waste contractors and consultants and their role in the project e.g. <ul style="list-style-type: none"> project aggregator – group of councils stakeholders – waste generators, transporters and processors (if third party) advisers – consultants undertaking project set-up and reporting auditors – identified project auditors qualified to undertake ERF project audits.

Item	Description
Budget	Financial modelling of the project, including: <ul style="list-style-type: none"> projected ACCUs – volume and timing of issuance projected revenue from sale of ACCUs administration costs.
Communications	Consultation and communication strategy, and what education/public relations might be required for the project to be successful – for example, engagement with residents to inform them about emissions reductions certified through the SSOW project, and how the ACCUs have been used (sold or retired to claim abatement).
Governance/responsibilities and project management	Identify internal resourcing that will be required for approval. Secure resources and capacity to implement and operate the SSOW project.
Monitoring and reporting systems	How will the SSOW project be operated? Consider data capture, monitoring and reporting in line with SSOW method requirements. Data required for offsets reports include: <ul style="list-style-type: none"> landfill site where the waste was previously disposed of location of the source separation activity organics processing facility receiving the organics material tonnage of waste collected and received by the facility tonnage processed and rejected by the processing facility organics processing facility operating data (fuel/electricity consumption) quantity and volume of organics bins. Develop the tools and templates needed to efficiently report abatement, and file and keep records for project auditing purposes.

6.6. Develop commercial strategy and financial model

ACCUs are a commodity with a variable price based on market supply and demand. However, there are market mechanisms and price signals that inform and lead the price attributed to ACCUs, such as the ERF auctions and transactions in the secondary market.

A commercial strategy should be developed that outline and analyses the payment models available and the preferred or most convenient model for the council. The models will vary depending on the council's interests and risk appetite. A commercial strategy should also outline the potential ACCU buyers and terms of purchase.

Once a project report is submitted and accepted by the CER, one seventh of the ACCUs generated for that reporting period are issued to the project proponent. The commercial strategy should include time frames or triggers that outline when the ACCUs are sold and/or retired. At present there is no expiry date before which ACCUs must be sold or retired.

The commercial strategy should align with the project proponent's interests, which may be monetary or for emissions reductions targets. If the main goal is to achieve a financial benefit, the commercial strategy should be centred around achieving the best return from sales of project ACCUs. Where the main goal is to meet emissions reductions targets, then the strategy should prioritise the retirement of ACCUs, which can be done voluntarily by surrendering ACCUs or by selling ACCUs to the CER through a carbon abatement contract. ACCUs sold to the CER are retired from circulation and not used as offsets or for emission reduction claims.

The project proponent will be able to execute the transfer and or sale of ACCUs. The following models should be considered.

6.6.1. ACCUs are financial products

An ACCU is a ‘financial product’ under the Corporations Act 2001 (Corporations Act) and the Australian Securities and Investments Commission Act 2001.^{15,16} This means that people who provide financial services in relation to ACCUs and related financial products and services in Australia may need an Australian financial services (AFS) licence, which authorises them to provide those services.

However, carbon abatement contracts are exempt from the definition of ‘derivative’ and ‘financial product’ for the purposes of the Corporations Act. This exemption means that a person does not need to hold an AFS licence to provide advice about, or enter into, a carbon abatement contract.

Buying and selling ACCUs on behalf of another entity is also a ‘designated service’ for the purposes of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006.¹⁷ This means that the entity providing the service will have to report suspicious matters or transactions above a specified limit. Except in special cases, the carbon service provider will also have to verify its customer’s identity before trading in ACCUs.

6.6.2. Selling at auction

The CER holds auctions twice a year where ERF projects pitch for an optional volume and fixed price to be delivered to the CER. The contract allows for the ERF project to secure a floor price while having the opportunity to test secondary markets for better ACCU prices. The CER awards carbon contracts based on a ‘lowest cost of abatement’ approach.

To be able to participate in these auctions, councils must be enrolled as a CER client and have a project registered under the ERF. Only project proponents can participate or lodge auction applications through the CER client portal.¹⁸

The process for participation has three steps:

- **Auction qualification** – where the CER assesses whether it is appropriate for the Australian Government to enter into a contract with the applicant. The CER also assesses the commercial terms of the potential contract, for example, an indication of ACCUs to be delivered and any conditions that need to be met before the contract will begin. The auction qualification acts as an offer to enter into a carbon abatement contract.
- **Auction registration** – where project proponents with registered SSOW project apply for their project to also be part of an upcoming auction and put forward a contract term, delivery schedule and total volume of ACCUs to be delivered.
- **Bid** – where proponents put forward their best price.

Once the first two steps have been completed, the auction window has a duration of two days, during which time the authorised project proponents can bid for a carbon contract by proposing an ACCU price for their project and delivery terms. Results are released and bidders notified as soon as possible after the auction closes. The CER then publishes the auction results on its website.¹⁹

If you are a council looking for price certainty for the duration of the SSOW project, selling at auction is an option that reduces the risks associated with price variability and availability of

¹⁵ <http://www.comlaw.gov.au/Series/C2004A00818>

¹⁶ <http://www.comlaw.gov.au/Series/C2004A00819>

¹⁷ <http://www.comlaw.gov.au/Series/C2006A00169>

¹⁸ <https://portal.cleanenergyregulator.gov.au/>

¹⁹ <https://www.cleanenergyregulator.gov.au/ERF/auctions-results>

buyers. Optional contracts give councils the flexibility to choose whether to sell ACCUs to the CER (through the optional carbon contract) or to a buyer in the secondary market.

6.6.3. Selling on the secondary market

The secondary market operates based on market supply and demand, and therefore can be subject to price fluctuations. Updates on ACCU price can be consulted on various brokers' websites including [Jarden](#) and [Reputex](#).^{20,21}

ACCU prices vary depending on type, volume and commercial arrangements between buyer and seller. Different buyers seek different ACCU types, for example ACCUs that demonstrate environmental and social co-benefits or the more industrial-like ACCUs that are less likely to demonstrate co-benefits. Depending on how the ACCU is perceived and intended to be used by the buyer, different prices are attributed and executed at purchase. For example, food rescue projects through the SSOW method may attract higher ACCU sales prices from companies that want to promote who they bought their offsets from rather than just claiming carbon neutrality.

Depending on your council's needs and wants, selling on the secondary market can bring greater financial benefits, but it also comes with associated risks such as price volatility and buyer uncertainty. This uncertainty stems from the nature of the secondary marketplace. ACCU sales/purchases are negotiated on a transaction basis: they depend on market supply and demand conditions (the number and frequency of transactions, and price) and on the type and quantity of ACCUs offered and sought.

Risk mitigation strategies can be put in place to overcome these uncertainties, such as entering into offtake contracts with private buyers, where the volume and price of ACCUs are negotiated between parties.

The sections below expand on the different transaction models to realise ACCU income.

6.6.4. Payment on delivery of ACCUs

Typical commercial arrangements for monetisation of ACCUs include payment on delivery of ACCUs. In this type of transaction, the buyer of ACCUs pays an agreed price for ACCUs delivered by the seller.

This transaction type is well defined under CACs, where the project proponent acts as the seller delivering a committed volume of ACCUs at a fixed and previously agreed price (during auction), on a scheduled date.

CACs typically have a duration of seven years for waste diversion projects and the price remains fixed for the duration of the project (no CPI or GST applies). Income from the sale of committed ACCUs is only realised after delivery of the committed volume of ACCUs for each CAC milestone. These ACCU deliveries to the CER are undertaken using the Australian National Registry of Emissions Units (ANREU) account, by transferring the agreed ACCUs amount from the seller's account to the CER's account.

A payment on delivery can also be realised through a sale on the secondary market transaction where ACCUs are sold to a buyer at a price negotiated by the parties based on project specifics and market conditions. To do so, the councils running an SSOW project can engage a broker for assistance, or councils can do it themselves if they are willing to line up the buyer and have the in-house expertise to carry out the transaction.

²⁰ <https://accus.com.au/>

²¹ <https://www.reputex.com/>

These transactions are typically undertaken by establishing a contract that outlines the purchase and delivery terms, and the ACCU transaction is made using the ANREU account, by transferring the agreed ACCUs amount from the seller's to the buyer's account.

An Australian financial services (AFS) licence is not needed where the seller, for example a council, intends to trade ACCUs on its own behalf. However, an AFS licence is needed when acting on behalf of a third party for matters related to providing financial services associated with ACCU transactions (for example, brokers selling on behalf of other councils).²² Where the seller needs a broker to process this transaction, a brokerage fee is typically charged as a fixed fee, as a percentage of ACCUs, or as a percentage of the transaction dollar value.

Note, income from ACCUs is only realised for the ACCUs delivered as part of the transaction.

If a council enters into a CAC with the CER, and the council overestimates the volume of ACCUs to be created and delivered under contract, then it is possible to negotiate with the CER the delivery of ACCUs at a later date (through the 'Contract Variation – Delivery Failure' form in the client portal), as long as the total volume of ACCUs committed is delivered by the end of the CAC. Where the above scenario occurs for a transaction with a private buyer, the purchase contract would determine the terms and conditions for this situation.

The commercial strategy should include these considerations and risks if choosing the 'payment on delivery' mode.

6.6.5. Forward sale of ACCUs

SSOW projects can negotiate and commit to a forward sale of ACCUs for:

1. accrued portions, which are a future flow of ACCUs that is secure and fixed, and/or
2. estimates or projections based on historic and future project performance, which have an inherent level of uncertainty and risk.

For 1, the future ACCU accruals can be negotiated at a fixed or floating volume and price. This may include agreements to share premiums resulting from price rise. This flow of ACCUs is certain and allows for security in forward sale negotiations.

For 2, ACCU projections can also be negotiated at a fixed or floating volume and price or a combination of fixed price plus premium sharing. However, these projections must include securities to cover the risk of not being able to deliver the committed ACCUs or shortfall, hence tend to be a lower ACCU price although that is not the case 100% of the time.

6.6.6. Payment on diversion of waste

There is an option to realise ACCU income at the time of waste diversion, which includes the seven abatement portions on the date of diversion, instead of receiving seven equal portions for seven years. This ACCU sale model is available in the secondary market and is negotiated with buyers. It is not currently available in contracts with the CER. This is a unique feature of SSOW projects, as the SSOW method is one of two ERF methods (AWT method is the second one) where abatement generated during a reporting period is delivered in seven equal portions.²³

²² ASIC. Regulatory Guide 236, *Do I need an AFS licence to participate in carbon markets?* May 2015
<https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-236-do-i-need-an-afs-licence-to-participate-in-carbon-markets/>

²³ AWT operators have had the opportunity to claim ACCUs for stabilisation of red bin waste into mixed waste organics output (MWO). Material going to land or landfill post AWT treatment in the two years preceding a FOGO service is therefore not eligible for ACCUs under the SSOW method.

Typically, this transaction type allows for the project proponent to realise today the full value of ACCUs generated during a reporting period as opposed to realising a fraction of the value regularly over an extended time frame.

In this model, ACCUs for a reporting period, including the accrued amounts, are sold at an agreed price and paid for at the time of waste diversion. Note there is a transaction time between 1) when the waste is diverted from landfill to a composting facility, and 2) when ACCUs are issued.²⁴ Once these two occur, the relevant payment can be made.

This payment type involves a cost to capital and its assessment should involve factors such as the value and preference of present and future value of money and/or ACCUs.

At the end of step 2 of the project design (Figure 6, ERF project process flow), council should be able to articulate why the recommended solution is best for the council who will deliver the SSOW project, and what the financial model will be for distribution and management of ACCUs.

²⁴ This 'transaction time' is indicatively five months. It includes the time to capture data from composting facility, prepare and submit the abatement report, and claim and receive ACCUs.

7. Step 3 – Registration

Participation in the ERF begins with identification and registration of an entity or individual with the CER so that you can access a secure online portal. Registration is done using the Clean Energy Regulator Client Portal.²⁵ This provides the CER with:

- client information – general identification and contact details for staff relevant to the ERF project
- applicant's 'fit and proper person' declaration – a checklist test designed to reduce the risk of fraud, deceptive or unfair conduct and non-compliance
- declaration of legal capacity – that true and correct information is provided.

If a council wishes to be a project proponent, the council as an entity, as well as the relevant staff to manage the project, will have to register as a client to access and use the client portal, including registration application forms and abatement reports. Once the information is on hand and the client enrolment form is filled in and submitted, the CER can take up to 90 days to process the enrolment (although it is typically less than that).

Once registered in the client portal, the next step is to register an eligible project. If council has already completed an eligibility and/or feasibility assessment, it should now be clear if the project meets the legal rights requirement and the additionality and newness requirements, as per step 1

Where a project passes the eligibility test, an application for registration of council's FOGO related SSOW project can be prepared and submitted via the client portal, as follows:

1. Log into the client portal using CER ID and password.
2. Go to the Emissions Reduction Fund section at the top of the homepage.
3. Scroll down to the Available Forms section.
4. Select the Register a Project form.
5. Fill in the form and provide supporting information (details below).
6. Submit the form.

You must fill out the application form using CER client and project details and must include the following supporting information in line with requirements in Section 16 of the SSOW method. You can either fill in the blanks in the form or provide attachments containing the information.

1. Description of the activity:
 - a. detailed description of how the waste will be separated
 - b. number, size and location of organics bins to be used
 - c. new or existing staff and training required to undertake the activity.
2. Description of the type of waste:
 - a. food, garden and park, wood and wood waste, textiles, leather and rubber or other (specify)
 - b. the source of the organics waste to be separated (for example household, offcuts, unsold, pallets)
3. Name and address of the site or area where the activity will be undertaken (household's address, LGAs)
4. Where applicable, details of existing source separation activities or trials, and how the activity will be expanded (similar to point 1 above)

²⁵ <https://www.cleanenergyregulator.gov.au/ERF/Want-to-participate-in-the-Emissions-Reduction-Fund/Step-1-Apply>

5. Proposed facility where separated organics waste will be sent to for processing:
 - a. name and address
 - b. technology used (enclosed composting, open windrow, anaerobic digestion)
 - c. capacity in tonnes per annum
 - d. evidence of the above (documented plan to send organics waste to proposed composting facility, feasibility study, other).

These details may need to be updated later once council has tendered for the processing or made a financial commitment to upgrade its existing council-owned composting facility to enable it to expand to process the additional material.

6. Provide evidence:
 - a. that the mixed waste was sent to landfill for 24 months prior to project commencement without any pre-treatment to remove or stabilise organics content (e.g. waste service agreement, waste data showing dates of collection and weights, invoices)
 - b. of the landfill receiving the mixed waste, including name of landfill (landfill invoices, waste contracts)
 - c. of legal right to ACCUs generated by the project.

This evidence must show explicit transfer of legal right (contractual arrangements, project deed) from relevant stakeholders (residents, waste transporters, waste processors) to the project proponent (council).

7. If the project is likely to implement more than one activity but the activities cannot be fully described at the time of application (e.g. there is another council implementing a new FOGO service that has not entered an aggregation partnership with you yet) provide a description of:
 - a. the potential activity to be implemented (similar to point 1 above)
 - b. the type of waste diverted from landfill (similar to point 2 above).

Step 7 is relevant to FOGO rollouts where a collection service may be increased or implemented over time, but the exact household addresses or number of households is not known or certain at the time of application.

Once your registration form is completed, an authorised person will need to sign it. This might be staff responsible for the project or an authorised member of the council entity registered as a CER client.

Following lodgement of the application for registration, the CER will review and assess the application. Further information and evidence can be requested by the CER to prove claims made in the application. Where the CER determines the project is eligible for participation in the ERF, a project declaration letter is issued to the project proponent within a time frame of 90 days. This letter typically includes a project commencement date and date of ERF approval.

The declaration letter will be accompanied by an audit schedule outlining the number (typically three) and estimated dates of project audits required during the crediting period. The number of project audits usually increases if the estimated number of ACCUs to be claimed by the project exceeds the 100,000 ACCUs threshold. The audit(s) will need to be undertaken by a qualified third party who will review record keeping and project data to verify that the ACCU claims are correct.

The declaration letter will also state the crediting period start date for the SSOW project. After receiving this confirmation, council can execute a financial investment decision or commence rolling out the new FOGO service to start earning ACCUs.

8. Step 4 – Implementation

8.1. New services rollout

The operation of the SSOW project can begin up to 18 months after the project is declared an eligible ERF project.

Project proponents should plan to begin SSOW project operations when the FOGO service is rolled out. At implementation the project proponent, for example the council, should have undertaken SSOW project design, developed project tools and systems, and have allocated roles and responsibilities. As the FOGO service is rolled out and organics waste collection and transport for processing begins, council should make sure the tools and systems are used and appropriate for monitoring and data recording in preparation for the first cycle of the project implementation stage.

The following steps outline the cycle that will be undertaken for the project's seven-year crediting period.

8.2. Monitoring

Monitoring requirements are in place for the project operation and data recording to make sure the activities are verifiable, measurable and eligible to claim ACCUs. A council must make sure relevant project data is monitored and recorded in line with the SSOW method specification for inclusion in an offsets report. Typically, this data would be recorded monthly, and it should be traceable to each source separation location (households) and organics processing facility.

- For **waste treatment facilities**, monitor, measure and record the following data:
 - direct compost/digester emissions, if applicable
 - fuel and electricity consumption and generation onsite
 - total tonnes of waste received at the facility (measured using National Measurement Institute calibrated scales)
 - tonnes of composted material generated
 - tonnes of organics material that is attributable to the SSOW project (in case the facility also receives organics material from sources that are not related to an SSOW project)
 - tonnes of rejected material sent to landfill.

Where data is not available or cannot be measured, the project proponent must make sure appropriate estimates are used. These might be NGER default values or other estimation methods typically approved by industry, noting that these estimations must be in the SSOW method and/or used following consultation with the CER to ensure their applicability for the purposes of an ERF offsets report.

- For the **point of waste generation**, such as households:
 - tonnage and composition of eligible waste (typically monthly), is determined by waste audits or estimated using NGER default factors
 - for expansion activities, the number and volume of organics waste bins at the start of the project and at the end of the reporting period.

Typically, this data would come from evidence of FOGO collection routes, bin lift data and weighbridge dockets when the FOGO trucks empty at transfer stations and or organics processing facilities.

- **Notification requirements:**
 - any changes to diversion activities (see Table 5 below).

8.3. Reporting

SSOW projects must report and apply for ACCUs via the client portal. A SSOW project can lodge offsets reports for reporting periods for a duration of at least one month and up to two years of activity operation (except for the first report, which must cover at least six months). Since the project crediting period is up to seven years, a minimum of four offsets reports must be lodged for a SSOW project.

Project proponents can choose to report up to every two years, and the CER requires proponents to submit reports up to six months after the end of the crediting period, which means council could take up to a maximum of two and a half years to report on abatement achieved. Where council misses a reporting period, typically CER staff will follow up to request an abatement report. If for any reason the council cannot submit an abatement report, it has the option to submit a report for nil abatement for that reporting period and not be credited with any ACCUs for that period.

Only staff responsible for the project can lodge these offsets reports, as they must be signed by an authorised and CER registered person.

SSOW offsets reports are informed by the data and information outlined in the monitoring requirements. Project data is used to calculate abatement generated by the project in line with the abatement equations provided in the SSOW method. The net abatement amount calculated represents the amount of ACCUs the project can claim for a reporting period.

A typical offsets report for an SSOW project outlines:

- how the SSOW project meets the eligibility criteria
- all activities undertaken during the reporting period and how the criteria are met
- recorded data for the reporting period, such as eligible organics waste tonnages and emissions associated with the waste treatment facility
- calculations of abatement in line with the SSOW method
- summary of results and net abatement, in tCO₂-e, claimed for the reporting period.

Reports are lodged via the CER client portal for review and assessment of claims. In the client portal:

- access the Emissions Reduction Fund section
- scroll down to Available Forms
- select the Project Report and Crediting Application form
- follow the steps and provide the required supporting information
- submit the report.

The CER can request further information to confirm ACCU claims. Once the report is processed and approved by the CER, ACCUs for the reporting period are issued to the nominated ANREU account. This is the account where ACCUs will be received.

Additional reporting may also be required. Where the SSOW project is subject to changes, the project proponent must notify the CER in line with the notification requirements and time frames in Table 5 below.

Table 5 Notification requirements

Change	Time frame for notification	Details of notification
<p>Implementation of one or more potential activities</p> <p>Example: an additional household, or a group of additional households (such as individual households or new towns or local government areas) is added to the existing FOGO service. These households' organics waste is sent to the same processing facility as that of households already in the existing FOGO service.</p>	<p>Within 14 days after the potential activity starts to be implemented</p>	<p>Provide:</p> <ul style="list-style-type: none"> • number and location of additional services • details of the waste treatment facility receiving and processing the waste and the type of technology used by the facility.
<p>Change to a nominated waste treatment facility</p> <p>Example: Council tenders for organics waste processing and contracts a processing facility different to the one nominated in the project registration form; or the organics processing facility burns down or is flooded, and a different facility is used for an interim period.</p>	<p>Within 14 days after the change occurs</p>	<p>Provide:</p> <ul style="list-style-type: none"> • details of the waste treatment facility now receiving and processing the waste, and of the type of technology used by the facility • details of the waste treatment facility that was previously, but no longer is, the nominated facility
<p>Decide to no longer include a particular sub-activity (applicable for aggregated activities)</p> <p>Example: a household that is currently separating organics material, and which is part of the SSOW project, decides to no longer source separate organics material, therefore leaving the SSOW project.</p>	<p>Within 30 days after making the decision</p>	<p>Notify the CER of the decision, giving details of the activity that will no longer be included.</p>

8.3.1. Reporting in extended accounting period

After the end of the seven-year crediting period, project proponents only need to submit abatement reports to claim accrued abatement (the unclaimed portions of ACCUs from previously diverted waste). These reports are submitted annually on the anniversary date. The anniversary date is the date each abatement report is lodged. For example:

- The council prepares an abatement report for the last reporting period 1 July 2029 to 30 June 2030. The SSOW project ends on 30 June 2030.
- The council submits the report to the CER via the client portal on 30 July 2030 (assuming it takes a month to prepare the abatement report).
- Based on the SSOW method ACCU issuance, council will receive the first abatement portion (ACCUs) within 90 days as processed by the CER.
- The remaining six portions will have to be claimed annually during July, from July 2031.

These reports can be found in the client portal under the Emissions Reduction Fund section, and by selecting the Project Report and Crediting Application form. The form will take you through the steps required for submission.

It is important for project proponents to keep records of accrued abatement claimed. This information will be needed to support ACCU claims during the six-year extended crediting period.

8.4. Record keeping

It is a requirement of the SSOW method that monitored data and project information, as well as offsets reports and audit reports, must be kept by the project proponent for the duration of the project.

Project records such as information, data and evidence must be stored in an appropriate records management filing system and made available to auditors during project offsets report audits. Clear and consistent document and file-naming conventions make project auditing simpler and easier.

8.5. Auditing

The SSOW project must undergo auditing as required by the auditing schedule issued by the CER at the time of project declaration. Typically, SSOW projects must undergo a minimum of three audits undertaken by a third party to validate compliance and alignment with the requirements of the SSOW method and in general with the ERF scheme.

The responsibilities of project proponents (such as councils) include:

- understanding the audit schedule and knowing when an audit report is required
- engaging an approved auditor to undertake the required audit and covering the cost of auditing services
- addressing all audit queries and acting where required to make sure the queries are resolved
- allowing the auditors to access project information where required.

During an audit, the auditor will review the project monitoring, data recording and reporting processes to make sure they meet the requirements stipulated by the ERF and the SSOW method. The type of checks that can be done include, reviewing:

- databases
- data acquisition processes
- files and record keeping
- calculations to ensure the abatement claimed is correctly calculated and, where assumptions are made, that the assumptions are reasonable and conservative.

An audit report is then issued outlining any issues raised during the audit process and the auditor's opinion on the ACCU claims made. Councils must take all reasonable actions to ensure a reasonable assurance opinion is achieved for each relevant offset report. The audit report will be required as part of the application for ACCUs in the client portal.

8.6. Issuance

After the CER assesses an abatement report and issues ACCUs to the project proponent, the relevant amount of ACCUs will be received in the project proponent's ANREU account and a notification (known as 'statement of abatement') should be received via email. This email notification is sent from the CER to the nominated contact for the SSOW project, which could be a council or an agent/service provider.

9. Step 5 – Monetisation

ACCUs can be monetised as follows.

Marketing

If the sale strategy includes the sale of ACCUs in the secondary market, then marketing will be needed to make sure buyers are aware of the availability, volume and type of ACCUs. Councils can do this by contacting a broker to market ACCUs on their behalf, or by using existing marketplaces (such as [Jarden](#))²⁶ if they decide to sell the credits by themselves. Marketing of ACCUs is not necessary if the project proponent has secured contracts or offtake agreements.

Execution

If selling on the secondary market, project proponents should arrange terms of purchase (timing, volume, price) and execute both the contractual arrangement and the transfer of ACCUs using the relevant ANREU accounts. If delivering ACCUs to an existing CAC, then project proponents should arrange for the delivery of ACCUs in line with the relevant CAC milestone (timing, volume). CAC deliveries are also done by transferring ACCUs through the ANREU account. To access the ANREU account and transfer ACCUs:

- log into the client portal
- access the ANREU section on the top right of the client portal's homepage
- click on the Access ANREU option, which will open the ANREU account login
- follow the [CER guidance for Delivery and Payment of ACCUs](#) for information on how to deliver and receive payments and how to transfer ACCUs using the ANREU account.²⁷

Invoicing

Invoice the buyer of ACCUs for the agreed amount (volume x price) and do not include GST in the invoice. For CAC deliveries, councils should issue an invoice for the CER, in line with CER guidance.²⁸ For secondary market transactions, councils should arrange invoicing directly with the buyer of ACCUs.

Payments

Payments are made to the project proponent's nominated bank account. This applies to both secondary market and CAC transactions.

9.1. Enter cyclic stage

After receiving the first batch of project ACCUs, repeat from the monitoring step (section 8.2) for the duration of the seven-year crediting period. Once the SSOW project reaches the end of the crediting period, repeat from the reporting step (section 8.3.1) for the duration of the six-year extended accounting period. At the end of the first iteration of this step, you should receive a cash payment for the sale of project ACCUs. The cyclical step will repeat as indicated until the end of the SSOW project, a total of up to 13 years.

²⁶ <https://accus.com.au/>

²⁷ <http://www.cleanenergyregulator.gov.au/ERF/Want-to-participate-in-the-Emissions-Reduction-Fund/Step-4-Delivery-and-payment>

²⁸ CER 2019, *Tax treatment of ACCUs*, <http://www.cleanenergyregulator.gov.au/ERF/Want-to-participate-in-the-Emissions-Reduction-Fund/Step-4-Delivery-and-payment/Tax-treatment-of-ACCUs>

10. Frequently asked questions

10.1. What if I have been undertaking a trial?

Under the SSOW method, trials can be undertaken at no more than 20% of sites, or households, at which FOGO bins are to be located within the relevant LGA.

The **expansion waste diversion activity** under the SSOW method (section 3.3.2) recognises that local government may have already begun a diversion activity or participated in a trial diversion activity within the last two years to assess the take-up and cost-benefit of such activities. The method recognises and rewards these existing programs and enables them to begin to collect carbon credits. Where council intends to increase the size and/or quantity of existing FOGO/FO/GO bins, an expansion waste diversion activity may allow participation in the ERF scheme.

If the trial ceased 12 months or more before the project is declared eligible, then the activity might be assessed as a new waste diversion activity, meaning all the organics waste diverted from landfill could be accounted for ACCUs, instead of only a fraction as with the expansion activities.

10.2. What if my commencement date is more than 18 months away?

Your council can register a project and nominate the commencement of the crediting period 18 months away from when the project is declared. If the project's commencement date is still more than 18 months away you can choose to either have a period of no abatement activity in your first offsets report, or just submit an offsets report for nil ACCUs for the period of inactivity. The crediting period will continue to run, and you will be able to claim ACCUs once your waste diversion from landfill begins.

Another approach is to start under a trial and then apply as an expansion waste diversion activity as discussed above. However, this approach may bring about complications associated with the 'newness' test, and if not done in compliance with the SSOW method, it risks the eligibility of the organics waste to create ACCUs.

10.3. What if we have already begun diversion?

If your council has already rolled out the service to every household in the LGA, and you plan to increase the volume and quantity of organics bins, then your council could register a project under the expansion waste diversion activity.

If your council increases the level of service, such as from GO to FOGO, you can also register a new waste diversion activity, which would only account for the additional FO diverted from landfill.

If your council has already begun diversion and has no plan to somehow expand your service, then your organics collection service is not eligible for an SSOW project.

10.4. What if we already have a GO service?

Your council may increase the collection services or expand from GO to FOGO and still benefit from carbon credits. Carbon credits can be claimed for the new food component of the service. Audits or default values in the SSOW method can be used to estimate the proportion of food in the FOGO service tonnage.

10.5. Can you register a project and withdraw it without penalty?

Yes.

10.6. Where are my ACCUs held and how are they transferred?

The Australian National Registry of Emission Units (ANREU) is administered by the CER and serves a function as the online bank account for ACCUs. The ANREU system supports the issuing, holding, transfer and acquisition of ACCUs.

Once an ERF project is set up and a claim is made for ACCUs created during a reporting period, the project proponent must nominate an ANREU account to which ACCUs will be issued and transferred. Note that an ANREU account is only the system for managing ACCUs and does not allow for the direct or automatic monetisation of ACCUs.

A CER client can apply to the CER to create an ANREU account through the client portal. This means your council would have an account to be able to receive, hold and transfer ACCUs. The application requires representative(s) to be nominated by your council and roles to be assigned to each representative (either as an initiator or an approver of transactions). Best practice is to have more than one authorised representative to ensure ACCU transactions are initiated and reviewed before being executed. The representatives of the ANREU account are responsible for monitoring ACCU transfers, in and out, and for the delivery of ACCUs when council undertakes transactions to third parties or carbon abatement contracts.

Supporting documents such as certified copies of identification documents are required to prove identity claims made in the application to open an ANREU account. Once the application is approved, the individual or organisation nominated as representative(s) for the ANREU account is granted access to it via the CER client portal.



Figure 9 EPA officers at DROPP composting facility, Dubbo. Credit: EPA