



FORESTS NSW

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Carbon Sequestration Rule Consultation
Industry and Investment NSW
Level 17, 227 Elizabeth Street
Sydney NSW 2000

25 FEB 2010

Mail 263

Katharine Hole

Dear Sir/Madam,

Re: Submission on proposed amendments to the Greenhouse Gas Reduction Scheme Carbon Sequestration Rule.

Forests NSW is aware that amendments are proposed to the Greenhouse Gas Reduction Scheme (GGAS) Carbon Sequestration Rule. We understand that these proposed amendments are to be applied both retrospectively and to new accredited carbon sequestration abatement projects.

Forests NSW gained accreditation as an abatement certificate provider and began creating NGACs in 2005. Our decision to invest in the GGAS was made on the basis of the terms and conditions at this time. We believe that any retrospective changes to the carbon sequestration rules may disadvantage Forests NSW.

We note that on the website advertising the proposed changes that there is reference to three proposed amendments:

1. "where there is insufficient carbon created, the forestry operator can choose to either cease creating certificates until the shortfall is eliminated or if directed by the Scheme Administrator purchase NGACs (of any type) to eliminate the shortfall;"

Clearly the provision for the Scheme Administrator to direct the forestry operator to purchase eliminates any choice on the part of the latter.

The proposed amendment to Clause 10.2 obviously seeks to clarify arrangements where an NGAC provider does not have the capacity to cover any shortfall in a reasonable time, however Forests NSW is concerned that the proposed rule change only covers those situations where there is a shortfall and not those situations where the Provider becomes aware of an excess (e.g. due to new forest inventory replacing

previous reliance on conservative growth models). As such we regard the proposed amendment as inequitable in its currently proposed form.

We suggest that the draft amended Clause 10.2 be further amended to read:

10.2 Once an Accredited Abatement certificate Provider becomes aware that its Carbon Stocks are different to the amount of NGACs created, it must immediately inform the Scheme Administrator. If the Accredited Abatement Certificate Provider is in deficit, it must:

- (a) not create further NGACs until it holds sufficient Carbon Stock to meet all of its Carbon Sequestration maintenance Obligation, or
- (b) if directed by the Scheme Administrator, surrender to the Scheme Administrator a number of NGACs equal to the difference between the Accredited Abatement Certificate provider's Carbon Sequestration Maintenance Obligation and its actual carbon stock.

If the Accredited Abatement Certificate Provider is in surplus it may create additional NGACs equal to the surplus as if the sequestration had occurred in the year immediately preceding their creation.

Note: The Scheme Administrator will only direct the Accredited Abatement Certificate Provider to surrender NGACs if the Provider is unable to provide evidence that it has the capacity to cover the shortfall by future sequestration within a reasonable period of time.

2. "where there is a catastrophic event, the forestry operator will now be required to discharge their shortfall by surrendering NGACs (of any type);"

The proposed new Clause 9.3 addresses this proposal.

Forests NSW is concerned about this proposal in that it entered the Scheme and created NGACs without such an onerous obligation. We believe that it would undermine the integrity of the scheme and disadvantage Forests NSW and other existing providers to effectively introduce a retrospective obligation of this nature. Further, it would discourage prospective forestry operators from entering the Scheme.

Existing Clause 5(d) deals with risk management and provides the Scheme Administrator adequate powers in this regard. It was on this basis that Forests NSW entered the Scheme. We do not believe that participants should be further penalised for a catastrophic loss caused by an "Act of God" if appropriate risk management procedures are in place.

Such losses would reset the Carbon profile over time, of the Provider and be taken into account through that mechanism.

3. "forestry operators can 'buy out' their 100 year obligation by purchasing and surrendering NGACs (of any type) to an amount that is equivalent to their obligation."

Forests NSW supports the proposed amendments to Cause 10.4 which address this issue.

As an additional comment, there appears to be an error in the explanation of Equation 1 in Clause 9.2.

We believe that the words:

“Where:

- *Number of NGACs that must be created* is expressed in tonnes of carbon dioxide emissions equivalent.”

Should be amended to:

- *Number of NGACs created* is expressed in tonnes of carbon dioxide equivalent.”

Forests NSW appreciates the opportunity to comment on the proposed amendments and respectfully requests a favourable consideration of this submission. Please do not hesitate to contact me if you have any queries or concerns.

Yours sincerely,



Ross Dickson

Director Land Management and Forestry Services