



DEPUTY SECRETARY

Mr Jason Lange
Executive Director
Office of Best Practice Regulation
Department of the Prime Minister and Cabinet
1 National Circuit
BARTON ACT 2600

Dear Mr Lange

Regulation Impact Statement – Options to manage the impacts of the Emissions Reduction Fund on Regional Communities – Second Pass Final Assessment

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for the proposed rule amendment “Options to manage the impacts of the Emissions Reduction Fund on regional communities”.

I am satisfied that the RIS addresses the concerns raised in your letter of 6 January 2022. Specifically, the following key changes have been made in response to your comments:

The policy problem is better defined. In particular, the revised RIS provides more detail on the available evidence of risks associated with native forest regeneration projects. I reiterate the policy problem the government seeks to address is *the risk* that high concentrations of ERF native forest regeneration projects (and individual projects conducted over a substantial proportion of a property) could reduce agricultural production and associated active land management. Due to the long time frames over which these risks may materialise there is limited quantitative evidence of the risk having already occurred. A proactive risk management approach is proposed rather than a blanket restriction. Periodic monitoring and review during the implementation of the measure will inform whether the settings need further adjustment.

Stakeholders and specific impacts are clearly linked. Stakeholder groups have been identified based on the risks as identified above, with the possible flow-on effects from the risk occurring described for each. As you suggested, this is now presented in a tabular format and is informed by submissions received during public consultation.

The objective of Government action is clear. The objective has been modified in line with the improved problem definition, and now also includes potential indicators of success.

The options assessment is more balanced. Further information on the status quo trajectory of new projects has been provided for a 30 year period. This is based on data from the Clean Energy Regulator rather than the illustration of potential maximum geographic extent in New South Wales provided in Figure 1. Additional reasoning and sources have been added to the discussion of options.

Guidance on best available data for impacts. The sources of data that may inform the implementation of the proposed measure are identified in the discussion of net impacts. Unfortunately, submissions received during the public consultation did not provide data that would meaningfully contribute to the dataset for future evaluation of impacts. Estimating the likely impacts of the measure on the future carbon price is challenging, but the potential impact on carbon market uncertainty identified in consultation submissions has now been reflected, and the scale of abatement being provided from these types of projects noted. As suggested, this section now clarifies that data quality is an impediment to generating a net benefit figure and that a decision on the preferred option is guided by a qualitative evaluation of costs and benefits, balancing regulatory burden with administrative simplicity and capacity to achieve the stated policy objective.

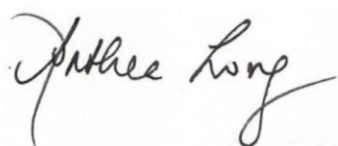
The decision-making process and other implementation and evaluation arrangements have been clarified. A set of factors that may inform the Minister's decisions is now included. Guidelines to be developed by the Department of Agriculture, Water and the Environment will elaborate on these factors. The issues the Rule amendment seeks to address have proven challenging to evaluate in the past through existing mechanisms. The Emissions Reduction Policy Impact Assessments conducted through the five-yearly review and refine cycles identified in Australia's Long Term Emissions Reduction Plan will more directly address the relevant types of impacts including on regions.

The regulatory costs of the preferred option are estimated at \$0.117 million per year. The Department's assessment is that the benefits of the proposal justify the additional regulatory costs, which are considered to be very low. These costs are more than offset by ongoing actions by the Clean Energy Regulator to streamline ERF participation and reduce regulatory burden on project proponents. These actions include streamlining audit arrangements for certain classes of offsets projects, the ongoing development of an Australian Carbon Exchange, and streamlining the method development process.

Accordingly, I am satisfied that the RIS is now consistent with the six principles for Australian Government policy makers as specified in the *Australian Government Guide to Regulatory Impact Analysis*. I submit the RIS to the Office of Best Practice Regulation for formal final assessment.

If you have any further queries, please contact Ms Alannah Pentony, General Manager of the Emissions Reduction Branch at Alannah.Pentony@industry.gov.au.

Yours sincerely



Anthea Long
Acting Deputy Secretary
4 February 2022