

Sunset Review of ACCU¹ Scheme Land & Sea Transport (LST) Method

Land and Sea Transport method 2015: Sunset review - Department of Climate Change, Energy, Environment and Water

Land and Sea Transport Method 2015 sunset on 1 April 2025. This means that no new projects can be registered unless the method is re-made.

At the request of the Assistant Minister for Climate Change and Energy, the Emissions Reduction Assurance Committee (the ERAC) is undertaking a review of the merits of remaking the Land and Sea Transport method 2015. As part of this review the ERAC is seeking the views of stakeholders on the possible remaking of the method.

The ERAC's advice will inform a decision by the Assistant Minister on whether to remake the method

Key Issues identified

- Prohibitive compliance requirements and administrative costs discourage SME participation.
- Complex calculation methodologies that fail to account for industry variability.
- Fuel savings uncertainty contributes to undermining fleet commitment to ACCU projects.
- Government funding options focus on large business participation (ARENA, CEFC).

NatRoad recommendations on ACCU scheme

To better support SME participation and reap the broader abatement potential of the industry majority, suggestions to improve attractiveness for participation include:

- Upfront crediting of ACCUs expected over the life of the project for SMEs, enabling access to the full financial benefits at project commencement.
- Longer crediting periods (i.e. expand from 7 to 10 years) to support a fleet's EV transition roadmaps out to 2035, enabling commitment to a program over multiple vehicle replacement cycles.
- Extending crediting periods to 10 years will also allow more fleets to join aggregated projects at different times.
- Providing validation tools to estimate and verify emission reductions.
- Increase ACCU value to enable better funding support over time.
- Remake the scheme with SME-accessible participation pathways.
- Streamline administrative processes to reduce barriers for smaller operators.
- Develop calculation methods that reflect real-world industry conditions.

NatRoad submission response to the questions posed

Section 1: Offsets Integrity Standards

Do you think the method should be remade?

Yes, the method should be remade. As the largest road transport association in Australia representing thousands of members from owner operators to large national fleets, we the National Road Transport Association (NatRoad) believe the industry needs a variety of incentives to different kinds of organisations, fleet sizes, applications and decarbonisation pathways.

The existing Land and Sea Transport (LST) methodology is the only way to generate ACCUs for emission reductions from road freight vehicles and remains one of the only funding programs available to commercial transport fleets to support their decarbonisation efforts. Current ARENA and CEFC funding programs are difficult for SMEs to access and only fund novel projects for new or emerging technologies. The LST method allows fleets to adopt proven clean technologies (therefore with less risk) with funding support to improve the business case for change. Its eligible project activities of replacing or modifying vehicles and changing energy sources or operating practices are broad enough to include all the decarbonisation pathways available to road fleets. That is, by improving fuel efficiency, productivity, and supply chain optimisation, as well as alternative fuels and electrification.

When supported by educational guidance, as NatRoad makes freely available to the industry through its *Get Fleet Fit* program, the LST enables all pathways to be eligible for ACCU funding. Importantly, the LST can help address ongoing emissions from the existing and future diesel truck fleet which will continue to dominate Australia's heavy vehicle parc well into the 2030s (over 99.5% of trucks on the road are still diesel-powered). We note also that an emission reduction project that receives other government funding (such as from ARENA or CEFC) is ineligible to be an LST project.

The remaking of the method should focus on simplifying its complexity and reducing the cost of running an LST project so SME fleets can benefit from participation and the currently higher ACCU price above historical averages.

Do you think all activities in the method would be additional to business-as-usual practice if remade as it is?

Yes, all activities can generate ACCUs for projects that would not otherwise proceed under BAU. However, that won't always be the case.

Different fleets have different return on investment (ROI) hurdles, so additionality comes down to the specific project and proponent. ACCUs will not always provide a significant enough incentive to tip a project into proceeding, particularly at the low ACCU price of early ERF auctions. Others may see value in progressing a project regardless of the ACCU contribution use ACCUs as "icing on the cake", and/or as a marketing sign to customers and stakeholders.

Would the method be measurable and verifiable if remade as it is?

Yes. If remade as it is, the method will continue to be measurable and verifiable as it has been to date. Data compliance is validated by the project proponent, their advisors, and multiple independent third-party audits under a project audit schedule.

However, simplifying eligibility and compliance by removing the need for three years of data to establish a baseline would improve the low participation rates under this method, which we note has generated less than 0.1% of all ACCUs issued to date (ref: ERAC review report 2022). While there are several reasons for the

low participation rate, data availability is a key barrier to fleets participating in the ACCU Scheme. Fuel and energy data is an area that SMEs like NatRoad members struggle with and is considered generally to be poor across Australian fleets. Improving data is a key element of NatRoad's *Get Fleet Fit* initiative.

A simple principle to follow is, the more specific the data is to the project, the more accurate the emissions calculation. For example, renewable energy should not be assumed for all electric trucks; and not all driving improvements are equally effective – only real site/truck data can verify these.

Other ways to simplify emission reduction calculations should also be explored.

Would the method be supported by clear and convincing evidence if remade as it is?

Yes. The LST currently requires verified evidence of compliance with its requirements to initially establish and then operate an eligible project. Perhaps the only exception is in the evidence supporting the method itself rather than proponent evidence. Specifically, the decline rates used in calculating BAU do not reflect the real-world practices of fleets – particularly once a vehicle is purchased and added to the fleet, and particularly for SMEs. If anything, fuel consumption can increase, rather than decrease, as vehicles get older. There seems to be little evidence for the method's assumptions around this factor.

Would the method account for material greenhouse gas emissions directly resulting from carrying out the projects if remade as it is?

Yes. Ensuring efficiency remains eligible in the method increases materiality because ACCUs can be generated by >99% of the legacy and future diesel fleets rather than <1% new trucks sold as electric. Currently under the method, fuel efficiency can combine with productivity and optimisation to achieve greater reductions. Electrification CAN significantly reduce emissions IF powered by renewable energy (otherwise reductions may be smaller).

Further, most electric truck projects currently receive government funding (e.g. ARENA, NSW fleets incentive, etc.) that make them ineligible for ACCUs – so the quantum of eligible emissions reductions falls if only applied to electrification.

Will the method's estimates, projections or assumptions be conservative if remade as it is?

Our understanding of the LST method is that there aren't estimates or projections within the method itself. However, proponents need to estimate future emissions.

The challenge for all fleets is that energy/emissions savings are variable. Transport is not like industrial processes which involve more steady-state conditions where savings are more predictable/reliable. This reduces confidence in emissions reductions that will be achieved by new technology or changing practices. For example, retrofitting aerodynamic kits offers potentially 10-15% fuel savings in the right applications, but variability of duty cycles or environmental conditions will impact the level of savings achieved. Similarly for eco-driver training, savings of >20% are demonstrably possible in real fleet case studies, but the realised savings vary between drivers and fleets and require ongoing management to ensure benefits are maintained over time. In other words, estimates can be conservative in some cases but may be overly ambitious in others.

This is particularly difficult for SMEs, many of whom don't have the resources or capacity to do modelling or run sensitivity analyses on investment decisions.

Uncertainty about fuel savings (and therefore cost and emission savings) influences a fleet's ability to commit to an ACCU Scheme project and realise the emission reductions that make the business case for change possible (regardless of whether the fleet seeks funding from the ACCU Scheme). In the event a

registered ACCU Scheme project significantly underperforms on emission reduction projections, the reduced ACCU income may render the project a costly waste of time and disincentivise more climate action. One key assumption within the LST method is the decline rates. The road freight sector is both a technology taker and price taker, so operational improvements can be difficult within the strict constraints of customer contracts.

Section 2: Additional matters for consideration

What would be the total abatement potential if the method were remade as it is?

The decarbonisation pathways represented by the eligible activities in the current method are the only ways to reduce emissions from transport (apart from mode shift which is excluded). Therefore, significant abatement is possible but will require further effort or programs to engage and incentivise industry to adopt the practices – especially efficiency, and especially for SMEs.

Proportionally, larger operators are most likely to benefit from the method if retained as it is. NatRoad has heard anecdotally that transaction costs associated with running some LST projects are of the order of \$100,000 or more over 7+ years, including project registration, legal advice, administration, audits and compliance audits, Regulator liaison, annual reporting, ACCU management, and initial data analysis to determine if operator data meets LST requirements. Such high costs to establish and run a project can only be borne by the largest fleet operators (only one project has generated ACCUs by a single project proponent).

This makes joining an aggregated project more attractive, particularly for SMEs like NatRoad members. Aggregation projects enable multiple fleets to participate under a project run by a third-party aggregator. Transactional costs are spread among all participants, and, importantly, it removes volume delivery risk for each fleet, which is borne by the aggregator if ACCUs are committed under a carbon abatement contract.

Nevertheless, SMEs face data quality constraints (as noted earlier) that hinder their ability to join aggregated projects, so method improvements that focus on simple ways to generate credits will have the greatest impact on total abatement potential across the whole road transport sector.

What aspects of the method could be updated to improve its abatement potential?

Method updates must create the simplest possible mechanism to generate credits and receive revenue. In its current form, the method hinders access due to data requirements beyond the capability of many transport operators (as described earlier) and calculation mechanisms which constrain the volume of abatement achieved. These include:

- The current LST method uses the lowest (best) emissions intensity year achieved within the three-year baseline as the benchmark number ('historic emissions intensity') for crediting periods to be compared against for abatement calculations. But the variability of freight operations and contracts means the "best" year may not be representative or achievable in

following years, which lowers abatement potential. Averaging the three years, or allowing just one year's data, would both reduce the data burden and recognise this variability.

- Applying a 'decline rate' for each vehicle category which compounds each crediting year to reduce abatement volumes. The decline rate is intended to account for business-as-usual improvements in emissions intensity, but it can significantly reduce abatement and therefore ACCU revenue and project viability. How each decline rate was originally calculated prior to LST commencement in 2015 is not public information, but a review of the rates and whether they are needed at all would be beneficial. As noted above, many freight carriers do not achieve ongoing business-as-usual improvements in emissions intensity. Given the rising emissions in the sector, assuming BAU emissions reductions in any vehicle category is questionable. Application of decline rates to vehicle types also has in-built disadvantages for certain applications. For instance, a rigid waste truck cannot use the Rigid Trucks decline rate of 0.996 but instead is classed as a Non-Freight-Carrying Truck at the decline rate of 0.985 (despite waste essentially being freight material carried by the truck). The effect is that genuine abatement is not recognised and the ability to generate ACCUs can end several years earlier than for the same model rigid truck used to carry freight.

In addition, the financial value of the ACCU received is low when applied to burning diesel fuel relative to carbon projects in other sectors. For instance, adopting a Volvo FM electric truck (with a roughly \$200,000 price premium to its diesel equivalent) is estimated by Linfox to save 65 tonnes CO₂e per year. At an ACCU price of \$30 per tonne CO₂e, an operator would receive gross ACCU income of \$1,950 pa and \$13,650 over 7 years before administrative costs and assuming no decline rate to reduce abatement over time. To receive each \$1,950 payment, the operator must submit annual crediting reports (some years with third-party audit reports) to receive payment up to 12 months after each claim. As an incentive, this is not attractive for small fleets with limited time and resources.

From a value perspective, the ARENA grant to Linfox announced in November 2024 provides \$19.6m for 26 battery-electric trucks to achieve abatement, calculated on the Linfox estimate of 65 tCO₂e pa emission reductions noted above, of 11,830 tCO₂e over 7 years. This grant equates to a carbon price of \$1,657 per tonne CO₂e. Using the value of ACCUs would only provide gross income of \$355,000 before administration costs (versus the \$19.6m).

Using the same carbon saving assumptions, grants provided to other transport projects have ACCU-equivalent carbon prices of \$708/tCO₂e (Toll), \$735/tCO₂e (Team GE), and \$1,157/tCO₂e (Centurion). There is clearly a value gap between what the ACCU Scheme provides transport projects compared to other funding programs where proponents receive from 20 to 50 times the ACCU value in funding support. A \$30 ACCU price falls far short of what appears to be required for these large projects.

Compared to the simplicity and incentive value of voucher systems used in California and Canada, where grants of \$50,000 to \$100,000 or more are available per zero-emission truck at point of purchase, the LST complexity and ACCU value are far less effective in driving decarbonisation.

To better support SME participation and reap the broader abatement potential of much of the industry, suggestions to improve attractiveness for fleet participation include:

- Upfront crediting of ACCUs expected over the life of the project for SMEs, enabling access to the full financial benefits at project commencement

- Longer crediting periods (i.e. expand from 7 to 10 years) to support a fleet's EV transition roadmaps out to 2035, whereby fleets can commit to a program of decarbonisation over multiple vehicle replacement cycles (depending on each fleet's policy for keeping new vehicles, i.e. 3, 5, or 7 years).
- Extending crediting periods to 10 years will also allow more fleets to join aggregated projects at different times (i.e. joining in year 4 of a 7-year project only allows 3 crediting years for the business case). Aggregated projects are likely the best, cheapest, fastest way to engage SMEs in the ACCU Scheme
- To increase ACCU value for SMEs that enables better funding support for the hard-to-abate road transport sector, which is relatively new to its decarbonisation journey, the LST could apply a similar mechanism to one used to accelerate solar PV last decade. The successful Small-scale Technology Certificate (STC) model issued STCs upfront to cover capital costs based on expected electricity generation over a fixed period (usually 10–15 years), with no ongoing reporting and encouragement for early adoption at small-scale by giving 3 STCs for every equivalent large scale Generation Certificates (LGCs) to compensate for scale disadvantages. This approach could be applied to transport by accrediting abatement level by electric truck model, issuing all ACCUs upfront, and applying a multiplier (whether 3x, 10x, or another rate) to enhance funding support for SMEs.

Describe the complexity of the method, including how difficult it may be to remake it; how much time it may take to develop, maintain, and regulate the method if remade.

No comment – this is a consideration for the Regulator rather than proponents.

Please also describe the anticipated administrative complexity of the method in practice for both project proponents and the Clean Energy Regulator.

The LST method has a high level of administrative complexity for proponents. Initially determining if operator data meets LST requirements requires a significant effort of gathering and analysing 3 years granular baseline data by the fleet, assisted by their contracted carbon advisor. Legal advice is required for project registration and throughout the project life as needed, along with Regulator liaison and ACCU management. Each year after commencement, data gathering and analysis is completed with carbon advisors to issue annual compliance reports to the Regulator to claim ACCUs, with additional third-party audit reports to be provided with submissions every second year. The time and effort required by these activities and the costs of professional advisors reduces the gross ACCU income benefits and deters many fleets from getting started – especially SMEs. As noted earlier, transaction costs of \$100k or more over 7 years does not make this scheme appealing (or viable) for most fleets.

Briefly describe how the method could foster innovation in the relevant sectors if the method is remade.

A concerted push to help SMEs adopt efficiency measures and technologies would grow the market for these products as it has done overseas – leading to more local development and manufacturing of tyres, aerodynamic kits, telematics, tyre inflation/monitoring systems, driver training apps, etc.

Describe environmental, economic, social and/or cultural outcomes and benefits, including for Aboriginal and Torres Strait Islander peoples, that might occur from the uptake of the method if the method is remade.

No comment.

Please indicate what, if any, potential adverse or negative environmental, economic, social and/or cultural impacts could result from the method if the method is remade.

The risk of the fleet operator not meeting its emission abatement forecasts which underpinned the business case and decision to register an LST project may have a material financial impact on the operator. If a project significantly underperforms for any reason, the cost of registering and operating an LST project may ultimately be deemed a waste of time and money.

If there are concerns with integrity of the method, please indicate how you consider the method could be remade to meet the Offset Integrity Standards.

No comment.

Section 3: Method tools and guidance

Should any tools or guidance associated with the method, such as abatement calculators, mapping guidelines, or technical supplements, be updated or newly incorporated if the method were remade?

Providing validation tools to estimate and verify emission reductions will greatly assist SME fleets. Such guidance can help them determine if they have the data quality to comply with LST requirements, select reduction opportunities, develop business cases for projects, and decide whether ACCU Scheme funding can support their decarbonisation plans. Any default factors or assumptions should be aligned with the method and be built into the tools and calculators.

To maximise effectiveness and industry reach, and to avoid duplication, this guidance material should be deployed via existing or new industry support programs. For example, NatRoad has already funded the Get Fleet Fit initiative which provides relevant information to fleets on decarbonisation. This could easily be expanded to incorporate ACCU information and tools with support funding from the Regulator or relevant department.

Section 4: Usability and other improvements

How could the method be improved if it were remade?

- **any opportunities to increase uptake by removing barriers to participating in the current method**

As noted in the above responses, method updates must create the simplest possible mechanism to generate credits and receive revenue. Reducing data reporting and project compliance complexity and issuing ACCU funding upfront for SMEs, potentially with a value multiplier applied, are ways to remove key barriers to small fleet participation and broaden the abatement potential across the industry.

- **improvements to the usability or administration of the method**

As noted in the above responses, simplifying reporting and reducing audit compliance obligations will remove a significant cost, time and knowledge burden from the fleet proponent.

- **issues related to adverse or beneficial environmental, economic or social outcomes from projects under the method**

No comment.

- **should other eligible management activities be included under the method if remade?**

No comment.

- **If the Assistant Minister decides to remake the method, do you or your colleagues have any interest in leading or participating in the remaking process, or have any suggestions on who could lead the remaking process?**

NatRoad will not participate in the process to remake the method. However, we would like to be consulted as required, to ensure the SME fleet perspective is included alongside the voice of large fleet businesses.

Section 5: Linkages to other methods

Are you aware of another method under development or an existing ACCU Scheme method which is similar to the Land and Sea Transport method 2015?

No.

Contact

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About NatRoad

The National Road Transport Association (NatRoad) is the largest road freight transport association in Australia. Established in 1948, NatRoad represents thousands of organisations from owner operators to large national fleets, NatRoad is not-for-profit and funded 100% through membership fees and business partnerships. No funding is provided by government or unions.