



11 September 2018

Climate Change Authority
GPO Box 787
Canberra ACT 2600

Submission: Review of the National Greenhouse and Energy Reporting Legislation A Consultation Paper

About us

The UNSW Centre for Energy and Environmental Markets (CEEM) undertakes interdisciplinary research in the design, analysis and performance monitoring of energy and environmental markets and their associated policy frameworks. CEEM brings together UNSW researchers from the Faculty of Engineering, the Business School, the Faculty of Arts and Social Sciences, the CRC for Low Carbon Living, the Faculty of Built Environment and the Faculty of Law, working alongside a number of Australian and International partners.

CEEM's research focuses on the challenges and opportunities of clean energy transition within market oriented electricity industries. One of the Centre's three research streams, led by Dr Maria Balatbat, is focussed on environmental market mechanisms and broader reporting frameworks.

CEEM aims to contribute to this consultation as a University Research Centre with a team of around twenty researchers – academic and research students – all working on aspects of Australia's clean energy transition challenges and opportunities. Our starting point is the urgent need for rapid decarbonisation of the electricity sector. NGERs has a key role to play in facilitating such transition.

CEEM has been exploring the monitoring and reporting aspects of environmental policy measures for well over a decade. More details of this work can be found at the Centre website (www.ceem.unsw.edu.au). We welcome comments, suggestions and corrections on this submission, and all our work in this area from any and all stakeholders. Please feel free to contact Dr Maria Balatbat, Joint Director (Business School) of CEEM at m.balatbat@unsw.edu.au.

Our comments to selected consultation questions follow:

Do the National Greenhouse and Energy Reporting scheme reporting thresholds balance coverage with administrative costs? (Q1)

Companies who meet the corporate group and facility thresholds are required to report their Scope 1 and Scope 2 emissions and energy production and consumption. The current corporate reporting thresholds of 50Kt and 200Tj have been in place since the 2010-2011 reporting period covering approximately 800 Australian companies of which only 406 are released publicly by the Clean Energy Regulator. The consultation paper is also conscious of the growing international support for the recommendations made by the Task Force on Climate-Related Financial Disclosures (TCFD) in 2017 to report on climate risks to allow investors to make informed decisions. However, availability of data to evaluate climate risks that is useful to investors is not prevalent. For example, CDP's Australia and New Zealand 2017 report reveal that only 50% of the ASX 200 responded to the survey.ⁱ Whilst disclosure of Scope 1 and Scope 2 emissions is not sufficient for investors to assess climate risk at entity level, it is a necessary starting point to ensure that entities are including this risk in their assessments of business risks and opportunities and therefore should be measured and reported by large and public interest entities not limited to 800 organisations in Australia. In contrast, there are 2,263 publicly listed firms as of 10 September 2018.ⁱⁱ

We are of the view that the current corporate threshold should be lowered or expanded to increase the coverage of the number of entities required to report under the scheme. An example of the latter is to require large organizations defined by number of employees to report under the scheme as practised in the European Union (EU). The EU Directive requires public interest entities with 500 or more employees to disclose greenhouse gas emissions. We are mindful that there needs to be a balance between administrative costs and benefits. In our view, this balance is moving towards greater NGER participation given that the costs and effort of reporting is falling given the growing availability of measurement tools and guidance today – far more than a decade ago when the scheme was first introduced.ⁱⁱⁱ

Finally, and as noted later in our submission, the value in expanding the number of organisations participating will be greatly reduced if around half the firms reporting still aren't required to have their emissions and energy consumption publicly released.

Should the scope of reporting under the National Greenhouse and Energy Reporting scheme be expanded or reduced? (Q2)

Currently Scope 3 is excluded from the scheme, although some entities voluntarily disclose selected Scope 3 information. The general recommendation of the TCFD is to disclose metrics and targets used to assess and manage relevant climate-related risks and opportunities. Specifically, the TCFD recommends to disclose, if appropriate, Scope 3 greenhouse emissions, and the related risks.^{iv} The voluntary nature of this disclosure results to lack of comparability and often cover insignificant aspects of the entities' value chain (e.g. air travel and paper use).

Considering the progress that has occurred in carbon measurement over the recent years, we support that the scheme should begin to cover Scope 3 that are materially significant to the entities' value chain (e.g. bank's loan and investment value chain). Guidance such as the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard helps entities to assess their entire value chain emissions impact^v using Scope 3 Evaluator.^{vi} The latter is a free, web-based tool from Greenhouse Gas Protocol and Quantification that makes it easier for companies to measure, report, and reduce emissions throughout their value chain. There are also private tools available for example the IELab in Australia^{vii} use the Embodied Carbon Explorer (ECE Tool).

Are the methods for reporting emissions and energy in the measurement determination fit for purpose? (Q4)

Accounting of Scope 2 emissions under NGER are currently calculated on the basis of location-based observations of annual average emissions intensity at the state and territory level. *NGER Technical Guidelines* (Section 7.2) calculate Scope 2 as the product of the quantity of electricity consumed, as measured by metered purchases, multiplied by the emissions intensity of that electricity applicable to the State or Territory where the facility or entity is located. However, increasingly there are large interstate transfers not only of (renewable) electricity, but also of the rights associated with that electricity. For example, transfers under the Large-scale Renewable Energy Target (LRET) scheme, or increasingly, by power purchase agreements (PPAs). However, these (legitimate) claims are not reconciled with the claims of parties who are relying on location-based emissions estimates. As a consequence, the abatement effect of much renewable electricity that is exported across National Energy Market regional boundaries is being double-counted. Indeed, more and more companies, organisations, cities and even states and territories (notably, the ACT) are already accounting for their emissions and emissions abatement not on a location basis, but rather using a market-based method. Even within regions, under current arrangements, emission reductions driven by individual or organisational actions (for example, by buying a PPA that underpins investment in a utility PV or wind plant) can legitimately be claimed by that party, yet will also be effectively claimed by all other NGER participants in that region via the lower Scope 2 emissions arising from reduced emissions intensity in the region.

We support the review of accounting for Scope 2 emissions to consider this anomaly. There is an ongoing project by Strategy Policy Research^{viii} supported by the Cooperative Research Centre for Low Carbon Living investigating this issue.

Are there emissions and energy data that companies would like to report through the Emissions and Energy Reporting System but are currently unable to? (Q7)

We support allowing entities to report voluntarily using the Emissions and Energy Reporting System to allow a more systematic availability of greenhouse gas emissions data to be used in climate-related risk disclosures. This will efficiently provide information to investors interested in evaluating carbon risks making Australian entities more desirable to responsible and ethical investors.

It can also provide a basis for identifying, and ideally addressing, some of the challenges noted above regarding accounting for Scope 2 emissions when some NGER participants are investing in emission reduction projects that indirectly benefit other participants through reduced emissions intensity of the electricity sector.

How does the National Greenhouse and Energy Reporting scheme contribute to providing useful information for climate-related risk disclosure or other data users and are any enhancements to the reporting scheme desirable? (Q9)

As noted in our response to Q1, we believe that a lower threshold for NGER reporting would assist investors seeking to better understand climate related risks associated with significant greenhouse gas emitters in Australia.

Is reporting of emissions and energy data meeting the needs of data users and inducing change in business operations? (Q10)

The original objectives of NGERs included supporting policies requiring detailed source-level data. The removal of this objective with the repeal of the carbon price in 2014^{ix} is unfortunate given that Australia urgently needs greater emission reduction policy efforts, and detailed source-level data can play a key role in the development of appropriate mechanisms. We believe that this objective should be reinstated.

Is the safeguard mechanism delivering on its objectives? (Q12)

We share the concerns of many other stakeholders regarding the current effectiveness of the safeguard mechanism^x, and its role in Australia's currently dysfunctional climate policy framework. A particular concern is the process for resetting baselines upwards for some favoured participants, particularly a number of coal mining operations.^{xi}

What actions are facilities taking to meet safeguard mechanism obligations and are the options available to facilities to manage their excess emissions effective and efficient? (Q18)

Facilities which exceed their baseline can meet their safeguard obligations through a range of mechanisms such as using Australian Carbon Credit Units (ACCUs) as offsets or applying for a multi-year monitoring period (which in effect allows them to average their emissions over several years). The latter will allow facilities that are below the baseline to offset higher emissions in future periods allowing entities to manage their emissions not reduce their emissions. We support removal of averaging baseline emissions in the safeguard mechanism. More generally, there are ongoing questions regarding the true additionality of ACCUs. Until genuine and entirely transparent additional tests are undertaken for projects seeking to provide ACCUs, their use under the safeguard mechanism is problematic.

Are the publication thresholds set at the right level? (Q19)

Are any changes required to the data reported, when it is published or how it is published? (Q21)

As noted above, only approximately 50% of the submissions are released to public due to various reasons and publication exemptions. The Clean Energy Regulator should release the Scope 1, Scope 2 and energy consumption and production of the great majority, if not all, of the corporate entities that filed under the Scheme to increase transparency and accountability. In the absence of a carbon price in Australia which underpinned the original purpose of the NGER Act, the scheme's purpose will be achieved by providing a wider reach of its output that will be used by the Australian public and investors in Australian equities.

Yours sincerely,

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ⁱ <https://www.cdp.net/en/articles/media/climate-disclosure-gaining-momentum-across-australia-but-more-needs-to-be-done>.

ⁱⁱ <https://www.asx.com.au/asx/research/listedCompanies.do>.

ⁱⁱⁱ Directive 2014/95/EU of the European Parliament and of the Council, 22 October 2014 available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>.

^{iv} Available at: <https://www.fsb-tcfd.org/publications/final-recommendations-report/>.

^v Available at: <https://ghgprotocol.org/standards/scope-3-standard>.

^{vi} Available at: <https://ghgprotocol.org/scope-3-evaluator>.

^{vii} The IeLab is based at UNSW, Sydney School of Civil and Environmental Engineering. See <https://ielab-aus.info>.

^{viii} See www.strategypolicyresearch.com.au.

^{ix} WRI and World Bank, Guide for Designing Mandatory Greenhouse Gas Reporting Programs.

^x See for example, <https://reneweconomy.com.au/carry-on-polluting-australias-useless-safeguards-mechanism-34908/>

^{xi} <https://www.theguardian.com/australia-news/2018/feb/19/emissions-increases-approved-by-regulator-may-wipe-out-260m-of-direct-action-cuts>