



# Review of the National Greenhouse and Energy Reporting Legislation

Climate Change Authority

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## About CME

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia. CME is funded by its member companies who are responsible for most of the State's mineral and energy production and are major employers of the resources sector workforce in the State.

In 2016-17, the value of Western Australia's mineral and petroleum industry was \$105 billion. Iron ore is currently the State's most valuable commodity, and saw an increase in iron ore sales by almost 31 per cent on the previous financial year to value almost \$64 billion. Petroleum products (including LNG, crude oil and condensate) followed at \$19 billion, with gold third at \$11 billion. These commodities saw an increase in sales of 5 per cent and 7 per cent respectively from the previous financial year.

The resources sector is a major contributor to the state and the Australian economy. The estimated value of royalties the state received from the resources sector in 2016-17 was \$5.21 billion which accounts for around 19 per cent of the State Government's revenue.

## Recommendations

CME makes the following recommendations:

- The Australian Government do more to clearly demonstrate the usability and importance of the National Framework to other jurisdictions (particularly WA) with the objective of removing reporting duplication.
- Duplication of coverage across existing Federal emissions reduction policy and frameworks be removed. Specifically, instances where coverage of both the Renewable Energy Target and the Safeguard Mechanism is applied simultaneously to remote electricity supply should cease.
- Reporting under the National Greenhouse and Energy Reporting scheme should be applied more broadly across the Australian economy to become a truly national scheme, including accounting for agricultural and transport emissions.
- The Australian Government should ensure those emitters responsible for the 45% of Australia's emissions, not covered by either the Safeguard Mechanism or the Renewable Energy Target or potential future National Energy Guarantee, also contribute to the national greenhouse gas emissions reduction effort.
- The concept of materiality be introduced in the reporting mechanism and the Department of Environment and Energy consult with each sector to confirm common immaterial emissions to be excluded from the measurement determination.
- Opportunities to simplify and streamline reporting requirements for industry be investigated.
- More timely consultation be held with reporters prior to the development of exposure draft amendments, with a focus on making reporter requirements for the Measurement Determination simpler, clearer and fit for purpose.
- Amendments to the Act, Regulations and Determination should not take effect until the start of the next reporting year following the amendments coming into force.
- The Emissions and Energy Reporting System be improved through the addition of data upload capabilities (instead of manual entry only) and data output (extract) capabilities.
- Rules for energy reporting and the associated definitions and concepts be reviewed and made simpler and clearer.
- Prior to lowering any thresholds, the Australian Government must assess the significance of transaction costs and administrative burden which would apply to additional facilities captured and weigh this against the potential to reduce national greenhouse gas emissions.

- The Department of Environment and Energy retain existing reporting methods and measurement criteria flexibility.
- Default production variables allow for input metrics (e.g. total material moved) as well as output metrics and a common metric be used across all sectors for electricity.
- Emission intensity metrics are developed to account for different mining methods and mineral types where these differences drive emissions outcomes.
- Facilities which supply grid connected electricity be excluded from the Safeguard figures to more accurately reflect the emissions truly covered by the Safeguard Mechanism and to acknowledge emissions from the electricity sector are and will be managed in the future via alternative policies and frameworks.
- The Department of Environment and Energy investigates opportunities to improve the liquidity of Australian Carbon Credit Units for future demand peaks and expedite consideration for international offset frameworks to be made available to Australian businesses and to be recognised by Australian legislation.
- There should be transferability of credits across sectors of the Australian economy.
- The Australian Government work with other jurisdictions (particularly WA) to ensure greenhouse gas emissions offsets or limits are not duplicated. If duplication does exist, it is preferable for the State-based scheme to recognise Australian Government requirements and be complementary not additive or drive conflicting requirements, given the importance of a nationally consistent approach.
- The Australian Government should investigate the merit of introducing a form of safety net or cap to restrain excessive price escalation of Australian Carbon Credit Units.
- The Clean Energy Regulator to have powers to make interpretations of the Measurement Determination to assist industry clarify requirements and to better enable industry compliance.
- The “Inherent emissions variability criteria” under Section 25 of the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* be extended beyond 2024.
- When reviewing potentially amendments to the National Greenhouse and Energy Reporting legislation, it is essential the nature of the resources sector is taken into account to ensure this sector is not disadvantaged by any proposed amendments.

## Context

On 31 July 2018, the Climate Change Authority (CCA) released the “Review of the National Greenhouse and Energy Reporting Legislation” (Consultation Paper). The review’s aim to determine whether each of the key legislative elements is achieving its objectives, is fit for purpose and if any improvements are needed. These key legislative elements are:

- requiring companies over certain thresholds to measure and report their greenhouse gas emissions as well as their energy production and use to the Australian Government;
- underpinning the safeguard mechanism, which places emissions limits on large facilities and provides a framework for them to measure, report and manage their emissions; and
- establishing the greenhouse and energy auditing framework applying to audits required under the reporting scheme, the safeguard and other climate change policies such as the Emissions Reduction Fund and the Renewable Energy Target.

Relevant to the above, the Government undertook a review of climate change policies in 2017 and as a result committed to bringing the Safeguard Mechanism baselines up-to-date and to make it fairer and simpler. Subsequently, the Department of the Environment and Energy (DoEE) released draft legislative amendments to the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* for public comment. For reference, CME’s submission on the DoEE’s consultation is also attached (Attachment 1).

On 29 August 2018, the DoEE provided a public briefing on the proposed legislative amendments in Perth and met with CME and its members to discuss mining specific considerations of the proposed changes to the Safeguard Mechanism rule. Information gained during this public briefing has helped inform the following submission.

The following submission is structured to align with the sections in the Consultation Paper. Where relevant, responses to specific questions in the Consultation Paper have been provided. Other related matters, not directly posed as questions in the Consultation Paper have been provided at the end.

CME and its members welcome the opportunity to contribute to the review.

## Background and Overview (Chapter 1)

### Single National Reporting Framework

Due to the global nature of climate change and the need for Australia as a whole to fulfil its international commitments, CME strongly advocates for a nationally consistent policy framework including a single national scheme for the reporting of greenhouse gas emissions and energy use. This has been successfully established in Australia since the inception of the *National Greenhouse and Energy Reporting Act 2007* (Cwth) (NGER Act). Whilst the scheme generates a regulatory impost on the resources sector, this impost must be weighed against the value and efficiency derived from having a nationally consistent, transparent reporting scheme.

In CME’s view, a single national reporting framework is far superior to separate State-based reporting schemes or *ad hoc* and typically poorly defined reporting requirements applied through individual project environmental approvals. Such approaches cannot be used to fulfil Australia’s international reporting requirements, nor can they effectively and efficiently provide States with comparable data. Many of CME’s member companies also operate across multiple Australian States / Territories and consequently, the presence of different schemes between jurisdictions creates administrative complexity with resulting information of lesser use to companies themselves due to comparability issues.

The Consultation Paper states “The objects of the reporting scheme are to establish a single national reporting framework for emissions and energy information to inform policy making and the Australian public, meet Australia’s international reporting obligations, assist government programs and activities and avoid the duplication of similar reporting to the states and territories.”<sup>1</sup> Despite the stated intent and its now decade-long active operation, greenhouse gas emission reporting is increasingly required at the State (Western Australia (WA)) level. Since late 2017, the Environmental Protection Authority of Western Australia (EPA) has recommended to the WA Minister for the Environment for greenhouse gas emission reporting obligations to be placed on new resource sector projects in WA.

The following table (next page) provides a list of all EPA reports and Ministerial Statements for new resource projects in Western Australia since November 2017 and the associated greenhouse gas emission reporting obligations.

This duplication of reporting creates an unnecessary administrative and financial burden to industry. It also undermines the benefits derived from having a single national reporting framework as a trusted source of information to inform policy making and the Australian public, meet Australia’s international reporting obligations and assist government programs and activities.

CME is aware the Clean Energy Regulator (CER) has recently engaged with WA government representatives regarding Commonwealth data availability. CME commends the recent work done by CER to engage with WA on the reporting and data scheme however, given the strong emergence of a separate regime in WA, CME recommends **the Australian Government do more to clearly demonstrate the usability and importance of the National Framework to other jurisdictions (particularly WA) with the objective of removing reporting duplication.**

In addition to reporting duplication, CME recommends **duplication of coverage across existing Federal emissions reduction policy and frameworks be removed. Specifically, instances where coverage of both the Renewable Energy Target and the Safeguard Mechanism is applied simultaneously to remote electricity supply should cease.** Currently, there are facilities in WA which produce and supply electricity which are not covered by the Safeguard Mechanism’s Sectoral Baseline as they are not connected to recognised grids, WA’s North West Interconnected Systems (NWIS) or South West Interconnected System (SWIS). These facilities may be subject to both Federal schemes, the RET and Safeguard Mechanism, despite the clear intent for the two schemes to cover two different sectors of the Australian economy.

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<sup>1</sup> Consultation Paper – Page 7.

Project	EPA Report Date (& Number)	EPA Recommended Condition(s)	Ministerial Statement Date (& Number)	Ministerial Statement Condition(s)
Pilbara Expansion Strategic Proposal	Jul-18 (1619)	<p>Condition 12: Greenhouse Gas Management Plan</p> <p>12-1 The proponent shall manage the implementation of the proposal to meet the following environmental objective:</p> <p>(1) avoid, where possible, and minimise greenhouse gas emissions as far as practicable.</p> <p>12-2 The proponent shall prepare a Greenhouse Gas Management Plan required by condition 6-1 that satisfies the requirements of condition 6-2, to meet the objective required by condition 12-1.</p> <p>12-3 The Greenhouse Gas Management Plan required by condition 6-1 shall include provisions required by condition 6-2 to address the following matters:</p> <p>(1) benchmarking and design of the proposal;</p> <p>(2) monitoring and public reporting;</p> <p>(3) continuous improvement and minimising net emissions; and</p> <p>(4) offsets for greenhouse gas emissions.</p> <p>12-4 The proponent shall continue to implement the version of the Greenhouse Gas Management Plan most recently approved by the CEO until the CEO has confirmed by notice in writing that the plan required by condition 6-1 satisfies the requirements of condition 6-2 to meet the objectives specified in condition 12-1.</p>		<i>Pending Ministerial Decision</i>
Albemarle Kemerton Plant	Jun-18 (1618)	<p>Condition 9: Greenhouse Gas Reporting</p> <p>9-1 The proponent shall publicly report the greenhouse gas emissions from the proposal on an annual basis, in a manner approved by the CEO.”</p>		<i>Pending Ministerial Decision</i>
Mining Area C - Southern Flank	Dec-17 (1610)	<p>Condition 8: Greenhouse Gas Reporting</p> <p>8-1 The proponent shall publicly report the greenhouse gas emissions from the proposal on an annual basis, in a manner approved by the CEO.</p>	20-Feb-18 (1072)	Condition 8: Greenhouse Gas Reporting The proponent shall publicly report the greenhouse gas emissions from the proposal on an annual basis, in a manner approved by the CEO.
Thunderbird Mineral Sands Project	Oct-17 (1606)	None	10-Aug-18 (1080)	Condition 12: Greenhouse Gas Reporting The proponent shall publicly report the greenhouse gas emissions from the proposal on an annual basis, in a manner prescribed by the CEO.

## The National Greenhouse and Energy Reporting Scheme (Chapter 2)

### CONSULTATION QUESTIONS: CHAPTER 2 – DIRECT RESPONSES

Q.1 Do the National Greenhouse and Energy Reporting scheme reporting thresholds balance coverage with administrative costs? Should thresholds be increased, decreased or kept as is?

**Thresholds currently require some immaterial emissions to be captured causing an unnecessary impost on industry (see question 8). Prior to lowering any thresholds, the Australian Government must assess the significance of transaction costs and administrative burden which would apply to additional facilities and weigh this against the potential to reduce national greenhouse gas emissions.**

Q.2 Should the scope of reporting under the National Greenhouse and Energy Reporting scheme be expanded or reduced e.g. to include or exclude certain greenhouse gases, emissions sources, inventory sectors or types of entities who report?

**CME recommends reporting under the National Greenhouse and Energy Reporting scheme be applied more broadly across the Australian economy to become a truly national scheme including accounting for agricultural and transport emissions.**

Q.3 Do you have any feedback on the annual policy and consultation process to update the measurement determination?

**CME recommends more timely consultation be held with reporters prior to the update of the measurement determination. CME notes there are frequent updates and reviews associated with Commonwealth climate policy. This volatility of requirements is difficult for industry to stay abreast of, actively contribute to and all updates impose transition cost on relevant industries.**

Q.4 Is the Emissions and Energy Reporting System tool easy to use and fit for purpose?

**CME recommends the Emissions and Energy Reporting System could be improved through the addition of data upload capabilities (instead of manual entry only) and data output (extract) capabilities.**

**Further, CME recommends the rules for energy reporting and the associated definitions and concepts be reviewed and made simpler and clearer.**

Q.5 Are there opportunities to streamline emissions and energy reporting obligations under the National Greenhouse and Energy Reporting scheme and other programs?

**CME recommends the concept of materiality be introduced to the reporting mechanism and the DoEE consult with each sector to confirm common immaterial emissions to be excluded from the measurement determination.**

## NGER Coverage

The Consultation Paper indicates the NGER legislation will be assessed with reference to a number of principles including environmental effectiveness, equity, public interest and supporting the development of an effective global response to climate change. To more clearly adhere to these principles, CME recommends **NGER be applied more broadly across the Australian economy to become a truly national scheme, including accounting for agricultural and transport emissions.**

Currently, the facilities genuinely subject to the Safeguard Mechanism represent around 25% of Australia's emissions. Noting the CCA's stated principles, it is questionable why currently sectors responsible for only one quarter of Australia's emissions are the only ones captured by any legislative framework targeting a reduction in Australia's emissions. CME recommends **the Australian Government should ensure those emitters responsible for the 45% of Australia's emissions not covered by either the Safeguard Mechanism or the Renewable Energy Target or potential future National Energy Guarantee also contribute to the national greenhouse gas emissions reduction effort.**

It has previously been indicated the exclusion of agriculture from the NGER is due to the difficulty in clearly quantifying emissions associated with the sector, however, CME notes that a significant amount of the Australian Carbon Credit Units (ACCUs) generated from the Emissions Reduction Fund (ERF) are directly associated with land management and related to agricultural activities. If it is possible for emission offsets for such activities to be clearly and confidently quantified for the purposes of ERF, it would seem logical for attempts to be made to quantify agricultural sector emissions for the purposes of NGER.

## Measurement Determination

### *Materiality*

Under NGER once the reporting thresholds are exceeded, all greenhouse gas emissions must be reported irrespective of whether the emissions are material to the overall facility emissions, are accurate and/or can be obtained from other more reliable sources.

CME member companies have reported spending significant time and money on the requirement to report small and immaterial emissions with most of the reporting effort expended on the smallest emissions<sup>2</sup>. Some examples include the requirement to report on:

- Combustion of lubricating oils and greases;
- Mud degassing from the drilling of oil and gas wells;
- SF<sub>6</sub> emissions (noting the government already holds data on the import, manufacture and creation of these gases);
- Wastewater treatment plants emissions from wastewater handling (domestic and commercial) ancillary to a wider resources sector project;
- LPG combustion for ancillary, non-transport energy activities such as remote accommodation village barbecues.

CME recognises reporting thresholds have been introduced in recent years in an attempt to reduce the reporting burden on companies. This approach unfortunately has not been successful as companies generally have to collect all the raw data and undertake the required calculations regardless in order to determine if they are above or below the reporting threshold.

With some member companies estimating 80% of their NGER reporting effort is on capturing data related to immaterial emissions sources, CME recommends **the concept of materiality be introduced in the reporting mechanism and the DoEE consult with each sector to**

<sup>2</sup> This is akin to the Pareto principle whereby 80% of the effort can be expended determining the final 20% of the outcome.

**confirm common immaterial emissions to be excluded from the measurement determination.** This will allow companies to spend more time on improving the accuracy of estimations for major emission sources and would reduce unnecessary impost on businesses.

**Further CME recommends opportunities to simplify and streamline reporting requirements for industry be investigated. Particularly, streamlining between National Pollutant Inventory and NGER requirements should be considered.**

### ***Consultation on updates***

To improve the annual process of updating the Measurement Determination, CME recommends **more timely consultation be held with reporters prior to the development of exposure draft amendments, with a focus on making reporter requirements for the Measurement Determination simpler, clearer and fit for purpose.**

Ideally the consultation process should commence with engagement between the Department, Clean Energy Regulator and relevant reporters to ensure any exposure draft amendments for the Determination are simple, clear and fit for purpose.

It is further recommended **amendments to the Act, Regulations and Determination should not take effect until the start of the next reporting year following the amendments coming into force**, rather than what is currently the case where some amendments affect the reporting year already commenced or recently ended and hence are in effect retrospective. This provides little time for businesses to adjust to altered requirements or amend decisions as appropriate to fulfil compliance requirements.

### **Emissions and Energy Reporting System**

Although generally appropriate, CME recommends **the Emissions and Energy Reporting System (EERS) be improved through the addition of data upload capabilities (instead of manual entry only) and data output (extract) capabilities.** The current reliance on manual data entry increases the risk of typographic errors and the absence of an extract function, reduces reporters' ability to verify and validate entered data.

### **Energy reporting**

CME members have expressed concern around the clarity of rules for energy reporting and the associated definitions and concepts. CME recommends **rules for energy reporting and the associated definitions and concepts be reviewed and made simpler and clearer.**

### **The Safeguard Mechanism (Chapter 3)**

#### **CONSULTATION QUESTIONS: CHAPTER 3 – DIRECT RESPONSES**

Q. 6 Are the emissions thresholds under the safeguard mechanism efficient and effective or should they be changed so more or fewer emissions are covered?

**Refer to Question 1 response above.**

Q. 7 Should the scope of the safeguard mechanism be expanded or reduced if changes are made to the emissions and energy reporting scheme?

**Depending on the scope of any changes to the reporting scheme, it would appear logical to expand the scope of the safeguard mechanism. Additionally, CME recommends facilities which supply grid connected electricity be**

**excluded from the Safeguard figures to more accurately reflect the emissions truly covered by the Safeguard Mechanism and to acknowledge emissions from the electricity sector are and will be managed in the future via alternative policies and frameworks.**

Q. 8 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?

**CME recommends the DoEE investigate opportunities to improve the liquidity of ACCUs for future demand peaks and expedite consideration for international offset frameworks to be made available to Australian businesses and to be recognised by Australian legislation.**

**Further, there should be transferability of credits across sectors of the Australian economy and the Australian Government should investigate the merit of introducing a form of safety net or cap to restrain excessive price escalation.**

## **The Safeguard Mechanism and Reporting Thresholds**

The Consultation Paper considers an option to lower the emissions threshold resulting in more facilities and more of Australia's emissions being covered by the Safeguard Mechanism. Reducing the threshold to match the reporting threshold at which facilities are required to report emissions under the NGER, would increase the greenhouse gas emissions effectively covered by the Safeguard Mechanism. While CME is supportive of the Safeguard Mechanism being applied more broadly across the Australian economy, lowering of thresholds will place a significant impost on those new facilities captured by the mechanism. Prior to such a move, government must implement measures (such as defaults) to make the mechanism simpler and less prohibitively expensive to comply with. Additionally, CME recommends **prior to lowering any thresholds, the Australian Government must assess the significance of transaction costs and administrative burden which would apply to additional facilities captured, and weigh this against the potential to reduce national greenhouse gas emissions.**

In addition to undertaking a cost benefit analysis regarding any lowering of the Safeguard threshold, CME recommends **the DoEE retain existing reporting methods and measurement criteria flexibility.** Any potential change towards higher-order reporting methods and greater accuracy of reporting in some sectors, should be considered against the additional cost and administrative and the benefit in the context of Australia's international commitments, particularly given whole sectors of the economy are not measured at all.

### **Transaction costs**

CME members have reported significant timeframes<sup>3</sup> and transaction costs associated with collecting, verifying (through audits) and reporting data under the Safeguard Mechanism<sup>4</sup>. While the proposed introduction of default production variables and emissions intensities will mitigate the cost of applying for a Calculated Emissions Baseline for some, the extent to which

<sup>3</sup> CME members have reported baseline applications requiring a lead time of approximately six months.

<sup>4</sup> CME member experiences with preparing an application for a calculated baselines indicates it is several hundred thousand dollars for an application.

the resources sector will adopt the default production variables and emissions intensities will depend upon these defaults being workable. The current guidance available on the framework for establishing defaults is of concern to CME<sup>5</sup>. In particular, CME recommends **default production variables allow for input metrics (e.g. total material moved) as well as output metrics and a common metric be used across all sectors for electricity**. CME further recommends **emission intensity metrics are developed to account for different mining methods and mineral types where these differences drive emissions outcomes**.

### **Grid-Connected Electricity Generator's Sectorial Baseline**

Currently, a sectoral baseline has been applied to grid connected electricity generators and the Government views the sector as behaving more like a single entity with no individual generator subject to reporting or individual baselines unless the sectoral baseline is first reached. While grid connected electricity generators have been included in the reported emissions covered by the Safeguard Mechanism, in effect, they are not. It is CME's recommendation **facilities which supply grid connected electricity be excluded from the Safeguard figures to more accurately reflect the emissions truly covered by the Safeguard Mechanism and to acknowledge emissions from the electricity sector are and will be managed in the future via alternative policies and frameworks**.

### **Offsets for Excess Emissions**

Currently, the Safeguard Mechanism relies solely on the surrender of ACCUs to meet any excessive emissions above the Safeguard threshold. While it appears the short term requirement for ACCUs can be met by offset providers, CME is concerned the number of ACCUs available may not be sufficient to meet future offset demands, particularly if *en masse* there is a requirement to lower baselines to help Australia achieve its Paris commitments. CME recommends **the DoEE investigates opportunities to improve the liquidity of ACCUs for future demand peaks and expedite consideration for international offset frameworks to be made available to Australian businesses and to be recognised by Australian legislation**.

**The Australian Government should also investigate the merit of introducing a form of safety net or cap to restrain excessive price escalation**, resulting from short-term spikes in ACCU demand that cannot be met by supply. For example, the Clean Energy Regulator may be able to maintain a strategic pool of ACCUs that can be released if needed to stabilise the ACCU market.

Further, **there should be transferability of credits across sectors of the Australian economy**. For example, if the electricity sector is able to generate excess offsets / credits through a future National Energy Guarantee (or alternative mechanism), these should have an equivalency for the Safeguard Mechanism so they can be utilised by other industries to meet a shortfall in ACCUs.

Additionally, given the growing emergence of offsets in State-based schemes (eg: WA environmental approvals), it will be essential for **the Australian Government to work with other jurisdictions (particularly WA) to ensure greenhouse gas emissions offsets or limits are not duplicated. If duplication does exist, it is preferable for the State-based scheme to recognise Australian Government requirements and be complementary not additive or drive conflicting requirements, given the importance of a nationally consistent approach**.

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<sup>5</sup> Currently documented in Appendix A of the Explanatory Document for the Exposure Draft Amendments to the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015*

## Governance and Compliance (Chapter 6)

### CONSULTATION QUESTIONS: CHAPTER 6

Q. 9 Are there any opportunities for improvements in the Clean Energy Regulator's decision making and review process?

**It would be beneficial for the Clean Energy Regulator (CER) to have powers to make interpretations of the Measurement Determination to assist industry clarify requirements and to better enable industry compliance.**

### Clean energy regulator rulings

The rules for greenhouse gas emissions reporting, energy production and energy consumption are complex and areas of uncertainty at times arise. The formal process for resolution of ambiguities relies on the annual updates to Measurement Determinations. It would be beneficial to for **the Clean Energy Regulator (CER) to have powers to make interpretations of the Measurement Determination to assist industry clarify requirements and to better enable industry compliance.**

CME has had multiple interactions with the CER over the past year and has always found the CER responsive and informative (within the limits of its remit). In particular, CME has appreciated the CER's active engagement with State-based regulators to communicate updates on the NGER and operation of the associated safeguard mechanism.

## Resource Sector Specific Matters

### On-going Need to Accommodate Natural Resource Variability

Currently, under Section 25 of the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015*, increases to the baseline are allowed for resource sector projects due to natural variability in resource and gas reserve properties. This section acknowledges the sector's limited ability to control additional emissions associated with this variability.

While this provision will cease to be available in 2025, the fundamental nature of the resources sector will not change in that year. Accordingly, CME recommends **the "Inherent emissions variability criteria" under Section 25 of the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 be extended beyond 2024.**

### Nature of Resource Sector Project Development

The emissions intensity of resource sector projects will typically decline (significantly) over time for several key reasons fundamental to the unique nature of resource sector projects.

For open cut mining, access to ore must commence at the surface. Thus any ore mined early in a project's life will be from the shallowest depth making its haulage distance shorter. Similarly, as mine life extends, the open pit area will grow and ore will be mined from progressively further and further away from central plant and outloading infrastructure also increasing haulage requirements. Over time, the need for cutbacks and satellite pit mining may also be necessary further causing a deterioration in the emissions performance per unit of saleable product. It is also typical, due to the high capital costs associated with new mine development, for central processing and other infrastructure to be placed near to higher grade sections of the orebody, hence mines will often experience a decline in grade over the mine life as lower grade ores are progressively mined. Consequently, it is typical for haul distance and total material movement

to increase over time in order to achieve a comparable saleable product (output). These characteristics lead to a deterioration of efficiency (if measured purely per tonne of product) over time and subsequent increase in emissions.

A similar outcome is also experienced by the oil and gas sector where for example, additional pumping, compression and water separation and handling is needed as oil or gas field are depleted over time.

The nature of orebodies also leads to different extraction methods and emissions intensity even within a common commodity market. For example, an open-cut gold mining operation will have a significantly different emissions intensity compared with that of an underground gold mining operation and the mining and processing of magnetite iron ore is far more energy-intensive compared with haematite iron ore.

**When reviewing potentially amendments to the National Greenhouse and Energy Reporting legislation, it is essential the nature of the resources sector is taken into account, to ensure this sector is not disadvantaged by any proposed amendments.** This is particularly critical given the global nature (export trade exposed) of commodity markets.

## Conclusion

CME welcomes the opportunity to provide comment on the Consultation Paper and looks forward to working with the Climate Change Authority to progress reform.

If you have any further queries, please contact Amanda Le Moine, Policy Adviser – Environment, on (08) 9220 8511 or [a.lemoine@cmewa.com](mailto:a.lemoine@cmewa.com).

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7 September 2018

Department of the Environment and Energy  
Safeguard and Industrial Policy Section  
Sent via email: [safeguard.mechanism@environment.gov.au](mailto:safeguard.mechanism@environment.gov.au)

Dear Sir/Madam

**Exposure Draft Amendments to the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015***

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia. CME is funded by its member companies who are responsible for most of the State's mineral and energy production and are major employers of the resources sector workforce in the State.

CME welcomes the opportunity to comment on the "Exposure draft amendments to the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015*" (Exposure Draft Amendments). As part of the consultation for the Exposure Draft Amendments, CME attended a public briefing session hosted by the Department of Environment and Energy (Department) held in Perth on 29 August 2018. Additionally, the Department also hosted a mining sector specific discussion with CME and approximately 20 representatives from CME member companies. CME would like to thank the Department for this consultation which has been well-prepared, timely and informative.

CME is supportive of the proposed amendments to the Safeguard Mechanism and the three key elements:

- Bringing baselines up to date by transitioning facilities to calculated baselines;
- Simplification through the introduction of an option to use default values; and
- Allowing baselines to be updated annually for actual production to enable growth.

CME is of the general view that the Exposure Draft Amendments are appropriate for achieving the targeted outcomes indicated in the associated Explanatory Document<sup>1</sup>. Additionally, many of CME's members have expressed interest in use of defaults in future to reduce the significant cost and administrative burden of the current calculated baseline process.

**Production Variables and Defaults**

CME believes the extent to which the amended Safeguard Mechanism framework is a success or otherwise in achieving the stated intent will depend upon the default production variables available to the mining sector and associated emissions intensity values set by the Department.

CME recommends the Department consider allowing development of default production variables that are input metrics (e.g. total material moved) and consequently account for necessary waste material (non-ore) movement as well, so the system is flexible and accessible for different operations. In the absence of production variables that are relevant to the mining sector, it is unlikely many facilities will reasonably be able to use defaults and hence

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<sup>1</sup> Explanatory Document Exposure draft amendments to the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* <http://www.environment.gov.au/system/files/consultations/56b64cc6-6455-4aa1-9b72-d00b7e09bfb3/files/safeguard-mechanism-rule-amendment-explanatory-document.pdf>

the benefits of the reform to reduce administration and compliance costs will largely be unrealised.

Resource sector operations cannot control the nature of their orebody and waste characteristics, and consequently their opportunities to improve emissions performance and efficiency are generally linked to matters such as optimising mine plan, fleet management and equipment selection. An option to use an input metric for mining-related activities would therefore be relevant and appropriate given the fundamental characteristics of the mining industry and what the facility can actually influence in order to minimise greenhouse gas emissions.

It is a unique attribute of the resources sector that as a resource is being depleted; additional energy is required to extract that resource to maintain production capacity. For example, mine haulage will increase as a mine gets deeper or further processing will be required as ore grade declines over time or additional pumping, compression and water separation and handling is needed as a gas field depletes.

This deterioration of emissions efficiency over time and subsequent increase in emissions due to the nature of mine development, is an inherent trait of the resources sector which typically outweighs the sector's significant efforts to reduce emissions and drive efficiency.

The use of total material moved and electricity will also be a common variable in use within the mining sector. However, for the defaults framework to be effective, it must be fair and not bias towards certain mining operations or minerals. This may be addressed through the development of emissions intensity metrics for different minerals and/ore mining methods. For example, an open-cut gold mine will have a significantly different emissions intensity compared to an underground gold mine; and the mining and processing of magnetite iron ore is far more energy-intensive compared with haematite iron ore.

### **Inherent Emissions Variability Criteria**

In addition to this inherent decrease in efficiency over time, the resources sector also faces natural occurring variation within a resource. This has been recognised in the legislation through the inclusion of the "inherent emissions variability criteria". The current legislation however removes this criteria in 2025. CME strongly advocates for this criteria to continue beyond 2024 and for it to be considered in future policy decisions.

The current "inherent emissions variability criteria" provides facilities with the flexibility to re-baseline twice, recognising greenhouse gas emissions may primarily be influenced by the variability of resource characteristics which cannot be influenced by companies in the resources sector. The Exposure Draft Amendments provide all legacy facilities the opportunity to re-baseline to the amended structure of the Rule through the transitional criteria. These applications to re-baseline through the transitional criteria, appear to be designed to "level the playing field" for all facilities covered by the Safeguard Mechanism.

However, an application to re-baseline through the transitional criteria limits the options for the resources sector to re-baseline through the inherent variability criteria in future, eroding the flexibility the criteria was previously intended to provide. It is therefore recommended the transitional criteria not be counted as a calculated emission baseline, in order for the original intent of the inherent variability criteria to be retained, thereby preserving the opportunity for companies to re-baseline twice.

### **Transition to Production Adjusted Baseline**

The Exposure Draft Amendments allow legacy facilities to choose a site-specific or a default emission intensity to transition to a production adjusted baseline. However, as default

emission intensity values have not yet been determined, the only method currently available for facilities to establish annually adjusted baselines, using a site-specific emissions intensity, is to apply for a calculated-emission baseline.

Applications for a calculated emission baseline however incur a significant time, cost and administrative burden on industry and are based on emission and production forecasts only. CME recommends the Department considers allowing facilities a further option to determine the site specific emissions intensity, by allowing facilities to use recently reported site production and emissions (actuals). This would simplify the transition of facilities to annually adjusted baselines whilst also better representing actual performance of each facility.

### **Investigate Further Opportunities to Streamline and Reduce Duplication**

As a final point, CME recommends opportunities to streamline and simplify frameworks regulating Australia's greenhouse gas emissions and energy use be examined and any duplication be removed. For example, opportunities to streamline reporting under the National Pollutant Inventory and National Greenhouse and Energy Reporting Act should be investigated. Additionally, off-grid electricity supply should not be covered by both the Renewable Energy Target and Safeguard Mechanism, where electricity is generated and supplied in remote areas currently not connected to WA's North West Interconnected Systems (NWIS) or South West Interconnected System (SWIS). Currently, there are facilities in WA which are covered by both schemes and hence risk the potential of triggering requirements under both, despite the clear intent for the two schemes to cover two different sectors of the Australian economy.

As discussed in the meeting on the 29 August 2018, CME looks forward to more detailed engagement with the Department on the amended Safeguard Mechanism including liaising with its members and assisting to coordinate any future meetings, questions or data collection required by the Department to progress development of default production variables and emissions intensity values.

If you would like to discuss this matter further, please contact Amanda Le Moine, Policy Adviser - Environment, on (08) 9220 8511 or [a.lemoine@cmewa.com](mailto:a.lemoine@cmewa.com).

Yours sincerely



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