



EnergyAustralia

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13 April 2022
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Dear Mr Archer and team,

EnergyAustralia's comments in response to the Review of International Offsets – Consultation Paper

Thank you for the opportunity to provide comments in response to the *Review of international offsets: Consultation paper*.

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to 2.4 million household and business customer accounts across Eastern Australia and controlling over 5,000 MW of electricity generation across Australia's eastern states.

EnergyAustralia has the largest *Climate Active* certified offset offering in the Australian energy sector, and the second largest in the country after Telstra. To date we have offset around 4.5 million tonnes of emissions, with a mix of high quality international and local certificates consistent with the Carbon Neutral Standard.

In addition to offering our customers product level carbon neutrality, our goal is to achieve net zero emissions by 2050 across our Scope 1, 2 and 3 emissions. As an emissions-intensive business with a mature capability in carbon dioxide offsetting, we have a perspective that we hope the Climate Change Authority will find helpful.

Priority points

International carbon offsets have at times been characterised as lower quality in their abatement value and complicated by more reckless development than their Australian equivalent, the Australian Carbon Credit Unit (ACCU). We maintain that high quality international offsets are available and that businesses benefit by accessing them, just as less developed nations benefit from the economic exchange. EnergyAustralia recognises the strong framework for ACCU integrity and advocates using a mix of quality local and imported offsets.

Rules that continue to support the use of imported offsets alongside ACCUs will facilitate greater participation in offsets more broadly by keeping costs more manageable for voluntary buyers. If we can increase the number of businesses participating and making offsets a more standard feature in the purchase of a good or service, growth in ACCU purchases will follow.

EnergyAustralia will value stable and supportive regulatory settings to allow the continued procurement of international units through the transition into operations consistent with Article 6 of the Paris Agreement rulebook.

The deployment of incoming rules that require Corresponding Adjustments will take time, and some nations might comply sooner than others. It will be important that, through this period of transition, Australian businesses are still supported under Climate Active accreditation rules to access international sources of offsets that don't yet comply. Administration of pragmatic interim measures will be central to a smooth and successful transition into Paris-aligned practices.

The voluntary purchase of offsets by Australian companies occurs today because there is a foundation of trust. This trust exists because stakeholders and customers believe that the company buying the offsets is achieving something positive for the planet that would not have occurred without their purchase of those offsets. To maintain this trust, rule changes should be considered in an open and transparent manner, with time taken for consultation and with adequate time for parties to adjust their offset strategies, whether changes touch ACCUs or the use of international certificates. Trust in international offset parameters permeates to enhance trust in ACCU markets and vice versa.

Question 19 in the Consultation Paper engages with how offsets bought voluntarily by companies are treated. As Australia's second largest voluntary buyer of offsets, we seek to maintain our customers' confidence that these offsets go beyond stated policies to achieve abatement that would not have occurred without our contribution. We encourage deep consideration of the impact to trust in voluntary offset markets if those offsets are to be counted towards the pre-set national target. Perspectives might be different for offsets used for compliance.

General

1. What considerations should guide the use of international offsets in Australia?

EnergyAustralia offsets the emissions associated with household electricity and gas use at no extra cost to participating customers and offers larger customers the option of energy bundled with offsets. Like many companies buying offsets voluntarily, we have been able to grow our impact and accommodate the costs by accessing the lower price point of international Certified Emissions Reductions (CERs) in addition to local ACCUs.

Our customers value the opportunity to help reduce greenhouse gas emissions by accessing offsets, and this offering might be harder to maintain if the use of international units is discouraged.

With the highest possible participation in voluntary offsetting, and companies buying a mix of local and imported offsets, we can expect the positive by-product of growing production and use of local, Australian offsets. We must be careful to avoid making imported offsets appear less legitimate.

Article 6.4 of the Paris Climate Agreement, culminating from 30 years of experience in the creation and trading of international offsets, provides structure to safeguard integrity and address the risk of double counting. The Subsidiary Body for Scientific and Technology Advice and the Supervisory Body are working to deliver operational elements that will support the global market. We anticipate material progress over the next 18 months, and evolution over the following years as countries implement the new rulebook. It will be

important that Australia has an appropriate interface with the resulting international market such that we remain synchronised as the international market evolves.

There is a misconception that offsets created outside of Australia are inferior, with lower additionality and integrity and other associated problems. There is no doubt that low quality offsets exist, and particularly in older vintages. The maturation of the market, the protections afforded under the incoming Paris rulebook, and Australia's participation in the Indo-Pacific Carbon Offsets Scheme (IPCOS) will each build capability and trust. International units have an important role to play in helping Australian companies decarbonise, and in turn in providing incomes to less developed nations that will benefit global climate goals.

2. What is the role of offsets in Australia's transition to net zero emissions and how might this change over time?

Consistent with *Climate Active Carbon Neutral Standard*, offsets should be used in addition to efforts to reduce emissions. They are not intended to defer or lessen efforts to reduce core emissions. Rather, they offer an important counterbalance for hard to abate sectors, and for bringing forward the effects of reduced emissions where underlying reductions would face delay. In future decades, offsets that can draw down atmospheric greenhouse gas emissions might become important if climate objectives are missed.

Our use of offsets should reflect that there is a time-value of greenhouse gas emissions that should preference outcomes that reduce emissions sooner rather than later. Offsets provide a way of time-shifting emissions that would otherwise exist until a socially, economically or technically workable emissions reduction solution can be applied. In this way, offsets can be particularly useful for complex emissions categories shaped by multiple participants, such as Scope 3 emissions, or emissions from activities for which no near-term low carbon alternative exists.

2b. What are the opportunities and risks presented by international offsets now and into the future?

Offsets produced overseas can deliver very high-quality emissions outcomes, can sometimes delivered to participating businesses at lower cost than equivalent local offsets, and can achieve important co-benefits for nations in our region and further afield. EnergyAustralia supports the use of a mix of local and imported quality offsets.

For companies choosing to import international offsets and using them towards local Climate Active certification, it will become critical that those offsets are not counted simultaneously in more than one country. The practice of Corresponding Adjustments, consistent with the for Article 6.4 rule book, will addresses this need. In the long term, to the extent that different offset standards fail to ensure that Corresponding Adjustments are made, these emissions classes might be removed from the Carbon Neutral Standard to address the risk of double counting. However, we note that implementation of new Corresponding Adjustments will take considerable time and international trading will need to remain open through this transition.

Offset integrity is very important to buyers, both in terms of achieving a full tonne of additional abatement for every certificate and in avoiding the risk of purchasing offsets that might be associated with harm. These risks are not confined to international offsets but can be exacerbated by the information asymmetry associated with some international markets. We support efforts to align international quality standards and build transparency.

We note that the use of international offsets must be supported by customer trust and that trust in offsets is impacted if there are abrupt changes made to offset rules, irrespective of whether those rules are domestic or international. Changes such as the new requirement for 20% of offsets to be comprised of ACCUs, make it more difficult to take a long-term position on participation in domestic and international markets. Planning and corporate participation are enhanced through consultation around changes, transparency and market independence.

Today, corporate purchases of ACCUs and international offsets purchased voluntarily are surrendered within the Australian National Registry of Emissions Units (ANREU) and are visible as business rather than Government offsets. It is important that this separate classification remains in place, and that voluntary participation in the future is recognised as additional to stated policies. There would be risks relevant to trust and participation in voluntary offset markets if changes were made in the future to count such offsets towards the national target.

3. Are there lessons to be learned from experience with international carbon markets to date? What are most relevant to this review?

Offset markets are historically subject to price movement and evolution. To enable buyers to manage pricing risks it is important that regulatory and policy stability provide conditions conducive to long-term buying strategies.

Governance arrangements

8. In the context of the Paris Agreement, how important is it to consider the governance and institutional arrangements in place for the generation, trade and use of offsets?

Robust governance is necessary to maintain the integrity of offsets. There should be separation of duties in place to ensure that there are appropriate controls between offset methodology creation, project certification, project compliance, and certificate procurement.

It is also important that the governance arrangements keep pace with international arrangements attached to Article 6.4 emissions reduction units. By attaching Australian institutional arrangements to international criteria, we can avoid falling behind global standards.

Co-benefits

10. How important is it that offsets also produce co-benefits?

a. How important is it that IPCOS produces co-benefits in partner countries?

Information should be available so that the market can appropriately value co-benefits and reward offsets that achieve multiple objectives. The underlying price of the carbon abatement, however, should be consistent and based on achieving each credible, verified and additional tonne of abatement. The voluntary sector shouldn't be compelled to price in-co-benefits. Rather, the most important enabler to drive income to projects that achieve multiple sustainability goals will be the quality of information available on co-benefits.

Broader Implications

19. To what extent should international offsets used by Australian companies towards their targets also count towards Australia's national targets?

Offsets purchased voluntarily by Australian companies should be identifiable as additional to stated policies. Trust and participation will be maximised if these offsets do not count towards Australia's national targets, or Nationally Determined Contribution (NDC).

The voluntary purchase of offsets by Australian companies occurs because there is a foundation of trust. This trust exists because stakeholders and customers believe that the company buying the offsets is achieving something positive that would not have occurred without their participation. This belief is supported by policies that continue today's practice of registering offsets acquitted by businesses separately from Government purchases within ANREU. In the future, trust should be maintained by policies and practices that ensure the abatement achieved by companies buying offsets goes beyond what has been pre-committed at a national level in the NDC.

Businesses respond to stakeholder perceptions of offsets, with some stakeholders providing reputational, loyalty or price premium uplift where they see positive outcomes from offsetting. It is important for customers and other stakeholders that the offsets received with carbon neutral purchases match their expectations. If, in the future, such offsets were to count towards national targets set before the company's actions, rather than those voluntary actions achieving something more, such actions might be ascribed lower value by stakeholders. This in turn, might come to impact voluntary participation and markets.

There are important operational details to be resolved as we move towards the use of offsets under Article 6.4 and as nations implement Corresponding Adjustments. These developments will take time and businesses will value measures that support their continued participation through the transition. In the future, the existence of Corresponding Adjustments should not be sufficient reason for imported offsets to be acquitted towards the national target. An alternative would be for imported offsets purchased voluntarily to be transferred after import to a separate account, indicating their additionality.

The central principle must be to preserve trust that offsets bought by companies can respond to stakeholders and business drivers to deliver outcomes that are additional to stated policies.

We hope to be afforded the opportunity to continue discussions with the Climate Change Authority in support of the best possible integration of international offset frameworks. In particular, we hope to exchange views on complex and important matters including consideration of the use of offsets purchased voluntarily towards the national target.

For further information please contact Anna Hancock at anna.hancock@energyaustralia.com.au, or Ravi Chandra at ravi.chandra@energyaustralia.com.au.

Best regards,

Anna Hancock

Head of Sustainability