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SUBMISSION ON A CORPORATE EMISSIONS REDUCTION TRANSPARENCY REPORT (CERT)

The Australian Industry Group (Ai Group) welcomes the chance to make a submission on the CERT.

Ai Group is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years. Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Overall approach to CERT

Ai Group supports the adoption of a national goal of achieving economy-wide net zero emissions by 2050, and of pursuing a new energy advantage and increased national prosperity in the process. An increasing number of our members are making climate-related commitments to advance their values and meet the expectations of shareholders, customers, finance and governments. It is appropriate for these commitments to be rigorous and for performance against them to be assessed.

However the prevalence, form and content of these commitments is diverse and often difficult to compare given:

- the diversity of industry in size and sector;
- the different forms and contexts of existing emissions;
- the variety of technical options to reduce, avoid, sequester or eliminate greenhouse gases; and
- the fragmented nature of Australian public policy on climate.

In addition, there is only limited overlap between the data that is currently gathered and assessable under the National Greenhouse and Energy Reporting System and the matters that are the focus of corporate commitments. For instance, the commitments of some businesses relate to reduction in the emissions that are embodied in their inputs, or that take place elsewhere in their supply chains. NGERS was designed to support a national economy wide emissions trading scheme focussed on pricing Scope 1 emissions and letting the resulting price information flow through the economy. It is understandably not a good fit for attempts to assess a diversity of corporate emissions commitments relating to Scope 1, 2 and 3 emissions.

Given this context there is a real risk that the current form of the CERT proposed by the Clean Energy Regulator will not be fit for purpose. There are several risks to be guarded against:

- Important forms of commitment outside the scope of the CERT could become inadvertently devalued, discouraging the broader range of activities that are needed to achieve net zero emissions economy-wide;
- NGERS reporting burdens could expand significantly in order to furnish sufficient data to put

more commitments on a common evidentiary footing (data gathering has costs that need to be weighed alongside the benefits to strike an appropriate balance);

- Perhaps most likely, an excessively limited and rigid CERT may offer a highly fragmentary, and therefore inaccurate, picture of the state of commitments, and as a consequence attract little voluntary participation.

The voluntary nature of the proposed CERT offers some protection against these risks. However, the perceived imprimatur of government endorsement may make participation less voluntary in practice. And as we have seen in many other contexts, future policy decisions may make CERT participation effectively mandatory (for instance as a requirement for suppliers to publicly funded projects) or a formal legal requirement. It is therefore important to ensure both that CERT is fit for purpose, and that its purpose is a good fit for CERT.

Ai Group has some suggestions for key focusses for improvement. However we propose that the Government take a more stepped and experimental approach to getting this right. The Government and the CER may be operating from the assumption that introduction of a CERT will be relatively straightforward and low cost because of existing NGERS processes and data. But the gaps between NGERS processes and the nature of corporate commitments make such an assumption doubtful.

Some States and nongovernmental organisations already maintain databases of corporate climate commitments, but the Commonwealth has no current data set to inform it. Designing a system for comparing and assessing commitments is difficult in the absence of data.

The Government should start by asking all NGERS reporting entities;

- to voluntarily advise whether they currently have any climate-related commitments; and if so
- to voluntarily provide these commitments in the form that they have been made.

This will likely furnish a rich data set from which the Government can better consider means of comparison and assessment.

The next stage would be to test one or more experimental frameworks with small groups of reporting entities to identify practical issues and fitness. An iterative process might follow, in dialogue with reporters, CER and users of reported data such as investors. Potentially this could be staged by Scopes – starting with Scope 1, extending to Scope 2 as the difficult issues considered below are resolved, and then considering how to treat corporate commitments relating to Scope 3. Certainly the different Scopes involved in commitments should be clearly identified and explained in any published material. Experimentation should also inform:

- what other contextual information is gathered and published – for instance, on how targets were formulated (science-based validated, science-based informed, or not science-based, for instance);
- what information about overseas emissions, abatement and commitments can be gathered and reflected, since global businesses active in Australia may have broad commitments.

If a robust and acceptable CERT framework emerges from this process it can then be opened to all interested NGERS entities.

Finally, we note that while transparency is a valuable tool and protection it is no substitute for credible policy frameworks designed to drive emissions reduction and the deployment of clean economy technologies. Policy mechanisms that use market signals and cover multiple sectors require accounting that is rigorous but of achievable scope – again, this was the original design context of NGERS. Accounting for the interplay of emissions across the economy without the benefit of such signals is much more challenging.

Specific issues to manage in CERT

Targets and trajectories

Scope 1 emissions can be volatile from year to year depending on market conditions and other factors. For instance, a major outage at a facility may hamper production and greatly reduce Scope 1 emissions. Furnace efficiency degrades over time; refurbishing a furnace as part of a multi-year cycle may produce a sharp year-on-year improvement in emissions. But in both cases emissions may rebound, as activity returns or once-new equipment ages. A focus in CERT on year-on-year changes to Scope 1 emissions would be more volatile, less informative and a worse match for corporate commitments than a focus on the overall trajectory towards the commitment.

To provide fuller context around a commitment to a target or trajectory, the published data should include a link to participants' corporate reporting suite or other nominated repository of their commitments.

Scope of permissible emissions reduction units

The consultation documents envisage use of Australian Carbon Credit Units (ACCUs) towards corporate goals, as well as other valid units including most categories of Certified Emissions Reduction (CER) from the international Clean Development Mechanism. Overall this is appropriate, however three issues have been raised by Ai Group members.

- The consultation document appears at section 9.2 to exclude ACCUs that have been issued with respect to abatement at facilities that are below the scale to be obliged to participate in NGER. Is this exclusion general (no reliance on such ACCUs to be counted at all), or is it specific to one column of the proposed report and such units may be picked up elsewhere? There is no clear rationale for a general exclusion – the rigour of ACCU issuance is comparable at all scales, and emissions reductions in the land sector will be held back if corporate demand for offsets from medium-sized and smaller farms is discouraged.
- What is the treatment of, and rationale around, abatement activity and associated ACCUs at a facility that are sold to the Commonwealth under an Emissions Reduction Fund contract? Are the ACCUs simply excluded; should they be able to be counted by the facility; or should the facility's deemed emissions be increased to the extent of any ACCUs sold? The latter approach of 'corresponding adjustments' is a key element of proposed rules under the Paris Agreement's Article 6 on international cooperation on emissions reduction. However the rationale for any treatment – recognition of the full suite of corporate activity towards targets; avoidance of double counting; or otherwise – will determine the best approach.
- While achieving net zero emissions for Australia will at a minimum necessitate very deep local emissions reductions, access to high quality international units remains an important part of cost control and an aid to continuing action when immediate local actions are impractical or uneconomic. This is even more true for corporate commitments. CERs and any successor units issued under arrangements covered by Article 6 are an important part of the suite of tools to drive global emissions reduction and provide abatement options to all. CER should ensure that their treatment in CERT is consistent with this.

Scope 2 emissions, renewable energy and eligible units

There are several potential problems with the proposed approach to electricity-related emissions and commitments.

The currently proposed scope of eligible units accepted for meeting Scope 2-related commitments excludes Power Purchase Agreements (PPAs) for renewable energy. This is too narrow. We understand the desire to avoid the double counting that might arise if one company relied on the PPA associated with the output of a wind farm to help meet its commitments, while another company relied on the Large-scale Generation Certificates (LGCs) generated by the same output of the same wind farm to help meet its own commitments. However, simply ruling that the LGCs always count and the PPA never does elides the variety of contractual arrangements that businesses may have in

place to meet their needs.

The scope also excludes Small-scale Technology Certificates (STCs) produced by renewable energy resources that are below 100 kilowatts capacity and hence too small to come under the Large-scale Renewable Energy Target. This is understandable; since STCs are deemed upfront at the time of installation, rather than based on verified annual generation; and since the deeming period is tapering down each year; including STCs would either make individual year results hard to interpret meaningfully, or require a considerable addition in CERT complexity. However, on-site renewables are an increasingly important part of the energy and emissions management strategies of Ai Group members. These often involve multiple small installations across many facilities. If all reporting entities' electricity usage, including that met by their own generation, is counted; but LGCs are not generated and STCs are not counted; then, in the absence of another way to recognise large volumes of generation from small installations, the CERT will understate the achievements of many businesses.

Calculating Scope 2 electricity emissions based on annual State averages, and renewable power share based on the CER's Renewable Power Percentage (RPP) is also increasingly likely to over- or under-estimate reporting entity emissions. The daily profile of renewable energy availability, especially midday solar abundance, combines with the growing importance of energy storage and demand-side energy management to make estimates based on geographic and annual averaging less relevant. A reporting entity may achieve a much higher share of renewable electricity, or a much lower one, than these averages imply, depending on its behaviour. NGER reporting is poorly suited to capture this, though the emissions element of the formerly proposed National Energy Guarantee would have provided a generation register that would have allowed more exact assessment of individual commitments while ensuring the achievement of system-wide goals.

A peculiar effect of the proposed data publication approach is that entities with modest Scope 1 emissions, substantial electricity usage and large purchases of offsets will show up as having negative emissions.

Members have asked for clarification on whether LGCs that have mandatorily surrendered, as well as those that are voluntarily surrendered, are intended to be counted and published in the same column of the proposed report; this is the implication of the discussion paper text, but the indicative report column is headed 'voluntary surrender'.

Achieving an overall approach to electricity emissions and renewable energy that achieves individual fairness, avoids systemic under- or over-counting, and minimises administrative costs is clearly complex and will require extensive development and consultation.

Consequences of participation

As proposed CERT participation is voluntary, but procedural rigour is needed to ensure meaningful reporting. It is not entirely clear from the consultation materials what the legal status and practical consequences of participation may be. Indemnification of CER against matters arising from publication of the volunteered data is one thing. But what happens if a business opts in, then fails to provide the necessary data; or provides inaccurate data?

Failure to comply with the requirements of the NGER Act involves clear legal consequences, including civil penalties. CER should clarify the status of actions that are both part of CERT and beyond the requirements of the NGER Act. The spectrum of possible approaches to noncompliant or inadequate requests to participate and additional reporting could include:

- Treat the entity as if they did not participate in CERT – no publication of data beyond existing NGERS content;
- Note in public reporting that the entity requested to participate but did not comply with the necessary procedures;
- Legal penalties similar to those in the existing NGER Act for noncompliance.

CER should also consider whether decisionmaking on CERT participation should be annual or

extend over longer periods. Longer minimum opt-in periods would make participation more meaningful and less manipulable, but would also require some coordination of opt-in periods with any revisions and evolutions of CERT rules and reporting concepts.

Alignment and administration

The proposed reporting also doesn't align to international best practice, including the Science Based Targets Initiative. The lack of inclusion of Scope 3 emissions and of emissions outside Australia also makes the proposed CERT design less relevant to internationally active businesses.

The existing Climate Active initiative already provides an avenue for carbon neutrality efforts to be assessed and substantiated. Extensive data is provided to Climate Active by participants, and duplicating this in a different format will add to reporting burdens without increasing transparency or assurance. The proposed CERT reporting approach is not aligned to the Climate Active standards and requirements that are seen as the benchmark on how organisations should purchase carbon credits to abate scope 1, 2 and 3 emissions.

It is an open question whether CER, Climate Active or another entity would be best placed to administer any CERT, given the relevant information extends well beyond the NGERS data that CER manages.

CER should clarify whether the 'additional information' proposed to be published in section 5.2 is just the data in the new report columns when finalised; or also extends to supporting comments or other information provided.

For any questions in relation to this submission, please contact Ai Group adviser Tennant Reed (tennant.reed@aigroup.com.au, 0418 337 930).

Sincerely yours,

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