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Greenhouse and Energy Reporting Taskforce
Department of Environment and Water Resources

By email: reporting@greenhouse.gov.au

The Energy Supply Association of Australia (esaa) welcomes the opportunity to comment on the National Greenhouse and Energy Reporting System (NGERS) Regulations Discussion Paper.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$110 billion in assets, employ over 40,000 people and contribute \$14.5 billion dollars directly to the nation's Gross Domestic Product.

The esaa supports the need for a simplified greenhouse and energy reporting system to meet the objective set by the Coalition of Australian Governments (CoAG); that is to implement a 'single streamlined system that imposes the least cost and red tape burden'¹. To ensure the reporting system meets this CoAG objective, it is critical that the reporting obligations be focussed and continually refined during system design to efficiently meet the needs of relevant policy objectives.

At the time of the CoAG decision to introduce a single national reporting system, the primary objective was to consolidate the variety of ad-hoc state and Commonwealth energy and greenhouse emissions reporting requirements existing at that time, with some consideration given to supporting a narrow carbon trading system confined to the electricity generation sector that was proposed by the states.

In light of the more recent bipartisan commitment at the Commonwealth level for the introduction of an economy-wide Emissions Trading Scheme (ETS) as the central national greenhouse policy response, the majority of pre-existing programs are now secondary if not obsolete. The creation of an economy wide trading system covering 70 to 75 per cent of national emissions, as proposed in the PM's Task Group report, will require the allocation and remittance of permits covering more than 420 Mt of CO₂-e annually. At current EU prices that equates to over 10 billion dollars worth of permits annually. esaa contends that the primary design focus must now be to support the introduction of the ETS due to the broader national significance of this policy development. If NGERS does not adequately and efficiently support the data needs of the ETS, then a separate parallel emissions reporting regime will inevitably need to be set up by the scheme administrators.

The priority associated with supporting the ETS is reflected in the objects of the enabling National Greenhouse and Energy Reporting Act (*the Act*), the first of which is to 'underpin the introduction of an emissions trading scheme'. However, it is apparent in the Act and the proposals described in the discussion paper, that ensuring 'robust and transparent emissions and energy reporting for

¹ CoAG meeting outcomes, 14 July 2006. <http://www.coag.gov.au/meetings/140706/index.htm>

the AETS and entities providing emissions offsets² has not been the primary driver of the design to date. The design focus is skewed to supporting company level reporting based on standards developed for best practice voluntary reporting of emissions by self declared corporate entities, rather than collection of national data sets or supporting emissions trading.

The detailed design of the ETS has not yet been fully defined, and so the design of NGERS must necessarily precede a full understanding of the covered sectors, liable entities for reporting emissions, and processes for creating and acquitting permits. This is unavoidable as the Government, and scheme regulator, require access to quality economy wide emissions and energy data prior to finalising all design details. However, it is vital that the reporting system is designed to directly support the development and implementation of the ETS as far as is practical. If incompatibilities arise, the NGERS reporting requirements should be altered.

While it is beyond the scope of the regulations currently under discussion, it may be necessary for some of the more fundamental design elements set out in the Act to be amended to ensure its ongoing efficiency and effectiveness as the key reporting mechanism supporting the ETS. In particular it would be most efficient to ensure that emissions reporting responsibilities, facility boundaries and emission scopes align directly with liable entities and emissions under the ETS. Compensation proposed for certain industries may also have some direct implications for energy reporting needs as well.

To ensure the best fit is achieved between the NGERS and the needs of the ETS, it would be desirable to have responsibility for the final design and implementation of NGERS integrated with the responsibility for the design of the ETS.

The most critical greenhouse emissions data to support the ETS will be the direct emissions at liable points, likely to be scope 1 emissions (minus liquid fuel use) at most sites, and hypothetical emissions associated with energy product sales (scope 3) where upstream liability is proposed. There is a danger that some of this information will be aggregated prior to entry or simply lost in the noise. Ensuring boundary alignment of the reported facilities in NGERS and the liable ETS entities will be particularly important.

The complexity associated with hypothetically estimating and allocating emissions associated with electricity generation to electricity use (known as scope 2 emissions) creates considerable complexity for reporters and administrators; however it does not add any value to the national data set. All the primary information is contained in the direct emissions reported from generators, and the energy production, use and losses reported through the electricity supply chain to final consumption. The NGERS administrators are best placed to estimate and allocate scope 2 emissions if there is value in doing.

While the reporting of scope 2 emissions has some purpose in the context of best practice voluntary reporting by self declared entities, scope 2 emissions have limited if any relevance to the needs of a mandatory national reporting system to support an ETS, or even for other statistical purposes given that direct emissions at source and end use electricity consumption will be reported. Scope 2 emission estimates have the potential to mislead the community and investors, and they certainly do not provide a proxy for the impact of carbon pricing on an entity. The relationship between carbon prices and electricity prices will be very complicated in Australia's competitive national grid; the cost of carbon emissions will be one of many significant, and independent, variable inputs that influence wholesale prices in different regions. The financial

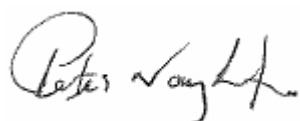
² National Greenhouse and Energy Reporting System – Regulations Discussion Paper, October 2007, page 1

exposure of an entity to the impact of internalising the cost of carbon in electricity generation is more directly indicated by electricity use, which can be readily compared with modelled projections of the expected impact of carbon pricing on wholesale or retail electricity prices.

Supporting the plethora of other existing greenhouse programs should not be allowed to complicate or impede the ability of the system to provide the data for the ETS design or operation. The introduction of an economy wide ETS effectively removes the rationale for most other regulatory measures that mandate reporting and management of greenhouse emissions. The Australian government will determine the level of emissions by setting a cap. The cost of carbon will then be internalised into business decisions and directly reflected in a company's financial reports. Actions by individual companies and other regulatory interventions to reduce emissions will only alter the mix of emissions under the cap and the price of carbon - significant reductions from one site or sector will reduce carbon prices allowing a compensating increase in emissions from others. All jurisdictions should review the relevance of their current regulated programs in light of the imminent introduction of an ETS.

In addition to the general points made above, more detailed commentary has been provided on selected sections of the discussion paper below. The esaa is interested in participating in the separate consultation process that is proposed in the discussion paper to look more specifically at the energy related definitions and reporting methodologies.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Peter Naughton". The signature is written in a cursive, flowing style.

Peter Naughton
Executive General Manager

Specific comments

Section 2.2 Greenhouse emissions

In light of the imminent introduction of an ETS, the focus of emissions reporting should be directly targeted to ensuring the emissions data required for the design, implementation and operation of the ETS. The key data is likely to be the scope 1 emissions of facilities in covered sectors, excluding emissions from some fuels where it is proposed that the point of liability will be placed upstream of the end use unless a facility 'opts in' to manage the liability. This will need to be supplemented with sufficient energy production data by fuel source at the upstream providers to allow estimation of embedded emissions in the fuel (eg scope 3 associated with product sales from a refinery), and will be complicated by the need to remove fuel sold to facilities that opt to manage the liability directly.

Unless there is explicit alignment between reporting requirements and ETS liabilities, there is some danger that important direct emission data will be lost in the aggregation of reported scope one data at a site.

It is also critical that the definition and boundary of the facility in the NGERS aligns with the defined boundaries for liable facilities and entities in the ETS. Without explicit alignment, the emissions reported by the 'operator' of a facility as defined in NGERS may not be able to be directly related with the facility and emissions associated with the emissions of a liable facility as defined under the ETS.

It would be a very poor public policy outcome if, due to inadequacies in NGERS, the administrator of the ETS was required to establish a separate reporting system in order to ensure transparent, robust and verifiable emissions data is available to underpin the acquittal of permits and ensure the market is informed about the level of covered emissions relative to available permits.

esaa contends that reporting scope 2 emissions is irrelevant within the context of a national energy and emissions data set, and for the operation an ETS. Therefore the reporting of scope 2 emissions should not be mandated. If the requirement to report on scope 2 does remain, then the proposal that the factors would be built into the system is desirable.

The estimation and reporting of scope 2 emissions adds unnecessary complications and is more likely to mislead than inform the community or market. No greenhouse emissions occur from electricity at the point of use, or directly from losses in transmission and distribution, the emissions occur at the point of generation. Scope 2 emissions must therefore be estimated using a factor that generally reflects the average greenhouse intensity for electricity generation in a particular region at some point in the past. This factor is calculated using historical data and then provided by the system administrator, so the reporter adds no value to the dataset by multiplying their electricity use by this factor. Region wide averages cannot take into account bilateral arrangements between a specific user and their retailer to source electricity with lower greenhouse intensity (such as 'greenpower').

It is proposed that end users will be able to opt to estimate their own scope 2 emissions where they purchase electricity with lower than average emissions. This is fair and reasonable if it is mandatory to report scope 2 emissions, however it must be noted that if a significant number of consumers do use this option, then the accuracy of the estimated scope 2 emissions for all other reporters will be reduced.

Section 2.3 Energy

esaa would like to highlight to the importance of ongoing energy reporting as part the NGERS due to the important role energy use will have in the macro-economic assessment of the impact of ETS design proposals, compensation for some industries, and in supporting key economic assessments and projections by ABARE and the ABS that inform government policy and investment decisions.

See comments in section 2.7 in relation to alignment of current mandatory energy reporting and NGERS.

esaa would like to participate in the additional consultation proposed for energy reporting.

Section 2.4 Corporate Groups

esaa notes the requirement for corporate group reporting under the requirements of the Act. Nonetheless, it is imperative that focus first be placed on the adequate and robust facility level reporting definitions and methods to support the introduction of an ETS.

As noted in the covering letter, it is difficult to justify the mandatory aggregation and reporting of emissions under the 'operational control' of 'controlling' corporate entities. This approach may suit voluntary company reporting, however it appears outdated in light of the imminent introduction of an economy wide ETS. Once the cost of carbon is internalised it will naturally be reflected in the financial accounts of the appropriate entities – those incurring the costs.

Section 2.5 Industry sectors

The definition of industry sectors, combined with proposed exemptions with regard to facility definitions for linear infrastructure, is generally supported. Discretion should be allowed for the scheme administrator to agree facility specific delineations if required for complex situations such as embedded cogeneration.

The final regulations should directly define whether energy use and emissions associated with transmission and distribution gas pipelines should be reported within category 503 (pipeline and other transport) or category 270 gas supply. The discussion paper indicates that 503 should be used, but this appears inconsistent with electricity transmission and distribution which is reported under electricity supply (261 and 262).

Section 2.6 Facilities

esaa welcomes and supports the significant improvement on previous definitions of a facility (such as that used for NPI reporting) for linear infrastructure. However, the description of the function of electricity transmission and distribution companies is seriously flawed and indicates a lack of understanding of the structure of the energy industry in Australia. Electricity transmission and distribution companies do not purchase and resell electricity; they are regulated monopolies that provide common carriage infrastructure according to the requirements prescribed the National Electricity Law and Rules.

Energy network companies are incentivised to invest in networks due to the return they receive on their regulated asset base. This return is set with consideration to the capital value of the asset base, expected loads and ongoing investment program. In addition, various incentives or

penalties apply to meeting defined operational performance indicators. To ensure that users do not have to pay for uneconomic overinvestment, the investment programs are assessed by an independent regulator against an economic test. Any government policy intervention to alter the incentive mix to favour reducing losses over and above the economically optimal level should be designed and implemented through the established national regulatory framework to ensure alignment with this regulatory regime. Policy proposals should be assessed and processed by the Ministerial Council for Energy, with assistance from the Australian Energy Market Commission who would also develop any required rule changes.

All regulated networks report their losses periodically to their economic regulator (in energy terms) according to prescribed methodologies. To complete the national energy dataset it may be appropriate that these losses are reported in NGERS. The methodology and reporting periods approved by the existing economic regulators for calculating and reporting losses should be used.

esaa maintains that mandating the reporting hypothetical estimates of the emissions associated with transmission and distribution losses (scope 2) is irrelevant to capturing Australia's energy related emissions or providing an incentive to reduce losses. It adds complexity without benefit. The scheme administrator, or any party with access to NGERS data, is well placed to estimate hypothetical greenhouse emissions associated with network losses if required, using the relevant primary emission data from electricity generators, and the energy produced, lost and consumed for any region or nationally.

Section 2.7 Operational control

It is particularly critical that the definition of the responsible reporting entity is able to align with the data needs of the ETS. It is not clear that the operational control definition will support this, and this should be verified against the design of the ETS at the earliest possible time and altered if necessary.

Placing the reporting obligation on the party in operational control, and defining this as the ability to introduce operating or HSE policies, does not appear to align with an economic instrument that seeks to fully internalise the cost of carbon. Given the considerable economic value that will be associated with carbon emissions and offsets, the entity liable to pay for emissions should be the same as the entity responsible for reporting those emissions.

Operational control also appears to be inconsistent with the energy reporting requirements under the Energy Efficiency Opportunities Act (EEO Act), where the purchaser rather than user of the energy is required to report on energy use³. This inconsistency is particularly perplexing given that the EEO Act is the only current program that mandates aggregation and reporting of energy or greenhouse emissions within corporate groups.

Section 5.0 Offsets

esaa welcomes the intention that the NGERS will support the recognition of early action which will potentially be eligible to create tradeable certificates that will be recognised under the ETS. However, we note that this brings forward the need to identify and align with the legal entity that will be entitled to create offset certificates. Creation of 'early action credits' or 'offset credits' in advance of the introduction of the ETS, is an area where the estimation and allocation of scope 2

³ Energy Efficiency Opportunities Regulations 2006, section 1.4

emissions may be required for specific projects. This should be done on a project by project basis, and it should be noted the need for this information will be eliminated following the introduction of the ETS.