

**National Greenhouse and Energy
Reporting System**

Response

to

Regulations Policy Paper

by

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1 Overview

Nationally consistent and comparable data will enable the ongoing development of policy and regulatory compliance as an emissions trading system continues to be formulated. While reporting is confined to the emission of greenhouse gases and the consumption and production of energy, existing reporting regimes continue to identify a range of additional regulated emissions from a carbon footprint impact perspective.

The national program is expected to provide consistent data on emissions across a number of industry sectors. This data will be reported and disclosed separately from other regulated emissions and, at this stage, it is understood that it will not be available for the public, data users and business on one access point or website.

From a community perspective, it is important that the business operations and their resultant greenhouse gas emission reporting be made as transparent as possible. Ideally competitive emission reductions are to be supported by the continual public disclosure, and the communities expectations from the corporate and public sectors to identify and minimise the impact of global warming.

From a performance perspective reporting and reduction in emissions will provide businesses with reputation benefits and support investor confidence. It will demonstrate that the reporting corporations are demonstrating proactive and responsible management by responding to climate change related risks that could, in turn, positively impact their investment returns.

2 Operational control

The issue of operational control is relevant for landfill and contract based services supplied by both the public and private sectors.

The local government sector has significant operational issues particularly regarding the deployment of third party service providers delivering community based services.

As part of future compliance reporting, it is suggested that the local government sector needs to identify and review emissions from landfill sites. From an operational perspective, local government has effective control over landfill sites. Some local government authorities directly own landfill sites while others contract the services to private operators. Landfill emissions are indirect in nature and may be contributing a significant level of carbon dioxide equivalent (CO₂e) due to the extent of methane emissions. Reporting of landfill emissions is considered to be a local government rather than a contractor liability since it is local government who determines what happens to the waste collected and therefore the resultant greenhouse impact.

It is the local government authority that determines which waste to send to landfill, which to recycle as well as the type of recycling system to be used. The inclusion of landfill emissions to local government reporting would provide greater awareness of the ultimate controllers of this greenhouse gas source and therefore further incentive to minimise the emission outputs.

The downside risk is if private operators were to be liable for landfill emissions, the resultant costs would subsequently be passed to local government and, in turn, to the constituent taxpayers. From a greenhouse gas reporting perspective, local government is mainly focusing on the procurement of green energy and the impact and reporting of fleet emissions. To further reduce their carbon footprints and minimise costs to the ratepayers, operational control of landfill should be the responsibility of the local government sector.

Local government is also responsible for the provision of a range of infrastructure and operational services including maintenance of parks, sportsgrounds, roadworks and waste collection. Many of these services are outsourced to private third party providers. As operational control of these services also rests with local government, it is important that systems and processes are implemented to ensure that third party providers can effectively identify, and record, the resultant emissions.

The policy paper addresses Contractor Reporting at section 3.4. This issue is discussed in the context of section 20 of the act where the contracted corporation refuses disclosure and is able to report directly. Notwithstanding the issue of

commercial sensitivity it is recommended that, where possible, local government be liable for the emissions of their third party contractors. This is also important to ensure consistent reporting across all local government entities. Local government generally has the capacity to either deliver these services using inhouse resources or outsource to a third party provider. Councils that deliver services inhouse, by engaging their own staff, plant and equipment, will logically be required to include resultant emissions as part of their regulatory reporting requirements. For comparability purposes it is important that local authorities who outsource these equivalent services, are also required to include the resultant emissions rather than allow them to be solely reported by the third party contractor.

For consistency with preferred public sector practices it is also suggested that reporting of emissions from privately outsourced services also be addressed in the context of the abovementioned discussion, and in particular, the determination of effective control.

3 Disclosure of information

The reporter is to make all reasonable efforts to complete emission data reports that contain no material misstatements and conform to the calculation methodologies as identified in the technical guidelines. Appropriate systems of internal audit and quality control are required for the reporting program.

For verification purposes it is suggested that all documentation is to be retained for a minimum of five years. Ideally reporters will develop procedures for the retention and record keeping of documents. Retention is to be in paper and/or electronic format and sufficient to enable the verification of emissions data and greenhouse gas inventory.

Ideally reporting documentation would include:

- List of emission sources
- Collected data including data used for uncertainty analysis

- Technical descriptions of any continuous measurement systems including the relevant approval authority for higher order methodologies
- Quality control information

4 Audit services

It is expected that reporters would engage the services of accredited verification bodies (external auditors) and be subject to annual audit requirements. To ensure ongoing probity it is also recommended that reporters do not engage the services of the same audit body for a period of more than five consecutive years.

Consideration may be given to the completion of full and summary audits on alternate reporting years. To save costs it may be prudent for reporters to be subjected to a less intensive summary audit in a year that follows a full verification audit. The full (intensive audit) could be conducted in the initial reporting year then on a bi-annual basis thereafter. Following successful results from the full audit process, a reporter could then be subjected to the less intensive summary audit on alternate years. Approval to the summary audit would be conditional to a satisfactorily audit report for the full audit process.

Approved verification bodies (auditors) would be required to demonstrate the expertise and skills such as is applicable to registered company auditors.

Following appointment to a reporting entity, the auditors would need to provide the following information:

- Development of an audit plan. The plan would provide documentation including the methodologies applied to quantify the production and consumption of energy and the level of greenhouse gas emissions. The plan is also designed to enable the audit team to scope the reporter, its facilities, operations and emission sources.

- Inclusion of a sampling plan. The sampling plan is to be based on an assessment of the scope and complexity of the reporters operations. The plan should also consider the impact of uncertainties and estimates used by the reporter in calculating emission levels. Sampling plans should include a risk assessment that includes review of data sampling and frequency, emissions calculations, data processing and data reporting.
- Audit processes are to include verification of data from the identified emission sources, transaction data according to risk as well as the extent of materiality.
- Auditors would be required to make necessary site visits to enable a satisfactory level of assurance and authorisation according to audit standards.
- Audit firms would need to conduct a review of each facility operations to identify and quantify greenhouse gas emission sources.

Audit findings would report on the degree of reasonable assurance that the emissions are within an agreed percentage of actual carbon dioxide equivalent (CO₂e) emissions. To ensure ongoing integrity of the reporting entity , the agreed level of assurance would be in the order of 90 to 95 percent accuracy. Auditors would also be required to prepare and authorise an audit opinion consistent with the required verification standards.

Auditors would have the necessary background including formal qualifications and evidence of significant and relevant work experience to conduct the audit process.

In light of the complexity of emissions verification, the application of industry or facility specific auditors may be applicable. In addition to industry specific accreditation, specific auditors would also need to satisfy the criteria for general audit qualification – unless the industry specific auditor was operating under the control and supervision of a generally qualified emissions reporting auditor.

From an audit team perspective it is preferable that the general, or lead, auditor would be supported by industry specific auditors. Specific industry expertise is considered necessary in the areas of petroleum, fossil fuel and cement plant specialisations.

5 Reporting and enforcement

Compliance effectiveness will depend on the ability to detect violations and the legal, technical and resource capacity of regulators to deal with these violations.

As well as fixed rate penalties for violations, penalty systems should also deduct excessive emissions from allowances that are provided within the ensuing compliance period. This would assist with environmental integrity as well as serve as a deterrent to ongoing non-compliance.

United States based programs, such as the Regional Clean Air Incentives Market (RECLAIM), impose stringent requirements on their reporting facilities. Their facilities are required to implement continuous emissions monitoring systems wherein periodic data is collected and entered for quarterly reporting to their Environmental Protection Agency. Subsequent penalties applied where non-compliance of data accuracy was detected via the audit programs.

This will be particularly important for an Australian regulatory perspective where there is significant reliance on higher order methods to calculate emission factors in lieu of the application of the National Greenhouse Authority default emission factors.

It is expected that the key mechanisms to ensure ongoing compliance are the reporting and registration of emission sources. This would be supported by the implementation of integrated computer systems – ideally an internet based monitoring system to enable public access where possible.

Existing schemes tend to operate as a “downstream” rather than “upstream” regime. Downstream regimes generally ensure the participation by a larger number of reporters as well as the political issues associated with the implementation of

upstream regimes. Upstream proposals, where fossil fuel suppliers have the reporting obligation, would be able to transfer the main part of additional costs to end user suppliers and therefore capture larger rentals and returns. The application of this regime has generally not been supported by existing international trading schemes.

While the primary consideration is to develop a national system for the estimation of emissions and removal of greenhouse gases, an Australian system needs to operate in the context of the international environment with regard to standardisation under the Kyoto protocol. This is important notwithstanding that each trading scheme tends to develop its own monitoring, accounting and enforcement systems.

The United Nations Framework Convention on Climate Change (UNFCCC) provides a common reporting format to aid consistency and assure report completeness.

Standardisation of monitoring and accounting or reporters provide the following advantages:

- The creation of comparable and credible greenhouse gas units that can increase international investor confidence and facilitate trading.
- From a political and goodwill perspective standardisation would enhance environmental integrity by promoting consistency, transparency and credibility in monitoring of greenhouse gases.
- Support reporters in their ability to identify and manage greenhouse gas related assets and liabilities for risk management purposes.

By way of example the Greenhouse Gas Initiative (Cherp 2003) operates a standardised system that operates under the World Business Council for Sustainable Development.

Notwithstanding the need for standardisation, compliance enforcement remains a national objective. While agreement is necessary at the international (Kyoto level), participating nations that find international penalties too high could simply withdrawal from the protocol thereby avoiding the penalties.

6 Trading system policy issues

A mandatory greenhouse gas reporting and disclosure program is an essential first step to the development of an effective emissions trading system. It is imperative therefore to ensure adequate disclosure by the largest greenhouse gas emitters particularly regarding direct emissions from their facilities and vehicle fleets, and indirect emissions generated elsewhere in association with their purchase of electricity, heat, and steam.

Ideally businesses and individuals that register greenhouse gas reductions are not penalised under the climate policy. This can be facilitated by implementation of a protection program that enables transferable credits to companies that achieve real greenhouse gas emissions reductions. This would improve the quality of voluntary reporting and recognise the importance of protection and transferable greenhouse gas emissions reduction credits.

An entity's level of protection could be based on emissions reported during its first year of reporting under this program.

It is expected that mandatory reporting would, in turn, stimulate voluntary reductions across the economy. This would help to ensure that voluntary greenhouse gas reductions that are tracked in accordance with the reporting program (including verifiable previous reductions) are recognised.

Acceptance of the program would be supported by minimising the cost and general burden associated with reporting and maximise transparency and accuracy. This can be achieved by the establishment of reporting protocols, emissions factors, electronic reporting, and integration with other greenhouse gas and environmental reporting programs.

A basis for reporting emissions from a particular entity is the Greenhouse Gas Protocol Initiative Corporate Accounting and Reporting Standard, which was developed through an international multi-stakeholder process (*Source: WBCSD/WRI, The Greenhouse Gas Protocol Initiative*). Electronic reporting should be allowed and

encouraged, in a format that allows entities to report directly from their internal electronic databases to the reporting system.

Regulators will need to address the expected behaviour of emission trading system reporters and their likely participation in an emissions permit market. The ability to identify and track permits is imperative in order to detect potential non-compliance. Regulators would then be required to ensure each reporters emissions do not exceed the level allowed by the number of permits held by any one reporter / participant.