
**AIGN Submission to the
Climate Change Authority's review of the
National Greenhouse and Energy Reporting
Scheme
(NGERS)**

September 2023

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SUMMARY

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to provide a submission to the Climate Change Authority (CCA) for consideration during its legislated review of the National Greenhouse and Energy Reporting Scheme (NGERS).

AIGN notes the questions contained within the CCA's Survey¹ and recommends to the Authority that:

Objects and scope

- Any proposed changes are rigorously assessed against the objects of the Act.
- The credibility and integrity of Australia's internationally regarded national reporting system are recognised and continue to be endorsed by the Government.
- A phased expansion of NGERS is introduced to improve data collection across non-covered sectors (40% of Australia's emissions).

Integrity

- NGERS continue to uphold the highest integrity standards and to do so through open, collaborative, and constructive dialogue with clients.
- Where reports emerge, scientific or other, that challenge or contradict NGER data or methods, the Government should verify and respond promptly with either a public response to such reports or a commitment to address the matters raised (via the determination process).
- The continuous review and improvement requirements embedded in the NGER determination guidance are recognised and communicated as an effective instrument to annually review and revise emission factors based on sound science and ground truthing.
- The emergence of remote sensing measurement should be rigorously ground-truthed against the existing 'bottom-up' methods, and any measurement method changes should be assessed on a cost-benefit basis.

Indirect emissions

- The framework and purpose for Scope 2 energy and electricity reporting should be reviewed, and a working group of reporters and data users be established to advise on scope and format and address issues such as double counting.
- Scope 3 emissions is an important data analysis tool to assess climate risk and a working group should be established to advise on scope and format, recognising that NGER is not a suitable frame for this purpose.

¹ (<https://www.climatechangeauthority.gov.au/timeline-extended-authoritys-survey-national-greenhouse-and-energy-reporting-act>)

ALIGNMENT WITH PARIS GOALS

The *Climate Change Act 2022* requires policies to have regard to Australia's Paris-aligned net-zero by 2050 target and related matters (e.g., Australia's emissions reduction target of 43% below 2005 levels by 2030), to ensure consistent progress towards the world's goal of limiting global warming.

AIGN supports this alignment and recognises that the NGER legislation is an important and effective component of the Australian Government's approach to climate change management and its obligations under the Paris Agreement.

The level of ambition required to meet Paris Agreement goals will require deep and rapid action across the world.

The inherent uncertainty in this space justifies the Government's attention to maintaining the international competitiveness of entities operating in Australia, including in the development of international best practice benchmarks.

AIGN recognises the need to strike a careful balance to satisfy multiple priorities and to ensure that the underlying data on which domestic climate policies are based is credible, verifiable, and clearly reported.

OBJECTS OF THE ACT

NGERS is key to underpinning a substantial part of the Australian Government's climate policy suite and supporting ambition in aiming for net-zero emissions by 2050.

The stated objects of the NGER Act are twofold.

Firstly, NGERS was to:

'introduce a single national reporting framework for the reporting and dissemination of information related to greenhouse gas emissions, greenhouse gas projects, energy consumption and energy production of corporations.'

The purposes of this information include:

- informing the development of policy;
- informing the Australian public;
- meeting international reporting obligations;
- assisting government programs and activities; and
- avoiding duplication of similar reporting.

The second object relates to the 'safeguard outcomes' which are specifically about the Safeguard Mechanism achieving its intended goal of reducing emissions, expressed as a ceiling of cumulative emissions, while trade-exposed industries' competitiveness is supported.

COVERAGE: WHOLE-OF-ECONOMY APPROACH

As stated in the objects of the Act, NGERS is designed to inform and underpin Australia's climate policy suite.

This requires alignment across policies, which can be seen in programs such as the Safeguard Mechanism and the Emissions Reduction Fund. NGERS should also seek alignment with Australia's National Gas Inventory, which forms the core of Australia's reporting to the United Nations Framework Convention on Climate Change.

On this basis, AIGN supports expansion of NGERS to non-covered sectors, to promote a whole-of-economy approach to reaching our 2030 and 2050 emissions reduction targets. Expanding compliance reporting to these sectors (40% of Australia's emissions) will facilitate the alignment with the actions needed for a net-zero pathway and underpin Australia's international reporting obligations.

While AIGN broadly supports the benefit of having a more inclusive reporting base covering more of the economy, many factors will need to be balanced to bring this about (e.g., transparency, cost, materiality).

It would require care and consideration consistent with the design of the current NGERS framework.

As such, a phased approach is recommended to build capacity and allow time for learnings to be integrated into the design.

To foster a whole-of-economy decarbonisation approach, the Government should also assess the suitability of the facility threshold of 25,000 tonnes. Any change to the threshold should be carefully considered; this would require consultation and analysis of the amount of data and types of facilities a lower threshold would include in the scheme.

Achieving net zero by 2050 is widely recognised as a difficult and ambitious, albeit essential, undertaking. All sectors will need to engage in the transition.

Expanding the coverage of NGERS will aid Australia's efforts by improving our ability to monitor and verify abatement, and to design appropriate incentives and limits to achieve our emissions targets.

AIGN is in favour of all reasonable efforts towards this endeavour and recommends a consultation process with existing reporters, new sectors, and data users.

INTEGRITY

The NGERS framework deserves its high regard as a strong, credible, and comprehensive framework for reporting all six Kyoto Protocol recognised greenhouse gases.

The yearly NGERS Measurement Determination process, as well as regular legislated reviews, allow changes to be introduced to ensure the framework can be improved in response to new information.

Methods

The design of NGER emissions calculation methods was motivated by the first object – to create a framework for the measurement and reporting of data related to greenhouse gases.

The Act recognised that direct measurement was not always the most practicable, cost-effective, or materially appropriate approach.

To address this, a hierarchy of conservative (overstated) estimation factor-based methods was developed.

All methods were developed carefully and systematically to uphold the integrity of the data being collected. Reporting entities can apply the method best suited to their facilities.

This approach is reinforced by the annual determination process, led by the Department, to review and revise emission factors where warranted.

New methods

The emergence of remote sensing measurement should continue to be supported, and improvements monitored. At the same time, it should be recognised that a 'top-down' method must be rigorously ground-truthed against the existing 'bottom-up' methods.

This is a highly complex area requiring significantly more work to calibrate for background emissions sources. These measurement methods should also be assessed on a cost-benefit basis.

Potential new methods should be subject to the same stringent standards that current methods were developed by. If and/or when such methods have the capacity to provide sound facility-level data suitable to the NGERS framework, AIGN members will be interested in being involved in a considered, sensible process to evaluate their inclusion in NGERS.

Challenge misperceptions

Greenhouse gas emissions reporting is complex and requires sophisticated analysis and commentary.

AIGN is concerned that the strong history of NGERS is being diluted by unchallenged claims.

The rationale and history for NGER methods should be more broadly understood and communicated.

This will correct the misperception (from some) that there may be significant under reporting of emissions, and that the application of emission factors inherently implies this when compared to direct metering.

This assumption ignores the logic with which NGERS was designed and the conservative approach taken to develop emissions factors.

Reporting entities that use estimation rather than direct metering are not withholding information or completing their obligations to a lesser degree of veracity. Further, there may be site-specific determinates that preclude direct measurement / metering.

The Act is objective-based rather than prescriptive, and as such focuses on reporting greenhouse gas emissions rather than prescribing the method for each element within each facility.

Any reports that challenge the veracity of NGERS should be expediently reviewed and where proven, changes integrated through the determination process, and where unproven, claims of this nature should be strongly refuted, as they threaten to undermine the integrity of NGERS (and, potentially, reporting entities by extension) without due cause.

SCOPE 2: STREAMLINED AND CONSISTENT ENERGY REPORTING

AIGN members have consistently requested a reframing of the energy produced and consumed reporting element of NGERS as it is misleading and confusing for many due to an inherent element of double counting of energy consumed. A company therefore will report a different energy figure to that which they report elsewhere e.g., an annual report or to another government agency.

Data users are highly likely to conclude that an entity's consumption and/or production of energy is much higher than the actual energy produced/consumed.

The stated object of the act is to provide a single national framework for greenhouse and energy reporting. However, AIGN members note that they are still required to report energy emissions for other compliance-related obligations e.g., ABS, ABARE, and company annual reports.

Some AIGN members also have an interest in revising the emissions factors used for reported energy.

GHG Protocol: international alignment

The GHG Protocol Corporate Accounting Standards allow for the removal of double counting of scope 2 emissions when they are reported as scope 1 emissions elsewhere within an inventory.

Examples include gross and net energy consumption within a facility, and when a facility within a controlling corporation reports scope 1 emissions from generating electricity that is consumed at a second facility within the same controlling corporation.

When facilities are aggregated in a corporate-level report, this leads to double counting, which should be addressed. A net scope 2 emission value for corporate aggregate reporting could be considered before market-based reporting is incorporated into NGERS.

Market-based method for scope 2 emissions

The CCA's previous consultation paper, which covered several issues, included detailed technical content on a market-based method for scope 2 emissions.

Despite the optionality of this proposed method, there is concern with the short consultation period, and the limited consultation leading up to the detailed design before the Department proposes to implement this method.

Additionally, there is some concern that the method still needs stress testing for soundness and technical correctness. The consultation timeframe does not allow enough time for these concerns to be adequately addressed.

Residual mix factors

The use of a national residual mix factor (RMF) is not universally supported, as it can give inaccurate and skewed results, particularly in the states/territories with the highest and lowest renewable electricity generation.

Additionally, corporate dual electricity reporting would not be on a comparable and equivalent basis, as these are completed using location-based factors.

AIGN suggests state and territory-based RMFs should be provided, similar to location-based factors available under NGERS. These would allow for quality and comparability of reporting, much better than a national factor.

A key purpose of a market-based approach is to reflect commercial choices and the resulting differences these may make to inventory. This purpose would be better served by providing state and territory based RMFs.

Where the facility purchasing electricity is not one of the primary electricity grids, the formula for calculating market-based scope 2 emissions should allow the facility to use a factor provided by the supplier for the local electricity generation grid.

Biofuels: integrating new energy sources

AIGN welcomes the implementation of the proposed changes that relate to the addition of new biofuels on 1 July 2023.

AIGN notes that a significant outstanding element still to be resolved, both for new biofuels and for biomethane (added last year), is the application of location-based accounting. AIGN supports the urgent development of a solution to this issue.

The Safeguard Mechanism would certainly benefit from a method to recognise and incentivise the use of lower emissions fuel mixes. A mass-balanced accounting approach is preferred to reflect the emissions reduction benefit associated with the purchase and/or use of biofuels.

Some AIGN members have raised concerns that if a market-based approach were taken for the replacement of fossil-derived feedstocks for biofuels, a ‘precedent’ approach could be taken for all alternative feedstocks.

In the case of pyrolysis oil derived from tyres or waste plastic, the economic viability of some of these projects would be severely limited in a market-based approach. Therefore, a mass-balanced approach for all alternative feedstocks is supported.

In many cases, biofuel distribution sees the fuels comingled with their fossil fuel alternative, often via shared infrastructure.

Once biofuels and fossil fuels are mixed it is not possible to track actual molecules, despite the fuel mix proportions being known at the point of comingling.

SCOPE 3: SUPPLY CHAIN AND PRODUCT STEWARDSHIP

AIGN supports a sensible approach to scope 3 emissions reporting. A whole-of-economy approach to reaching net-zero should include consideration of scope 3 emissions in Australia’s carbon footprint, to better understand our impact in both domestic and global contexts, and to explore options for supporting decarbonisation.

Scope 3 reporting includes the entire supply chain (on an equity rather than operated basis) – and the supply chains of entities’ suppliers; an administratively complex, expensive, and methodologically challenging reporting exercise.

There are many views from stakeholders regarding the purpose of scope 3 reporting, pointing to a fundamental need for stakeholders to come to a better understanding of each other’s positions and concerns.

For AIGN members, scope 3 reporting makes the most sense in the context of managing risk. Scope 3 emissions, by definition, are emissions that occur outside an entity’s direct control, and therefore they represent a potential risk (or a potential opportunity) to the entity’s operation.

For this reason, AIGN is engaging on scope 3 reporting within the Treasury’s consultation on designing a climate-related financial disclosure framework. This will effectively include climate risks and opportunities to the suite of financial risk and opportunity reporting obligations of entities.

The concept of operational control is the foundation on which the NGERS framework is built. Companies report emissions that are produced at their operated facilities – which they control, both in terms of measurement and output.

Given the NGERS framework is facility-based, and entities report on the basis of operational control of a facility, AIGN does not consider NGERS to be the correct tool for reporting scope 3 emissions.

One of the challenges of reporting scope 3 emissions in NGERS would be the difficulties for reporters to obtain emissions information from third parties – it would not be feasible to expect an entity to track and disclose the emissions information of other businesses. Scope 3 emissions are furthermore not limited to Australia, and acquiring reliable data from other jurisdictions for NGERS would be problematic at best.

Despite scope 3 reporting being unsuitable within the NGERS framework, AIGN is in favour of exploring how scope 3 emissions can be most appropriately reported.

AIGN recommends the Government form a working group to explore the many issues related to reporting scope 3 emissions. Reporting entities should be strongly represented in such a working group, and complemented with end users (e.g., the investor group on climate change and similar) and auditors to assist in bringing balance to their output.

Issues for the working group to explore should include the purpose of reporting scope 3 emissions, the materiality of different sources of scope 3 emissions (e.g., supply chain emissions versus emissions associated with the administration and operation of a business), and the use of scope 3 emissions data by governments and other end users.

The working group should support the Treasury's work on climate-related financial disclosures and the Department's work on carbon border adjustment mechanisms, advising on an approach to scope 3 reporting and seeking workable solutions that meet the needs of reporting entities and end users in a credible reporting framework.

CONCLUSION

AIGN is a network of industry associations and individual businesses. Our focus is on collaborative discussions on key climate policy issues and providing a forum for information-sharing and analysis.

AIGN is a unique community of highly experienced professionals, bringing together our collective knowledge and expertise in international, national, and local climate policy.

In considering this written submission and other contributions to this conversation, please recognise [AIGN's broad membership base](#). Our engagement reflects our long-held [climate change policy principles](#) and is reflective of the common views of our members but does not directly represent any individual industry association or corporate members.

AIGN members are best placed to provide detailed, specific feedback relevant to their industries, locations, and other circumstances.

Thank you for taking AIGN's feedback into consideration in your review of NGERS.

AIGN welcomes future opportunities to engage with the CCA.