Australian Government
Department of Climate Change, Energy, Environment and Water
Climate Science Team

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Draft National Climate Scenario Guidance

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Climate Change, Energy, Environment, and Water's (the 'Department') consultation on *Draft National Climate Scenario Guidance* ('Draft Guidance').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 and is committed to delivering the energy transition for the benefit of consumers.

The electricity sector is at the forefront of the energy transition and understands the importance of robust climate scenario planning. The introduction of Treasury's mandatory climate disclosure regime formalises stronger climate governance across the economy and will illuminate how many businesses are evolving to deliver their climate ambitions.

At the same time, the reporting regime does represent a significant regulatory burden and there are many data gaps that businesses must contend with. This is exacerbated by the complexity associated with navigating overlapping emissions reporting and financial disclosure schemes. It is very important that this Draft Guidance (and any future guidance material) is consistent with existing regulatory frameworks and reporting standards, and is coordinated across the various government departments and agencies.

To assist the electricity sector with its reporting, the AEC has for the past year collaborated with the University of Adelaide to target some of the trickier reporting aspects. The end product of this collaboration has been the publication of the AEC Emissions Reporting Guide, which aims to standardise how the electricity sector reports Scope 3 emissions, and the AEC Scenario Analysis Practice Guide which energy industry participants can use when assessing their climate risks and opportunities.

This material concentrated mostly on scenario transition planning, partly because of the delayed release of the National Climate Risk Assessment ('NCRA'). Its subsequent release alongside the publication of this Draft Guidance are significantly valuable resources for businesses still preparing their physical risk assessments under the disclosure framework. The AEC encourages the timely release of similar materials in the future to guide and streamline corporate disclosures and improve comparability.

Overall the AEC supports the direction of the Draft Guidance subject to the language being tightened to give industry confidence in its useability and reduce any unintended legal risk.

To that end, this submission is broken into two parts: Part A highlights what aspects of the Draft Guidance are useful and should be retained in the final version, and Part B makes some recommendations for refinement between now and the final guidance.

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Part A – What the Draft Guidance does well

The AEC supports many aspects of the Draft Guidance and would like to see them retained in the final guidance. These contents will improve comparability and reduce the burden on entities by establishing the guardrails for what their physical risk assessments should contain.

- **Time horizons** – the suggested time horizons laid out in 1.3 and aligned with the NCRA are reasonable. While these are not and should not be prescriptive, the AEC expects most reporting entities will consolidate around these horizons, especially for medium- and long-term risk. As explained below, it is important that the Guidance is explicitly clear that these time horizons apply to physical risk assessment and not transition risk.
- **Prioritising ranges over averages** – the use of ranges over averages when evaluating scenario impacts better captures tail events and is important for highlighting that even in a 1.5C scenario, there could still be weather outcomes consistent with higher temperature levels (just ultimately less likely).
- **Support entities undertake qualitative analysis** – the Guidance should clarify to entities what breadth and depth of analysis is expected when it comes to undertaking qualitative assessment of physical risk. The narrative and metrics for each jurisdiction to be developed are very useful on this front and will provide entities with a common baseline.
- **Description of hazards** – it is helpful to characterise both acute and chronic risks, noting there are some blurred lines between them in different time horizons.
- **Unpacking the pros and cons of scenario options** – the AEC agrees in-principle that scenarios should cover a suitable range of possible futures including high end risk and cascading, compounding, and concurrent trends, noting that entities will ultimately decide which scenario or scenarios are most suitable to their business' assets. As explained below, the Guidance should focus on explaining the pros and cons of different scenario options rather than having "recommended" and "not recommended" scenarios.

Part B – Where the Draft Guidance can be improved

The Draft Guidance in its current state, while heading in the right direction, has some drawbacks that may limit its usability by reporting entities. These drawbacks are fixable and mainly require tidying up the language to ensure reporting entities understand the Guidance is limited to physical risk assessment and avoiding prescription so entities can decide which scenarios best apply to their business.

Recommendation	Reasons
Clarify that the scope of the Guidance is for physical climate risk assessment only	Part 1 of the Guidance has a line that "transition risks are not covered in this guide" and points to additional guidance for transition risk and opportunity assessment. This is important and should be more strongly and frequently emphasised throughout the document. Absent this, some entities may misinterpret the Guidance as applying to transition risk analysis which could inadvertently lead to greenwashing. The Department should keep in mind that many people do not read material from absolute start to finish and instead focus only on relevant sections. There should

	therefore be clear references to physical risk in titles, heading, sub-headings and important figures (such as Table 1) to avoid any confusion. The Department should also coordinate with Treasury to ensure there is clear delineation between this Guidance and the Climate-related Transition Planning Guidance under development. For example, the time horizons that entities use for physical risk are different to transition risk. It is important that this type of distinction is clear in both Guidance documents.
Ensure there is agreement across all relevant departments and agencies that the final Guidance supports industry compliance with regulatory requirements	There is inherent complexity in climate disclosure reporting because many aspects involve legal interpretation. For industry to have confidence in applying the Guidance, there needs to be agreement across relevant government departments and agencies (such as Treasury, ASIC and the AASB or External Reporting Australia) about its contents. To that end, the AEC would like to see the Final Guidance contain a statement to the effect of "this Guidance has been produced with support from Commonwealth Treasury, ASIC, and External Reporting Australia".
Use language that guides interpretation but avoids prescription	The AEC appreciates the candour of the Draft Guidance in identifying which RCPs are preferred and this should improve the quality of stakeholder feedback. The AEC's view is that it would be better for the Guidance to provide reasons for and against using different scenarios rather than adopting "recommended" and "not recommended" terminology. This is because: • Some entities who have already prepared their physical climate risk assessments are taking approaches different to the Draft Guidance. For example, some entities in the energy sector are modelling RCP8.5 to stress test their resilience in the "worst case" scenario. While this scenario might seem unlikely now, energy businesses can have assets with up to a 100-year life span. • The advice in the Guidance that SSP1-2.6 range should satisfy the 1.5C requirement under the Corporations Act is not consistent with industry practice in the energy sector, where RCP1.9 is generally used to reflect a 1.5C scenario. As one example, AEMO's 2025 Inputs, Assumptions, and Scenarios Report uses RCP1.9 for its 1.5C scenario.

	• As stated in the Guidance, government-owned entities will have their own guidelines which could create confusion if it is not aligned with the "recommended" and "not recommended" dichotomy. • While the Department's assessment that certain scenarios are "unlikely with current policies" is fair, policies will ultimately change and reporting entities want to consider their resilience in a broad range of scenarios. Some entities view establishing scenario bookends as the most prudent way to stress test their resilience to fringe events. The AEC and its members would be happy to work with the Department to help breakdown the pros and cons of different scenario range options, noting some AEC members are advanced in undertaking physical risk assessment. In either situation, it would be helpful for the Department to explain further what is meant by "unlikely with current policies" – e.g. is this an assessment of global or domestic policies?
Acknowledge that 1.5C scenario has poor data availability	Many entities observe data availability challenges relating to a 1.5C physical risk scenario. For example, there is limited downscaled data for the SSP1-1.9 scenario, and it is understood that the IPCC no longer updates the dataset for 1.5C. This means the climate data around that scenario may not be granular enough to be useful for evaluating physical risk. This type of constraint should be clearly communicated in the Guidance and would be the type of reason that the Department should include when assessing the pros and cons of each scenario range.

The AEC welcomes any opportunity to continue working with DCCEEW to develop this Guidance.

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Yours sincerely,

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