Department of Climate Change, Energy, Environment, and Water
Climate Active

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Climate Active Program Direction Consultation 2023

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 the *Climate Active Program Direction Consultation 2023* ('Consultation Paper').

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 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The rise in businesses and organisations making climate pledges has equally given rise to the risks of greenwashing. There have been a range of measures in the past year to improve the integrity of carbon claims, including the Independent Review of Australian Carbon Credit Units ('ACCU Review'), Treasury's Climate-related Financial Disclosure Regime, the forthcoming Sustainable Finance Taxonomy, and ASIC's publication of greenwashing guidance for businesses.

The intent then to improve the rigour of Climate Active certification aligns with these other efforts taken. To that extent, the AEC supports the general theme of this Consultation Paper to place a greater priority on direct emissions reductions from participating entities, where abatement technologies are commercially available. Direct emissions reductions are more likely to necessitate the structural economic changes needed for Australia to meet its climate targets under the Paris Agreement. Sensibly, the reforms still allow for some offset use, which is necessary for hard-to-abate industries to access cost-efficient abatement.

These reforms might create some challenges for businesses that have climate ambition but cannot necessarily achieve linear emissions reduction. This is especially the case for the electricity sector where decarbonisation is a whole-of-industry effort coordinated through an independent Australian Energy Market Operator ('AEMO'), and increasingly subject to both federal and state government electricity planning policy. In these circumstances, the AEC encourages Climate Active to take into account the climate transition plans of electricity businesses when measuring progress.

The AEC has responded to each proposal below.

Proposal 1 and 2 – Emissions reduction targets and measuring progress

The AEC agrees that participants should be required to produce and report on progress towards their organisation's emissions reduction strategy. This is essential to the integrity of any climate or green-friendly certification label. Many business entities will already be starting to do this as part of their obligations under Treasury's Climate-related Financial Disclosure Regime. While the Exposure Draft for this regime is yet to be made public, it is expected to require captured entities to publish:

- climate resilience assessments, one of which must be aligned with Australia's Nationally Determined Contribution ('NDC') as set out in the *Climate Change Act 2022*;

- a transition plan that includes information about offsets, target setting and mitigation strategies; and
- information about climate-related targets and progress towards these targets.

Entities will be required to have these disclosures audited to ensure their integrity, with the auditing requirements increasing over time. The AEC considers this auditing process should be sufficient to satisfy any independent verification requirement under this scheme.

With respect to progress reporting, electricity businesses face a unique set of circumstances that might not be fairly represented if a strict three-year review period is adopted. These unique circumstances relate to the whole-of-industry feature of electricity decarbonisation and the role AEMO plays in coordinating electricity and gas markets. This means that, as far as emissions reduction targets go, there should be recognition that:

- Plant closures depend on a range of whole-of-system factors outside an individual company's control, including (but not limited to) system security, building of replacement capacity, and transmission access.
- The emissions reductions of electricity companies tend to occur in a lump (i.e. when a fossil fuel plant closes), rather than being a linear reduction over time. During the life of a plant, there will be fluctuations in emissions due to unexpected outages, unseasonal weather, fuel supply issues, market dynamics and technical limitations. This can make it difficult to measure how an electricity company is progressing towards a climate target, especially in a three-year time window.
- Strong government involvement in the NEM, which includes some plant closure arrangements with state governments, means the transition planning of individual companies is increasingly reliant on the effective rollout of government electricity planning policies. This is evidenced by the Federal Government's recent announcement that it will enter into bilateral Renewable Energy Transition Agreements ('RETA') with the state governments to manage thermal exit. A slower than expected rollout can cause delays in plant closure and corporate transition plans and targets.

The role of gas-powered generation in the energy transition is a useful illustration of how these challenges complicate Climate Active certification for electricity businesses. AEMO's 2022 Integrated System Plan – which models electricity transition and decarbonisation scenarios – forecasts a "critical need" for about 10GW of gas-powered generation to "complement battery and pumped hydro generation in periods of peak demand, particularly during long 'dark and still' weather periods ... cover for planned maintenance of existing generation … [and] provide essential power system services to maintain grid security and stability".[1] AEMO's Draft 2024 Integrated System Plan has now increased the amount of back-up gas-powered generation capacity needed to 16GW by 2050.[2]

But this creates a perverse anomaly when assessing the progress of an individual business's emissions reduction targets. Investment in gas dispatchable capacity will hasten the decarbonisation of the electricity sector because it allows for the smoother closure of higher emitting coal-fired power stations – most likely to be owned by another business or government. This means then that some investment decisions taken to decrease the electricity sector's overall emissions will unfortunately increase an individual company's emissions.

[1] AEMO, '2022 Integrated System Plan', June 2022, p11.
[2] AEMO, 'Draft 2024 Integrated System Plan', December 2023, p19.

There are ways to manage these challenges to avoid disincentivising participation. One option is that progress assessments take into account the transition plans of electricity businesses and how they align with the broader electricity sector transition planning policies of AEMO and/or governments. This can allow for businesses with likely "lumpy" emissions reductions to continue to participate. For example, the three largest electricity businesses – AGL, Energy Australia, and Origin – have each published a Climate Transition Action Plan.

Another option is for progress assessments to consider the "abatement" value of an electricity business (i.e. how much emissions are being displaced because of the action of a business). Doing this would involve the business providing data (likely through an emissions intensity factor) to show how an investment (such as a gas-powered generator, large-scale battery, or a wind or solar farm) is displacing coal-fired generation and thereby reducing emissions.

Proposal 3 – Boundary guidance

The AEC supports developing additional boundary guidance to improve comparability of claims across businesses and reduce consumer misunderstanding. Any additional guidance should consider:

- How Climate Active will apply to participants with international operations. The AEC's early view is that the scheme should be confined to commercial operations in Australia only. This is because Climate Active is an Australian certification scheme and there are administrative complexities with overseeing and verifying commercial activity unrelated to Australia.
- The complexity and administrative burden of calculating scope 3 emissions. It was acknowledged during Treasury's climate disclosure consultation that the data and reporting capability of businesses and auditors was not yet robust, and some transitional measures were subsequently put in place.
- Adopting a materiality threshold for the reporting of scope 3 emissions. This is to reduce administrative costs and recognise that some smaller organisations across a business's supply chain might not have readily available data.

Proposal 4 – Rolling vintage requirement for international carbon offsets

The AEC agrees with the proposal to make international carbon offsets subject to a 5-year rolling vintage requirement:

- It is consistent with the Consultation's Paper direction to prioritise incentivising companies to pursue direct emissions reduction. Importantly, technologies like electrification are readily available to start decarbonising some business activities.
- For those hard-to-abate sectors where technology is not available, there is still the option to use international carbon offsets.
- Tighter supply of international offsets should encourage greater supply and demand for ACCUs, with the co-benefits of offset projects being located in Australia rather than overseas.

Proposal 5 – Minimum percentage of renewable electricity

The AEC agrees in-principle that participants should source a minimum percentage of renewable electricity to power their operations and would expect that for most participants this would represent good business practice to reduce their emissions over time and meet their climate targets.

With that being said, the AEC is wary about some perception issues emerging if businesses are making claims about their renewable electricity use under Climate Active. These perception issues relate to the misrepresentation to customers that renewable electricity generation is the only or primary solution to carbon abatement.

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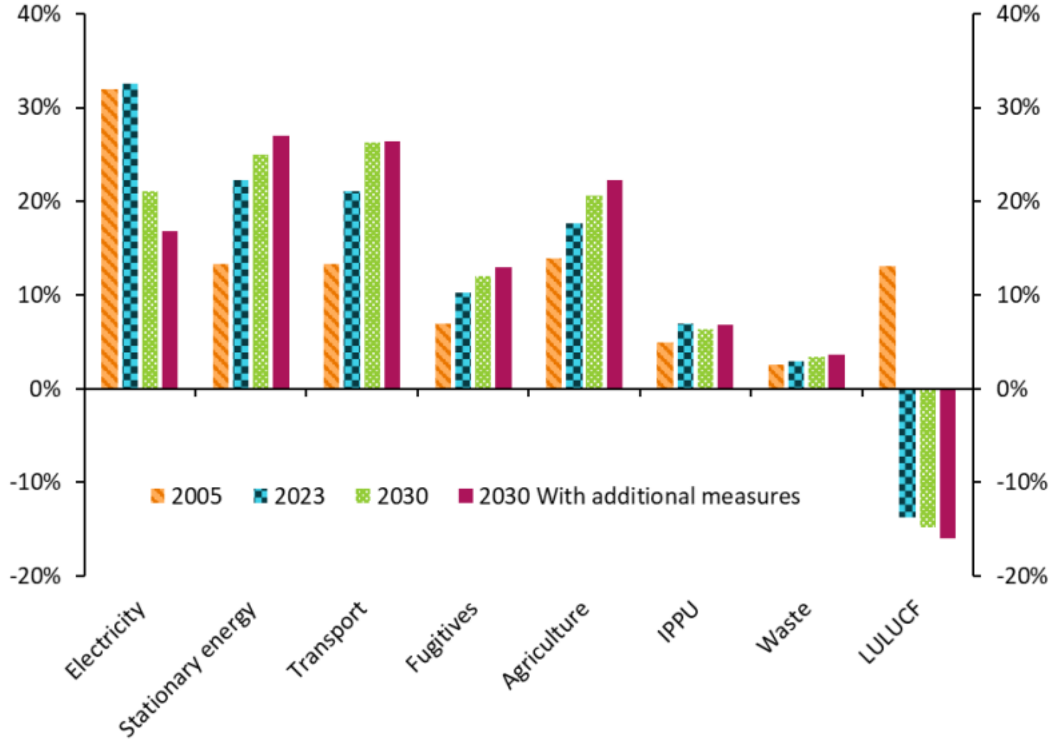
Electricity emissions currently represent about one-third of Australia's total greenhouse gas emissions and are projected to decline to between 15 to 20 per cent of total emissions by 2030 (see Figure 1 below). In other words, over 80 per cent of Australia's emissions will be non-electricity sourced by 2030.

Figure 1: Sector shares in the baseline and 'with additional measures' scenario in 2005, 2023, and 2030, % of Australia's emissions



Source: [Australia's Emissions Projections 2023](), p20.

Renewable electricity claims might therefore misrepresent the emissions sources of a business. For example, a customer that sees an airline branding that says it is "100 per cent powered by renewable electricity generation" is unlikely to realise the distinction that this only applies to its administrative building operations and not its primary service (and source of emissions) in airline travel. Even if this distinction is made obvious, the scale of difference in emissions levels between the two sources will probably not be understood by most customers.

With respect to implementation, the AEC understands that this proposal will be placed on participants and will not be an obligation on electricity retailers to serve. The Department should clarify this in future consultation.

For participants, the Department will need to consider:

- How minimum percentage will be interpreted across a business organisation – will it be limited to Scope 2 emissions? For a business that uses gas or diesel in its everyday operations, how will that influence, if at all, the minimum energy percentage calculation?
- Whether minimum percentage will be a flat purchase of electricity consumption or needs to be time-matched? If the proposal is about getting participants to invest in renewable electricity to help decarbonise the grid, then time-matching would better incentivise this. Time-stamped renewable electricity is currently being considered by the Department as part

of the final design of Renewable Electricity Guarantee of Origin ('REGO') certificates. It is expected to place a high administrative cost on certificate producers, so enabling use cases is important. The Department should bear in mind though that time-matching will also increase compliance costs on participants, as certificates will sell at a premium at certain time periods.

- What is the minimum percentage of renewable electricity? The Department has floated at a stakeholder forum that the minimum percentage might be aligned with the Federal Government's 82 per cent renewable energy target. Presumably scaled over time, this would mean participants would need to increase their minimum percentage by about 6 to 7 per cent each year. Same as above, the trade-off to this is participants will incur higher compliance costs that might make ongoing participation unfeasible.
- Will all renewable sources be eligible? While the AEC is comfortable with the use of a market-based accounting method, it should be inclusive of all renewable generation, including below-baseline generation. Restricting what renewable electricity sources participants can use based on age is arbitrary and would only increase compliance costs. Therefore, in addition to "behind-the-meter generation, Large-scale Generation Certificates and GreenPower", the AEC would expect participants to be allowed to surrender REGO certificates to meet their obligations.

Proposal 6 – Counting voluntary ACCU abatement

The AEC has some concerns about this proposal. The inclusion of voluntary ACCUs surrendered through Climate Active is not immaterial. The latest Quarterly Carbon Market Report from the Clean Energy Regulator ('CER') states that from January to September this year, "0.5 of the 0.8 million ACCUs voluntary cancelled were for Climate Active purposes". This would be expected to grow as these reforms compel greater progress towards climate targets from participants and place tighter restrictions on international offset use.

Although greater voluntary abatement is welcome, the AEC is wary that it goes against the Consultation Paper's intent to prioritise direct abatement and might become a reason for other sectors to transition slower. The Consultation Paper seems to have considered these drawbacks and justifies the proposal on the ground that Australia's NDC is "a floor, not a ceiling" and therefore including voluntary action "will not reduce the ambition of the government's climate change policies". However, there is no assurance it will play out like that over time.

The baseline scenario in the most recent Emissions Projections 2023 places Australia on path for 37 per cent emissions reduction by 2030 on 2005 levels, with the "additional scenarios" increasing the projection to 42 per cent.[3] These additional scenarios include a yet-to-be introduced fuel efficiency standard and an 82 per cent national renewable energy target. In recognition that Australia is currently not on track to meet that target, the Federal Government has expanded the Capacity Investment Scheme, which brings its own range of time pressures if projects are stalled or delayed.

To ensure it does not reduce ambition, the AEC would like to see either a cap placed on the level of contribution voluntary abatement can make to Australia's NDC, or preferably for Australia's NDC to increase in proportion to the voluntary abatement contribution. This is consistent with the recommendation of the Climate Change Authority: "If voluntary offsetting contributes to meeting Australia's Nationally Determined Contribution (NDC), make commensurate increases in the ambition of future NDCs".[4]

[3] Department of Climate Change, Energy, Environment, and Water, 'Australia's Emissions Projections 2023', November 2023, p3.
[4] Climate Change Authority, 'Review of International Offsets', August 2022, p40.

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Proposal 7 – Discontinue use of 'carbon neutral' term
The AEC is cautious as to the merits of replacing 'carbon neutral' with another certification claim, especially in the absence of a clear alternative. It is true that there has been domestic and international scrutiny towards the use of the term 'carbon neutral' though this scrutiny is usually in the context of offset reliance.

For example, the Voluntary Carbon Markets Integrity Initiative, which is referenced in the Consultation Paper, is mostly focused on limiting the use of carbon credits, and ensuring that companies with 'carbon neutral' claims are not disproportionately relying on offsets to substantiate their claims. Similarly, the European Union recently received attention for its banning of generic environmental and sustainability claims by businesses. However, the details of the proposal state that "sustainability labels based on approved certification schemes or established by public authorities will be allowed" – which is what Climate Active serves to provide.

When contemplating a new term, the Department should weigh up:

- The costs of rebranding to a new term.
- The ability of customers to clearly understand the meaning of any new term and how that term can maintain its integrity over time.
- Whether this consultation, which is designed to increase the rigour of claims made by participants (including by limiting offset use) will improve confidence in the Climate Active label to the extent that "carbon neutral" can be used to its intended meaning.

Proposal 8 – Certification pathways
The AEC understands the merits of developing a certification pathway to differentiate the progress of businesses. At the same time, we have concerns that:

- It brings administrative complexity into the scheme, with a cumbersome certification pathway likely to disincentivise businesses from applying for Climate Active certification.
- It goes against the previous intent to prevent consumer misunderstanding. It is not obvious how a customer would be expected to understand what pathway stage a business is at, what that means, and/or why it matters.

Developing something like a star-rating system might be one way to make a certification pathway intuitive for customers to understand. This has been used elsewhere, such as the Greenhouse and Energy Minimum Standards.

The AEC looks forward to continuing to engage with the Department on its reforms to Climate Active.

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Yours sincerely,

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