Investor Group on Climate Change

GPO Box 2427
Melbourne Victoria 3001
Phone 1300 794 047
Mobile 0407 994 413

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Director
The Greenhouse and Energy Reporting Taskforce
Australian Greenhouse Office
Department of Environment and Water Resources
GPO Box 787
Canberra ACT 2601

Dear Director

Re: National Greenhouse and Energy Reporting System Regulations Discussion Paper

The Investor Group on Climate Change Australia/New Zealand (IGCC) welcomes the opportunity to make this submission on the National Greenhouse and Energy Reporting System Regulations Discussion Paper (the Discussion Paper).

Background to the Investor Group on Climate Change

The IGCC represents Australian investors, with total funds under management of over $375 billion, and others in the investment community interested in the impact of climate change on investments. The IGCC aims to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions for the ultimate benefit of individual investors through:

- Raising awareness of the potential impacts, both positive and negative, resulting from climate change to the investment industry, corporate, government and community sectors;
- Encouraging best practice approaches to facilitate the inclusion of the impacts of climate change into investment analysis by the investment industry; and
- Providing information to assist the investment industry to understand and incorporate climate change into investment decisions.

More information on the IGCC can be found at www.igcc.org.au.

The Importance of Disclosure of Greenhouse Gas Emission Data to Investors

As owners of companies and assets across Australia and internationally, investors need access to a range of information on the various factors that impact the risks and returns of these investments. This information allows investors to make accurate and appropriate investment decisions based on their risk-return profile.

To understand how climate change will impact on the value of their investments investors need access to information from companies on their climate change risks and opportunities and data on their greenhouse gas emissions and energy production and consumption. As stated in our submission on the *National Greenhouse and Energy Reporting Bill*, IGCC supports two international disclosure initiatives to facilitate access to information from companies:

(i) Global Framework for Climate Risk Disclosure
A group of leading institutional investors from around the world has released the Global Framework for Climate Risk Disclosure. This framework outlines the expectation of investors with regard to climate risk disclosure from companies.

(ii) Carbon Disclosure Project
The Carbon Disclosure Project (CDP) is the world's largest collaboration of institutional investors on the business implications of climate change.[1] The CDP requests investment relevant climate change information, on behalf of these investors, with over 3,000 companies globally.

[1] The CDP represents 315 institutional investors with funds under management of over US$41 trillion.

Summary of Submission

The IGCC supports mandatory, flexible and transparent reporting on climate change and is therefore supportive of many aspects of the *National Greenhouse and Energy Reporting Act* and the proposed supporting regulations as outlined in the Discussion Paper.

In addition, the IGCC welcomes the following extensions to the disclosure of information outlined in the Discussion Paper:

i. the disclosure of 'subsidiary corporation' information (6.1); and
ii. the separate disclosure of scope 1 and scope 2 emissions (6.1.1).

The IGCC agrees with comments in the Discussion Paper that operational control can be difficult to determine in relation to electricity consumption in tenanted properties and further consideration is needed to ensure appropriate greenhouse and energy reporting by the property operation and real estate services sector.

In order for the Greenhouse and Energy Reporting System to provide useful information to investors there are several areas where there needs to be further extension to the publication of information under the *National Greenhouse and Energy Reporting Act*. The IGCC seeks the publication of:

i. emissions for facilities that meet the facility-level threshold 25 kilotonnes of carbon dioxide equivalent (25kt CO_2-e) or 100 terajoules (100TJ) of energy production and energy consumption;
ii. emission source (e.g. combustion, industrial, fugitive etc) and type (e.g. N_2O CH_4 etc);
iii. facilities/operations covered by the emissions reported (this may be assumed but it is not clear)

IGCC also seeks further clarification over how registrations can be modified over the course of the reporting period to account for changes in operational control e.g. a property is sold.

These comments are expanded in the discussion below.

Enhanced Publication of Information

IGCC acknowledges the consideration given to IGCC's previous submission on the *National Greenhouse and Energy Reporting Act* and welcomes the disclosure of 'subsidiary corporation' information and the separate disclosure of scope 1 and scope 2 greenhouse gas emissions.

However, for the information to be valuable to investors and assist them to fully understand the potential greenhouse and climate change liabilities of companies and assets under their ownership, there needs to further publication of data on greenhouse gas emissions, energy production and energy consumption as follows:

<u>Disaggregation of scope 1 emissions into source and type</u>
The introduction of an emissions trading scheme will potentially lead to different liabilities depending on the different sources and types of greenhouse gas emissions produced by facilities. The liabilities will depend on:

- the category and type of emissions to be covered by the scheme;
- the timing of when different sources or types of emissions will be covered by the scheme; and
- the permit allocation approach for different types of emissions.

For example, an emissions trading scheme may include only scope 1 emissions from on-site combustion emissions and exclude fugitive emissions which can be more difficult to measure.

Therefore, to fully understand the potential greenhouse and climate change liabilities of companies and assets under their ownership, it is critical that investors have access to further disaggregation of scope 1 greenhouse emissions into source (e.g. on-site combustion, industrial process, fugitive etc.) and type (e.g. CO_2, N_2O CH_4 etc).

Under the *Act*, this data will be reported by corporations and should be published by the Greenhouse and Energy Data Office.

Disclosure of emissions for facilities over 25kt threshold

It is proposed that greenhouse gas emissions, energy consumption and energy production data are published by the Greenhouse and Energy Data Office, as outlined in Figure 6.1 of the Discussion Paper. The IGCC submits that greenhouse gas emissions, energy production and energy consumption data also needs to be published for 'large emitters' i.e. facilities that meet the facility-level threshold of 25kt CO_2-e or 100TJ of energy production and energy consumption, and that this data be at the same level of detail as for 'controlling corporations' or 'subsidiary corporations'.

For example, a 'controlling corporation' or 'subsidiary corporation' may have one or more facilities responsible for the majority of emissions. Any proposal to purchase or divest such a facility or to substantially alter production or technology at the facility would affect the greenhouse liability of the investment. As such facility level data on greenhouse gas emissions or energy production or energy consumption is required by investors so they can make appropriate investment decisions.

As described in our submission on the *National Greenhouse and Energy Reporting Bill,* access to the information described above is consistent with the disclosure requirements of the CDP which is currently provided by over 3000 of the world's largest companies. This would indicate that such information is not commercially sensitive in the majority of cases. This fact is also reinforced by the emission disclosure requirements in other jurisdictions, for example see the Environment Canada website.

List of Facilities Included in Greenhouse Gas Emissions Inventory

Given that there may be complex corporate structures in place, and that it may not be clear to those outside the corporation who has effective operational control of a facility, it is important that the regulations include a requirement to list facilities covered by the greenhouse gas emissions and energy data.

In the absence of a list of facilities included in the 'controlling corporations' greenhouse gas emissions inventory, the published data becomes less useful and would require investors to seek further clarification from the reporting entity, thus reducing the efficiency and effectiveness of the *Act* in its aim of streamlining corporate greenhouse and energy reporting.

While such as list may be assumed to be disclosed it needs to be made clear in the regulations.

Operational Control

Investors are fundamentally interested in equity exposure of corporations to greenhouse gas emissions, noting that this can be significantly different from operational exposure. Data provided on an 'operational control' basis does not enable investors to assess the greenhouse liability resulting from the equity share a company has in other (non-controlled) entities. Accordingly, investors will not be able to accurately calculate the greenhouse liability or other climate change risks and opportunities associated with their investments.

While publication of facility-level greenhouse gas and energy data on an operational control basis will provide some information to assist investors determine their equity exposure, requiring or allowing reporting on an equity basis would be preferred.

As the owners of companies and assets, investors require information on greenhouse gas emissions, energy consumption and energy production relevant to the facilities owned by the 'controlling corporation' or 'subsidiary corporation' rather than those under their control. In other words, for climate change information to be relevant to investors it needs to be provided on an equity basis (instead of or in addition to operational control basis).

Once companies have the data collection and reporting frameworks in place reporting in these different ways does not appear to be overly onerous. This is demonstrated by AGL Energy in their current greenhouse and energy reporting.

'AGL has developed three approaches or 'footprints' to measure the annual greenhouse impact of our operations as an energy company:

- *An 'AGL Footprint', which accounts for emissions associated with fully owned assets and activities over which we have direct control (including our corporate operations);*
- *An 'Equity Footprint', which sets out the emissions associated with businesses invested in by AGL; and*
- *An 'Energy Supply Footprint', which examines the emissions associated with the entire value chain of the electricity and natural gas sold to AGL customers.*

In the 2003/04, 2004/05 and 2005/06 Sustainability Reports, AGL published detailed greenhouse gas emission data in the form of these three greenhouse 'footprints'.'

Source: AGL Response to the Carbon Disclosure Project 2007

Possible Approaches to Commercial Property Facilities
The IGCC agree with comments in the Discussion Paper that operational control can be difficult to determine in relation to electricity consumption in tenanted properties and further consideration is needed to ensure appropriate greenhouse and energy reporting by the property operation and real estate services sector.

The most common approach to reporting energy and greenhouse data appears to be based on the direct payment of electricity bills (included in scope 2 emissions). While the property manager has less control over energy and greenhouse gas emissions associated with tenant light and power.

While it is important that the property operation and real estate services sector use a consistent approach to reporting, this issue also highlights the need for more rather than less disclosure. Greater disclosure including for example, the breakdown of electricity or greenhouse gas emissions between base building electricity and tenant light and power electricity then allows the users of the data to include the information they deem as being appropriate for their decision making.

Registration

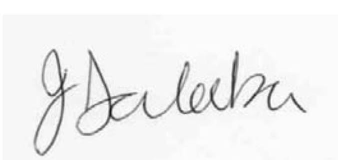
Clarification is required within the regulations regarding how a corporation can modify their registration. This is important where there is a change in the operational control of a subsidiary or facility during the reporting period, for example, when a property is been sold.

Methods and Criteria for Calculating Greenhouse Gas Emissions

The IGCC would like to register their interest in participating in consultation on greenhouse gas emissions calculation methods.

The IGCC would be happy to further discuss the issues raised in this submission. Please do not hesitate to contact Ms Joanne Saleeba, Executive Director, IGCC on 1300 794 047 or by email secretariat@igcc.org.au.

Kind regards



Joanne Saleeba
Executive Director
Investment Group on Climate Change Australia/New Zealand