

27 February 2008

Director Greenhouse and Energy Reporting Taskforce Department of Climate Change GPO Box 787 Canberra ACT 2601

Email: reporting@climatechange.gov.au

Dear Director

Re: National Greenhouse and Energy Reporting System Regulations Policy 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 Policy Paper (the Policy Paper).

Background to the Investor Group on Climate Change

The IGCC represents Australian investors, with total funds under management of over \$425 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, opportunities and strategies, and data on their greenhouse gas emissions. As stated in our submission on the *National Greenhouse and Energy Reporting (NGER) Bill* and subsequent regulations discussion paper the 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, including IGCC, have released the Global Framework for Climate Risk Disclosure ('GFCRD). This framework outlines the expectation of investors with regard to climate risk disclosure from companies¹.

A copy of the GFCRD is available at: http://www.unepfi.org/fileadmin/documents/global_framework.pdf

(ii) Carbon Disclosure Project

The Carbon Disclosure Project ('CDP') is the world's largest collaboration of institutional investors seeking information on the business implications of climate change. CDP represents an efficient process whereby over 385 institutional investors with funds under management of over US\$57 trillion request the disclosure of investment relevant information on greenhouse gas emissions. In 2008 CDP has expanded to reach over 3,000 companies globally, including ASX 200 companies.

As part of the CDP, companies listed on the ASX200 are currently asked to provide information on climate change risks, opportunities, strategy and greenhouse gas emissions and energy data.²

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 Policy Paper.

In line with our submission on the previous discussion paper on the NGER Regulations, the IGCC welcomes the recent amendments outlined in the Policy Paper, specifically:

- i. the disclosure of 'subsidiary corporation' information; and
- ii. the separate disclosure of scope 1 and scope 2 emissions.

The IGCC also commends the additional efforts made within the policy paper to further define the operational control test with respect to commercial property facilities and the additional clarification provided over the deregistration of a reporting entity.

In order for the Greenhouse and Energy Reporting System to achieve the stated objective of providing useful information to investors there are several areas where there needs to be further public disclosure of information reported under the *National Greenhouse and Energy Reporting Act* and supporting regulations. Specifically, the IGCC seeks the publication of:

- i. emissions for facilities that meet the facility level threshold of 25 kilotonnes of carbon dioxide equivalent (25kt CO₂-e) or 100 terrajoules (100TJ) of energy production and energy consumption;
- ii. emission source (e.g. combustion, industrial, fugitive etc) and emissions type (e.g. $N_2O\ CH_4\ etc)$; and
- iii. the list of facilities/activities covered by the emissions reported (this may be assumed but it is not clear) and the percentage of ownership of these facilities/activities.

The IGCC is supportive of the reporting by companies of contextual data e.g. energy efficiency initiatives however submit that the GFCRD and the CDP be used as the framework for the disclosure of contextual information. These represent international best practice in climate change reporting and generate valuable information for Australian and international investors, as well as other stakeholders.

These comments are expanded in the discussion below.

Operational control

Investors are fundamentally interested in equity exposure of corporations to climate change and greenhouse gas impacts, noting that this can be significantly different from operational exposure. Therefore, the proposed public disclosure will not allow investors to appropriately assess the greenhouse liability or other climate change risks and opportunities associated with their investments.

To overcome this issue, the regulation could:

- require disclosure of equity exposure by companies; or
- require public disclosure of major facilities, which would then enable investors to calculate equity exposure.

² A copy of the CDP Questionnaire is available at: http://www.cdproject.net/questionnaire.asp

Once companies have the data collection and reporting frameworks in place reporting on an equity basis should not 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

However, the IGCC recognise that this raises additional issues with respect to reporting thresholds and issues on defining the responsible reporting parties.

Therefore, at a minimum the IGCC strongly argue that major facilities emissions data should be made publicly available.

The Policy Paper proposes that greenhouse gas emissions, energy consumption and energy production data are reported to the Greenhouse and Energy Data Office in accordance with Figure 2 (p.34) yet published in accordance with figure 3 (p.45). The IGCC notes that data on large emitting facilities (i.e. facilities that meet the facility-level threshold of 25kt CO_2 -e or 100TJ of energy production and energy consumption) will be reported to the Greenhouse and Energy Data Office but under the current regulations not published.

This information is important for investors in a number of instances. 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 substantially affect the greenhouse liability of the investment. As such facility level data on greenhouse gas emissions is required by investors so they can make appropriate and efficient investment decisions.

As described in our submissions on the *NGER Bill* and subsequent regulations discussion paper the access to the information described above is consistent with international best practice. This fact is also reinforced by the emission disclosure requirements in other jurisdictions, for example see the Environment Canada website.

The IGCC submits that all reportable information which is not commercially sensitive should be made publicly available. The IGCC believes that only in very limited cases will the public disclosure of such information be commercially sensitive. Therefore, non disclosure of major facility information should be the rare exception rather than the rule. The IGCC recognises that information, on production rates, energy costs and pricing and the systems, processes and technology that lead to an emissions profile for a facility may be commercially sensitive but do not believe that the disclosure of greenhouse gas emissions is commercially sensitive data. Accordingly, the IGCC submits that greenhouse gas emissions data also needs to be published for these large emitting facilities and that this data be at the same level of detail as for 'controlling corporations' or 'subsidiary corporations'.

Commercial property facilities

The IGCC welcomes the additional information on the commercial property facilities.

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 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.

Enhanced publication of information

IGCC acknowledges the consideration given to IGCC's previous submission on the *National Greenhouse and Energy Reporting Act* and strongly supports 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 be further disclosure of data on greenhouse gas emissions as follows:

Disaggregation of scope 1 emissions into source (category) and type

The introduction of an emissions trading scheme will potentially lead to different liabilities for companies depending on the different sources and types of greenhouse gas emissions produced by facilities. The liabilities may be influenced by:

- the source (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 only include certain emissions and may exclude other emissions such as fugitive or process emissions which can be more difficult to measure.

The timing and extent to which different source of emissions are included in an emissions trading scheme has the potential to have a large impact on companies' greenhouse liability. Modelling commissioned by the IGCC demonstrates that the impact of a cost on carbon on companies and sectors can be significantly different depending on emission sources included in the emissions trading scheme.³

For example, in the construction materials sector, the inclusion of on-site combustion emissions only within an emissions trading scheme resulted in a cost of carbon for the sector of \$74 million p.a., resulting in a reduction in mid-cycle net profit margins of 27%. However, the inclusion of process emissions within the emissions trading scheme resulted in a carbon cost of \$163 million p.a., resulting in a reduction in the mid-cycle net profit margins of 60%. In the steel sector, the inclusion of process emissions increased the cost of carbon from \$144m to \$477m p.a. and an equivalent reduction in mid-cycle EBITDA margins from \$21% to 6%.

The same IGCC research also indicates that emission sources vary widely between and even within industries. For example, the main sources of emissions from electricity network assets are indirect emissions associated with system losses - emissions associated with the generation of electricity lost in the process of transmitting the energy across the network. Within the steel sector different companies have considerably different source profiles. Approximately 83% of emissions from steel produced with BF/BOS technology are process emissions; whereas there are no process emissions from steel produced using scrap-based EAF technology (approximately 80% of emissions are indirect from electricity use). For other industries, including other construction materials, the majority of emissions and related exposure is combustion emissions.

³ Investor Group on Climate Change, *Potential Earnings Impacts from Climate Change Report Series* (2007) available at http://www.igcc.org.au/content/activities/

Similarly it is not clear which gases will be covered by the ETS. Therefore, the type of greenhouse gas emission is also a significant factor which investors need to take into consideration in making their investment decisions. The quantity of particular types of greenhouse gas emissions is important information which investors may need to take into consideration when making their investment decisions.

The disclosure of greenhouse emissions by source and type allows investors to calculate their respective greenhouse liability for a given company investment. Ensuring greenhouse emissions are regularly disclosed to the public by source and type is the only way investors can accurately calculate their respective greenhouse liability under the proposed National Emissions Trading Scheme and any extensions to the proposed scheme.

For greenhouse and energy reporting to be consistent with *The Greenhouse Gas Protocol* it needs to include information on emissions data for 'all six greenhouse gas emissions separately ($CO_2 CH_4 N_2 OHCS$, PFCs, SF₆) in metric tonnes and in tonnes of CO_2 -e'. They must also include 'any specific exclusions of sources, facilities and/or operations'.⁴

Publishing disaggregated greenhouse emissions by source and type will assist the Act achieve its stated objective of providing useful information to investors.

List of Facilities Included in Greenhouse Gas Emissions Inventory

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

This information is significant because under the Act organisations are reporting on an operational control and not on an equity share basis. While IGCC advocate the publication of facility-level greenhouse gas and energy data on an equity basis, the inclusion of a list of reporting entities and percentage ownership will go some way to assisting investors estimate their equity exposure. Without this information investors and other stakeholders lose this ability.

In the absence of a list of facilities and share ownership information within 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 a list may be assumed to be disclosed it needs to be made clear in the regulations.

Framework of contextual information

For the purposes of this submission the IGCC has taken contextual data to mean climate change risks, opportunities, strategies and initiatives ('contextual information').

The IGCC welcomes the opportunity for reporters to provide contextual information about their climate change risks, opportunities, strategies and initiatives and believes the information, if standardised, would be useful for investors. This is evidenced by investor support for CDP which now represents over 385 institutional investors with over US\$57 trillion in assets under management globally. The number of Australian and New Zealand investors supporting the CDP now represent over A\$1 trillion in assets under management.

The IGCC recognise the contextual information supplied will be reported on a voluntary and unaudited basis. As a result, the IGCC is of the opinion that the format for the contextual information should be standardised. This is important for two reasons:

- i. It would establish the key information set of use to investors and other stakeholders relating to climate change risks, opportunities, strategies and initiatives;
- ii. The standardisation of contextual information allows it to be more easily compared and contrasted.

⁴ The Corporate Accounting and Reporting Standard (revised edition) of the *Greenhouse Gas Protocol*, developed by the World Business Council for Sustainable Development and the World Resources Institute, p.63.

By standardising the disclosure of contextual information and developing specific voluntary contextual questions, investors are able to gain far more useful information. Standardisation results in the market becoming more efficient as better quality and more useful information is made available to investors.

This proposal is consistent with the objective of providing useful information to investors and streamlining the reporting obligations of companies. The standardising of contextual information in the regulations is consistent with the approach taken for the disclosure of greenhouse gas projects disclosure. Standardising the contextual information consistent with investors and other stakeholders needs will result in useful contextual information being provided by companies.

Basis for standardisation of contextual information

The IGCC submits that the Global Framework for Climate Risk Disclosure ('GFCRD') and the Carbon Disclosure Project ('CDP') be used as the framework for the disclosure of contextual information.

The GFCRD and the CDP represent best practice in climate change disclosure and provide useful information for Australian and international investors. The Carbon Disclosure Project questionnaire covers a range of relevant topics proven useful to investors including:

- i. The responsibility and management approach to climate change;
- ii. The performance against targets and plans to reduce greenhouse gas emissions; and
- iii. The strategic risks and opportunities from climate change and their implications.

Using the CDP questionnaire provides investors with the opportunity to accurately gauge important contextual climate change and greenhouse information which may not be the case in the absence of any standardised questions. The CDP questions also represent the international standard in climate change and greenhouse reporting which has been tried, tested and refined by institutional investors globally over the past 6 years.

Australian and overseas companies have refined their emission inventories in accordance with the requirements of the CDP and have become accustomed to annually reporting in line with the CDP. This year the top 200 companies in Australia will be asked to respond to the CDP, an expansion from the top 150 companies that were questioned in previous years. Alignment of contextual information under the NGER regulations would streamline reporting for these companies.

The use of the CDP questions would also align the information provided by Australian companies with that provided by companies globally. For international companies this would further streamline reporting requirements.

In summary, the use of the CDP questionnaire as a framework for reporting contextual climate change information will streamline reporting and promote efficiency in the marketplace at little additional cost.

The public disclosure focus group

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The IGCC would like to register their interest in participating in the public disclosure focus group.

The IGCC would be happy to further discuss the issues raised in this submission. Please do not hesitate to contact me 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