Investor Group on
Climate Change

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21 May 2007

Ms Monina Gilbey
Project Officer
National Environment Protection Council Service Corporation
Level 5, 81 Flinders Street,
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Dear Ms Gilbey

The Investor Group on Climate Change (IGCC) (Australia/NZ) would like to thank the National Environment Protection Council (NEPC) for the opportunity to provide comment on the Draft Greenhouse Gas Clauses for the National Pollutant Inventory NEPM.

Background to the Investor Group on Climate Change Australia/New Zealand (IGCC)

The IGCC represents Australian investors, with total funds under management of over $225 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 the investment decision.

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

The importance of Disclosure of Climate Change Information and Greenhouse Gas Emission Data to Investors

Information on company greenhouse gas emissions is of key importance to investors in assessing the climate change risks and opportunities facing companies, in particular the potential impacts of an emissions trading scheme. Investors are increasingly incorporating this information into investment analysis and decisions.

To facilitate access to such information from entities, the IGCC is involved in two international disclosure initiatives:

Carbon Disclosure Project (CDP)

The Carbon Disclosure Project (CDP) is the world's largest collaboration of institutional investors on the business implications of climate change. CDP represents an efficient process whereby over 280 institutional investors with funds under management of over US$41 trillion collectively sign a single global request for disclosure of information on climate change and greenhouse gas emissions. CDP historically sent this request to the FT500 largest companies in the world however in 2006 IGCC partnered with CDP to include the ASX100 and NZX50 companies within the information request. A copy of the CDP4 Australia and New Zealand Report prepared on the basis of responses received from companies in 2006 is available on the IGCC website. The CDP questions are contained in appendix A.

Of specific relevance to the issue of greenhouse gas disclosure is question 5 that asks:

> *"Please standardise your response data to be consistent with the accounting approach employed by the GHG Protocol (www.ghgprotocol.org). Please list GHG Protocol scope 1, 2 and 3 emissions equivalent showing full details of the sources. How has this data been audited and/or externally verified?"*

Global Framework for Climate Risk Disclosure (CRDF)

A group of leading institutional investors from around the world has released the Global Framework for Climate Risk Disclosure, which is a new statement setting out investors expectations on companies' climate risk disclosure. The Framework encourages standardised climate risk disclosure to make it easy for companies to provide information and for investors to analyse and compare companies.

The CRDF can be applied through existing reporting mechanism including the Carbon Disclosure Project and the Global Reporting Initiative. CRDF questions are contained in appendix B. A key aspect of the Framework is:

> *"Investors strongly encourage companies to report absolute emissions using the most widely agreed upon international accounting standard—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. If companies use a different accounting standard, they should specify the standard and the rationale for using it."*

IGCC's Comments on the Draft Greenhouse Gas Clauses for the National Pollutant Inventory NEPM

IGCC supports mandatory reporting of energy and greenhouse by business. However, in order for the inclusion of greenhouse gas emissions clauses within the NEPM NPI to streamline reporting requirements in Australia it is important that global initiatives such as the CDP and the CRDF are taken into consideration. Failure to do so will result in additional, rather than streamlined, reporting requirements for Australian companies.

In addition, investors need to understand the equity ownership exposure to greenhouse gas emissions, which can be significantly different from operational control exposure. The current NEPM NPI proposal to only allow aggregate company data to be publicly available does not facilitate analysts being able to assess equity exposure. As a result, other reporting means will be needed for companies to report to the market, again resulting in additional, rather than streamlined, reporting requirements for Australian companies.

As mentioned above, for investors to incorporate climate change liabilities, risks and opportunities into investment decisions, access to information from companies on their greenhouse gas emissions and climate change risks and opportunities is necessary. To ensure relevant and complete information is available to investors, the IGCC makes the following recommendations:

1. Thresholds for reporting

As investors in companies listed on the Australian Stock Exchange (ASX) we currently seek energy and greenhouse information from the ASX100 as part of the CDP. To ensure consistency for companies reporting under such international disclosure initiatives and provide investors with relevant information on their investments, it would be desirable for all companies in the ASX100 to be required to report regardless of their emissions level. Over time we would begin to expect that companies outside the ASX100 would also be required to report.

2. Emissions/energy factors and methodologies

The IGCC is of the view that the Greenhouse Gas Protocol – Corporate Accounting and Reporting Standard (revised edition) developed by the World Business Council for Sustainable Development and the World Resources Institute should be the basis for reporting. This would ensure consistency with existing company energy and greenhouse reporting under global initiatives such as the CDP, CRDF and the Global Reporting Initiative.

Furthermore, use of the Greenhouse Gas Protocol will facilitate the international harmonisation of GHG accounting and reporting standards and ensure that any future international trading schemes and other climate related initiatives are based on consistent approaches to GHG accounting.

3. Data collection

The data and information to be reported by companies in Australia should be consistent with data and information reported by companies globally. The CDP data and information set has been tried and tested over a period of 4 years. During the past year the CDP data and information set was completed by close to 1000 companies globally.

In addition, companies should clearly indicate what facilities/operations are covered by the emissions inventory and specifically the treatment of non-electricity Scope 2 emissions. Please see comments on the following page under 5 Definition of Company Boundaries.

4. Public disclosure

With the exception of commercially sensitive information, all information provided by companies should be publicly available. Access to the complete set of greenhouse gas information from companies is likely to increase the efficiency of the market in incorporating this information into investment decisions. There seems no purpose in keeping information from the public domain unless it is commercially sensitive.

At a minimum the public disclosure should be consistent with current disclosure guidelines given by investors. This would require disclosure of Gross Direct/Scope 1, Gross Indirect/Scope 2 and Indirect/Scope 3 Greenhouse Gas Emissions for each of the greenhouse gas emission types, i.e. combustion, industrial process, transport, fugitive, waste, etc. For Scope 2 emissions, electricity and other Scope 2 emissions should be itemised.

In addition, companies should publicly disclose what facilities/operations are covered by the emissions inventory and specifically the treatment of non-electricity Scope 2 emissions.

5. Definition of company boundaries - operational control

For climate change related information to be relevant to investors it needs to also be provided on an equity ownership basis. For instance, investors need to know greenhouse liability resulting from the equity share a parent company may have in other entities. As such, defining company boundaries using operational control only, as proposed, will not provide sufficient information for investors. The information on an equity ownership basis is also needed.

The IGCC is of the view that there is an additional boundary issue that needs to be clarified and that is with respect to ‘tenanted’ and ‘base building’ energy use and greenhouse gas emissions. Companies need to clearly indicate whether energy use and emissions are only for tenanted use i.e. light and power or whether they include base building use i.e. HVAC and lift systems. The separate disclosure of ‘tenanted’ and ‘base building’ energy use and greenhouse gas emissions may be relatively simple in NSW, ACT and Victoria where building owners and tenants have separate accounts. However it is likely to be more complex in WA, SA and QLD where reselling occurs. This boundary issue also applies to HFC and PFC emissions from refrigeration and air conditioning equipment. There is a risk of some double counting of emissions if this is not clarified.

This boundary issue particularly applies to energy and greenhouse disclosures from commercial property companies.

Given the complex nature of property, and increasingly infrastructure, ownership and management, there may be a need to clarify who the responsible party is with regard to reporting energy use and greenhouse gas emissions from these sectors. This is especially the case for property and infrastructure under joint ownership.

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 0407 994 413 or by email secretariat@igcc.org.au.

Yours sincerely

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

Appendix A

Carbon Disclosure Project (CDP5)

Greenhouse Gas Emissions Questionnaire

We request a reply to the following questions by the 31st May 2007. Please answer the questions as comprehensively as possible or state the reasons why you are unable to supply the information requested. If at this stage you can only provide indicative information we still welcome this, as a 'best guess' is more valuable to us than no response.

One of the main objectives this year is to improve the quality of the responses and standardize reporting to facilitate better comparison of data across and within sectors. We therefore request that answers to the following questions are provided for your company as defined in your consolidated audited financial statements. If you are unable to respond on this basis, please explain why and detail the reporting boundaries you have used.

We recognize GHG emissions and climate change have varying impacts on sectors and companies. We have therefore divided the questionnaire into two sections to reflect these differences. Companies are encouraged to answer both parts of the questionnaire where relevant.

Section A: For all companies to complete.

Section B: For the following companies to complete:

1. Companies with combustion installations with a rated thermal input exceeding 20 MW.

2. Companies involved in the following sectors:

- automobiles & components
- aerospace & defense
- chemicals
- construction materials
- electric utilities
- energy equipment & services
- oil, gas & consumable fuels
- metals & mining
- paper & forest products
- transportation

3. Companies in any sector that may be significantly influenced by GHG emissions or climate change.

New procedures for CDP in 2007

Please use our website for direct data entry via www.cdproject.net/cdp5. If necessary, send your response electronically in English to the Project Coordinator at info@cdproject.net.

Your response will be made publicly available at www.cdproject.net in September 2007, unless you notify us to the contrary. If you inform us that you do not want your information disclosed, we will only use it in production of aggregate statistics.

For additional guidance and information please see the Further Information attached to this questionnaire, or refer to the Reporting Guidance section at www.cdproject.net.

Section A:

For all companies to complete

1 Climate Change Risks, Opportunities and Strategy

For each question please state the time period and where possible the associated financial implications.

a Risks: What commercial risks does climate change present to your company including, but not limited to, those listed below?
i Regulatory risks associated with current and/or expected government policy on climate change e.g. emissions limits or energy efficiency standards.
ii Physical risks to your business operations from scenarios identified by the Intergovernmental Panel on Climate Change or other expert bodies, such as sea level rise, extreme weather events and resource shortages.
iii Other risks including shifts in consumer attitude and demand.

b Opportunities: What commercial opportunities does climate change present to your company for both existing and new products and services?

c Strategy: Please detail the objectives and targets of the strategies you have undertaken or are planning to take to manage these risks and opportunities. Please include adaptation to physical risks.

d Reduction targets: What are your emissions reduction targets and time frames to achieve them? What renewable energy and energy efficiency activities are you undertaking to manage your emissions? (This question not required if answering Section B.)

2 Greenhouse Gas Emissions Accounting[1]

a Methodology: Please provide the following information on your company's emissions measurements:
i The accounting year used to report GHG emissions.[2]
ii The methodology by which emissions are calculated.
iii Whether the information provided has been externally verified or audited.
iv An explanation for any significant variations in emissions from year to year, e.g. due to major acquisitions, divestments, introduction of new technologies, etc.

b Scope 1 and 2 of GHG Protocol: Direct and Indirect GHG emissions and electricity consumption.[3]

Please complete the table below for tonnes CO_2e emitted and electricity consumption:

	Globally	Annex B Countries
Scope 1 activity tonnes CO_2e emitted		
Scope 2 activity tonnes CO_2e emitted		
MWh of purchased electricity		
Percentage of purchased MWh from renewables		

c Scope 3 of GHG Protocol: Other Indirect GHG emissions. Where feasible please provide estimates for the following categories of emissions:
i Use/disposal of company's products and services.
ii Your supply chain.
iii External distribution/logistics.
iv Employee business travel.

1The six main Greenhouse Gases are carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF6).

2If you are responding to CDP for the first time, please provide details where available, of emissions for the last three measurement cycles.

3For the purposes of responding to this section, please follow the World Resources Institute (WRI), World Business Council for Sustainable Development's (WBCSD's) Greenhouse Gas Protocol (corporate standard revised version), details of which can be found at www.ghgprotocol.org.

Section B:

To be completed by companies defined in the introduction to this questionnaire

3 Additional Greenhouse Gas Emissions Accounting

Using the methodology as set out in 2(a), please state your Scope 1 and 2 emissions as follows:

a Countries: For each country in which you have operations, where available.

b Facilities: For facilities covered by the EU Emissions Trading Scheme (EU ETS). Please also include the number of allowances you were issued under the applicable National Allocation Plans.

c EU ETS impact: What has been the impact on your profitability of the EU Emissions Trading Scheme?

4 Greenhouse Gas Emissions Management

a Reduction programmes: What emission reduction programs does your company have in place?

Please include any reduction programs related to your operations, energy consumption, supply chain and product use/disposal.
i What is the baseline year for the emissions reduction program?
ii What are the emissions reduction targets and over what period do those targets extend?
iii What investment has been/will be required to achieve the targets and over what time period?
iv What emissions reductions and associated costs or savings have been achieved to date as a result of the program?
v What renewable energy and energy efficiency activities are you undertaking to manage your emissions?

b Emissions trading: What is your company's strategy for trading in the EU Emissions Trading Scheme, CDM/JI projects and other trading systems (e.g. CCX, RGGI, etc), where relevant?

c Emissions intensity: Please state which measurement you believe best describes your company's emissions intensity performance? What are your historical and current emissions intensity measurements? What are your targets?

d Energy costs: What are the total costs of your energy consumption e.g. from fossil fuels and electric power? What percentage of your total operating costs does this represent?

e Planning: Do you estimate your company's future emissions? If so please provide details of these estimates and summarize the methodology for this. How do you factor the cost of future emissions into capital expenditure planning? Have these considerations made an impact on your investment decisions?

5 Climate Change Governance

a Responsibility:
i Which Board Committee or other executive body has overall responsibility for climate change?
ii What is the mechanism by which the Board or other executive body reviews the company's progress and status regarding climate change?

b Individual performance: Do you provide incentive mechanisms for managers with reference to activities relating to climate change strategy, including attainment of GHG targets? If so, please provide details.

Appendix B

Global Framework for Climate Risk Disclosure

1. Emissions

As an important first step in addressing climate risk, companies should disclose their total greenhouse gas emissions. Investors can use this emissions data to help approximate the risk companies may face from future climate change regulations.

Specifically, investors strongly encourage companies to disclose:

- Actual historical direct and indirect emissions since 1990;
- Current direct and indirect emissions; and
- Estimated future direct and indirect emissions of greenhouse gases from their operations, purchased electricity, and products/services[1].

Investors strongly encourage companies to report absolute emissions using the most widely agreed upon international accounting standard—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[2].If companies use a different accounting standard, they should specify the standard and the rationale for using it.

2. Strategic Analysis of Climate Risk and Emissions Management

Investors are looking for analysis that identifies companies' future challenges and opportunities associated with climate change. Investors therefore seek management's strategic analysis of climate risk, including a clear and straightforward statement about implications for competitiveness. Where relevant, the following issues should also be addressed: access to resources, the timeframe that applies to the risk, and the firm's plan for meeting any strategic challenges posed by climate risk.

Specifically, investors urge companies to disclose a strategic analysis that includes:

Climate Change Statement—A statement of the company's current position on climate change, its responsibility to address climate change, and its engagement with governments and advocacy organizations to affect climate change policy.

Emissions Management—Explanation of all significant actions the company is taking to minimize its climate risk and to identify opportunities. Specifically, this should include the actions the company is taking to reduce, offset, or limit greenhouse gas emissions. Actions could include establishment of emissions reduction targets, participation in emissions trading schemes, investment in clean energy technologies, and development and design of new products. Descriptions of greenhouse gas reduction activities and mitigation projects should include estimated emission reductions and timelines.

Corporate Governance of Climate Change—A description of the company's corporate governance actions, including whether the Board has been engaged on climate change and the executives in charge of addressing climate risk. In addition, companies should disclose whether executive compensation is tied to meeting corporate climate objectives, and if so, a description of how they are linked.

3 Assessment of Physical Risks of Climate Change

Climate change is beginning to cause an array of physical effects, many of which can have significant implications for companies and their investors. To help investors analyse these risks, investors encourage companies to analyse and disclose material, physical effects that climate change may have on the company's business and its operations, including their supply chain.

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[1] These emissions disclosures correspond with the three "scopes" identified in the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition) developed by the World Business Council for Sustainable Development and the World Resources Institute. Scope 1 includes a company's direct greenhouse gas emissions; Scope 2 includes emissions associated with the generation of electricity, heating/cooling, or steam purchased for a company's own consumption; and Scope 3 includes indirect emissions not covered by Scope 2. More information is available at http://www.ghgprotocol.org.

[2] Available at http://www.ghgprotocol.org

Specifically, investors urge companies to begin by disclosing how climate and weather generally affect their business and its operations, including their supply chain. These effects may include the impact of changed weather patterns, such as increased number and intensity of storms; sea-level rise; water availability and other hydrological effects; changes in temperature; and impacts of health effects, such as heat-related illness or disease, on their workforce. After identifying these risk exposures, companies should describe how they could adapt to the physical risks of climate change and estimate the potential costs of adaptation.

4 Analysis of Regulatory Risks

As governments begin to address climate change by adopting new regulations that limit greenhouse gas emissions, companies with direct or indirect emissions may face regulatory risks that could have significant implications. Investors seek to understand these risks and to assess the potential financial impacts of climate change regulations on the company.

Specifically, investors strongly urge companies to disclose:

Any known trends, events, demands, commitments, and uncertainties stemming from climate change that are reasonably likely to have a material effect on financial condition or operating performance. This analysis should include consideration of secondary effects of regulation such as increased energy and transportation costs. The analysis should incorporate the possibility that consumer demand may shift sharply due to changes in domestic and international energy markets.

A list of all greenhouse gas regulations that have been imposed in the countries in which the company operates and an assessment of the potential financial impact of those rules.

The company's expectations concerning the future cost of carbon resulting from emissions reductions of five, ten, and twenty percent below 2000 levels by 2015. Alternatively, companies could analyse and quantify the effect on the firm and shareowner value of a limited number of plausible greenhouse gas regulatory scenarios. These scenarios should include plausible greenhouse gas regulations that are under discussion by governments in countries where they operate. Companies should use the approach that provides the most meaningful disclosure, while also applying, where possible, a common analytic framework in order to facilitate comparative analyses across companies. Companies should clearly state the methods and assumptions used in their analyses for either alternative.