PROPERTY COUNCIL of Australia

Australia's property industry
Creating for Generations

17 April 2020

Climate Active
Department of Industry, Science, Energy and Resources
GPO Box 2013
CANBERRA ACT 2601

By email: climate.active@industry.gov.au

Dear Climate Active team

Property Council submission to Climate Active consultation:

Accounting for electricity emissions

The Property Council of Australia welcomes the opportunity to comment on Climate Active's consultation paper examining accounting for electricity emissions.

The Property Council is the peak body for owners and investors in Australia's $670 billion property investment industry. Our members have a long-term stake in what is Australia's biggest industry. The property sector represents one ninth of Australia's GDP (the largest of any sector) and employs 1.1 million Australians (more than mining and manufacturing combined).

Over the last decade, market leading Australian property companies have demonstrated the potential for increased energy performance and emissions reduction, consistently topping international benchmarks like the Global Real Estate Sustainability Benchmark and Dow Jones Sustainability Index. Many have committed to achieving net zero emissions by 2030 or sooner.

Maintaining an independent and trusted benchmark for claims of carbon neutrality in Australia's built environment is essential to our continued global leadership. We welcome the efforts of Climate Active to align its certifications with the internationally recognised Greenhouse Gas Protocol and adopt the market-based accounting method for voluntary purchases of renewable energy.

We have provided detailed answers to the consultation questions in the attached submission and welcome the opportunity to discuss our comments in more detail at your convenience.

Yours sincerely

Frankie Muskovic
National Policy Manager – Sustainability and Regulatory Affairs

Property Council responses to consultation questions

Question 1: *Do you agree in principle to the development of the market-based method to better recognise and account for business investments in renewables, while avoiding double counting?*

Response: Yes.

It is important for our members to be aligned with world's best practice and the Greenhouse Gas (GHG) Protocol has been recognised as such through a range of global programs such as GRI, CDP, C40 Councils, RE100 and Advancing Net Zero through the World Green Building Council.

Importantly, the market based method allows for recognition of renewable energy procurement without double counting.

Question 2a: *Do you agree with the 36 month vintage limitation on LGCs?*

Response: Yes.

The quality of the claim of renewable energy purchase is enhanced by the alignment of generation period with the period of consumption. In the GHG Protocol Scope 2 Guidance, Criteria 4 Vintage, "seeks to ensure that the generation on which the emission factors are based occurs close in time to the reporting period". As Climate Active relies on annual accounts it seems appropriate that certificates generated in the certification period are used.

To take into account transaction lags and market balancing effects it is practical to allow for a 3 year window with organisations being encouraged to improve the quality of renewable energy claims by continually seeking to align generation with consumption.

Question 2b: *Do you agree that LGCs and STC should only be used to reduce a business's electricity based emissions (i.e. not indirect, scope 3 emissions)?*

Response: Partly.

The Property Council suggests that LGCs and STCs are distinctly different certificates with different purpose, different methods of creation and should therefore be considered separately.

LGCs are a renewable energy instrument, based on measured generation. LGCs should not be allowed as an offset against scope 1 or 3 emissions. LGCs do not automatically meet the "additionality" requirements of traditional offsets and ultimately could lead to an over investment in renewable energy systems.

STCs are an instrument that provide an upfront financial incentive to install renewable energy systems. They are not created nor traded in the same way as an LGC. Typically, they are a deemed generation capacity and are therefore a lower reliability, lower quality instrument to an LGC. Energy from a system installed with STCs created should be treated as onsite renewable energy with zero emissions.

We note also that LGCs are created with an inbuilt discount for discount for distribution losses and can therefore be useful in reducing associated scope 3, electricity loss emissions.

Question 2c: *Under the market based method, do you agree with accounting for LGCs in MWh as opposed to converting them into tonnes CO2-e*

Response: Yes.

LGCs are a renewable energy instrument measured in MWh. Further, the emission factor to be applied to each MWh of renewable electricity is zero.

Question 3: *Do you agree the RET can be thought of as an implicit renewable energy investment obligation?*

Response: Maybe.

If this question is related to: "should consumers of electricity subject to the renewable energy target be able to claim that a proportion (equal to the Renewable Energy Power Percentage) of their electricity is supplied from renewable energy?" then the answer is yes.

The RET is a program that obliges retailers to retire a certain quantity of LGCs in order to ensure that a given quantum of renewable energy is delivered via the electricity grid. These certificates need to be created as a result of generation by an eligible renewable energy generator.

The GHG Protocol Scope 2 Guidance is clear that the consumer of electricity subject to the RET or a supplier quota can account for the relevant percentage of electricity to be treated as renewable energy with an emissions factor of zero.

GHG Protocol Scope 2 Guidance section 6.6 provides an example of accounting for renewable energy target electricity and other electricity. As well, GHG Protocol Scope 2 Guidance section 9.4.1 discusses the case of renewable energy targets or quotas and how they can be accounted for in addition to voluntary retirement of RECs.

Question 4: *Do you agree that GreenPower should be accounted for consistently with retired LGCs (section 2)?*

Response: Yes.

Question 5: *Do you support the potential use of supplier-specific emission factors in the market based method?*

Response: Partly. Electricity is not the only Scope 2 energy source. Thermal energy imported is also a Scope 2 source and it will require a supplier specific emission factor.

In the case of electricity, allowing the use of supplier emission factors opens the Australian market up to possible distortions and vagueness in claims. A retailer could create a portfolio of products based on their BAU variety of power purchase agreements. For instance, a retailer that purchases energy from hydro, gas and coal generators could bundle gas generation emission factors up for one customer, bundle non-RET hydro up for another and leave other customers with the coal generated power. The instruments that prove the purchase and allocation are not common in the Australian market, nor are the methods of allocation and validation. A future energy market may make these instruments more apparent and this part of the Climate Active certification can be revisited on that occurrence.

Notionally, a supplier could purchase and retire voluntary LGCs to reduce their emission factor and this could easily be accommodated within existing reporting schemes e.g. 40% GreenPower product.

Question 6: *Do you agree with the treatment of exported electricity?*

Response: Partly agree. Our response to the rules stated is as follows:

6d: STCs are a different form of certificate from LGCs and there is no need to encourage their voluntary retirement. Encouraging retirement implies they can be created, bought, and sold in the same way as an LGC which is not accurate.

6e: Agreed.

6f: Exported electricity from renewable energy systems does not form part of the organisations Scope 2 account whether it has been sold or exported at no value.

If LGCs are created and retired they can contribute to a reduction in Scope 2 emissions in common with treatment of LGCs in each other case.

If LGCs are created and sold the electricity is not recorded in the Scope 2 account.

We agree with the treatment of exported electricity from a renewable energy system that cannot be used by any other consumer to make a renewable energy claim except that in the account this volume of electricity should be recorded separately as a deduction to the organisation consumption with an emission factor of zero (an electricity offset).

Question 7: *Do you agree that a state or jurisdictional government retiring LGCs on behalf of its citizens should be considered zero emissions electricity in a carbon account?*

Response: Yes, this aligns with the GHG Protocol.

The GHG Protocol Scope 2 Guidance discusses this case at 6.6, and 9.4.1.

The ACT Government is the outstanding example of this practice. The Commonwealth should ensure that relevant governments are required to provide an audited statement that demonstrates the calculation methodology and transparency through to the retired certificates in the Clean Energy Regulator's registry.

Question 8: *Do you agree with the treatment of carbon neutral certified electricity?*

Response: Yes

Carbon neutral certified electricity that has achieved net zero emissions through the application of offsets should be accounted for differently to renewable electricity. The GHG Protocol Scope 2 Guidance 6.11.3 considers this case and requires offsets to be reported outside of scope 2 reported electricity and outside the Scopes.

Question 9a: *Do you agree with taking a national approach to calculate the RMF (see discussion in section 11)?*

Response: Yes.

The RET is a national target and pays no consideration to where a generator is located. All consumers purchasing electricity through the grid should be able to make equal claim to their proportion of renewable electricity delivered as a consequence of the RET. In turn, this requires the application of a national residual mix factor.

The suggestion that state RMFs could be calculated is rejected as it has the potential to introduce double or under accounting for renewables.

It should also be remembered that the residual mix factor has declining usefulness in relation to Climate Active participants. The RMF is only used by those organisations that have not moved to 100% renewable electricity.

Question 9b: *Do you agree with calculating the RMF, noting the intention to better reflect LGC issuance, as described above?*

Response: Yes, in principle.

The Clean Energy Regulator defines a five-step process to create, register and validate LGCs[1].

The definition of "issuance" needs to be made clear. The RMF then becomes:

RMF = National EF/(1 – RPP) where the Renewable Power Percentage (RPP) is as follows:

RPP = (Total of LGCs issued) / (Total electricity supplied via the grid)

The Commonwealth should ensure that this information is calculated and published in a timely, routine manner and is also encouraged to determine a similar method for WA, NT and other non-national grid connected customers.

Question 10: *Would you be interested in Climate Active accreditation for using 100% renewable energy as calculated according to the market based method?*

Response: Yes.

Property Council members recognise that a net zero emissions claim achieved through the use of renewable electricity is superior to one achieved predominantly through offsets and should therefore be encouraged.

[1] http://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/Power-stations/Large-scale-generation-certificates