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National Greenhouse Accounts Team
Clean Energy Regulator
GPO Box 3090,
Canberra ACT 2601, Australia

Via email: nationalgreenhouseaccounts@dcceew.gov.au

Dear National Greenhouse Accounts Team

Proposed amendments to the National Greenhouse and Energy Reporting (NGER) Scheme

The Property Council of Australia welcomes the opportunity to provide input to the 2024 National Greenhouse and Energy Reporting (NGER) Scheme updates.

About us

The Property Council is the leading advocate for Australia's largest industry - property. Our industry represents 13% of Australia's GDP, employs 1.4 million Australians (more than mining and manufacturing combined) and generates \$72 billion in tax revenues. Property Council members invest in, design, build and manage places that matter to Australians across all major built environment asset classes.

Australia's property industry leaders are world leaders in sustainability, with many of our leading members having ambitious net zero targets by 2030 or earlier. They have a demonstrated commitment to ESG, topping indices like the Dow Jones Sustainability Index and the Global Real Estate Sustainability Benchmark for thirteen consecutive years. Our members have a long-term stake in ensuring our capital and regional cities thrive and want to see decisive action on climate mitigation and adaptation to avoid the worst projected impacts of climate change.

Many of our members are NGER reporters who will be directly impacted by scheme changes and hold a clear interest in the continuous improvement of its administration.

Our Feedback

We provided a response to proposed scheme updates in 2023 and welcomed the addition of voluntary market-based reporting under the scheme and noted the need for transparency around the calculation of Residual Mix Factors - that submission is **enclosed** for reference.

Our feedback on the proposed 2024 updates to the NGER scheme includes some general comments on the evolving role of NGER methodologies and a call for clarity around the application of NGER methodologies following the introduction of mandatory Climate-Related Financial Disclosures. Additionally, we have provided some specific feedback on the proposed changes to estimating Scope 2 emissions from consumption of electricity, including introducing state and territory specific residual mix factors in the market-based method.

1. Changing context of applying NGER scheme methodologies due to introduction of mandatory climate-related financial disclosures

Since the 2023 NGER scheme consultation we note that there has been significant progress towards the implementation of mandatory climate-related financial disclosures (CFRD) scheme, including the development of enacting legislation,¹ and Australian Sustainability Reporting Standards (ASRS), based on the ISSB IFRS S1 and S2.²

While legislation is yet to pass, and the ASRS has not been finalised, content of Schedule 4 of the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 and the first detailed exposure draft of ASRS S1 and S2 reflect the latest information available to the private sector about likely content of incoming reporting requirements - coming into effect from January 2025. While the details are yet to be finalised, based on material to date industry understands that there will likely be a range of elements of the NGER scheme that will be important to the new CFRD scheme.

The first exposure draft at paragraph Aus31.1(b) requires an entity to measure its greenhouse gas emissions by applying relevant methodologies set out in NGER Scheme legislation, to the extent practicable. The draft standard specifically requires entities to use NGER Scheme methodologies for the measurement of Scope 1 emissions, location-based Scope 2 emissions, market-based Scope 2 emissions when applicable; and Scope 3 emissions for the purposes of mandatory CFRD scheme compliance.

We have separately provided feedback to the AASB on their proposed hierarchy which requires use of NGER measurement methodologies "to the extent practicable."³ In summary, we advised the AASB that while NGER methodologies are a robust approach to the measurement and reporting of emissions for the purposes of a national emissions inventory, we are concerned that in the context of ISSB aligned reporting, requiring Australian reporters to align with the NGER methodologies lacks flexibility and is out of step with international practice. Specifically, the ISSB, in line with the GHG protocol, allows reporters to adopt either an operational control (similar to NGER model) or an equity share approach (not consistent with the NGER model) to establish organisational boundaries.

For property investors, owners and managers, equity share based organisational boundaries can offer a more accurate and comprehensive measurement of an organisation's emissions and climate-related financial risks. The prevalence of joint ventures, partial asset ownership and other complex commercial structures in the property sector mean that proportional accounting for emissions can offer more transparency about the nature of climate-related risks and can incentivise investors to improve overall sustainability outcomes at the portfolio level. For that reason, many of

¹ Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024, Sch 4.

² Australian Accounting Standards Board, Exposure Draft ED SR1 Australian Sustainability Reporting Standards - Disclosure of Climate-related Financial Information, October 2023.

³ Ibid, Aus31.1(b).

our members who have historically completed equity-based TCFD aligned reporting using GHG protocol methodologies may be required to adopt operational control organisational boundaries and NGER methodologies to comply with CFRD reporting requirements.

In addition to misalignment with ISSB and the GHG protocol, there are inconsistencies between NGER reporting boundaries and a separate requirement within the proposed ASRS S1 which states, “entity’s climate-related financial disclosures shall be for the same reporting entity as the related financial statements.”⁴ For many property companies, reporting entity definitions under the Corporations Act are not consistent with the definition of controlling entities required to report under the NGER scheme.

This context is important because, assuming the proposed hierarchy in the ASRS is retained in the final reporting standards, NGER scheme methodologies will be used for a purpose other than set out in the objects of the NGER Act - namely - to inform financial risk reporting required under the Corporations Act. For members of the property sector and other entities who have previously adopted equity-based reporting, or who will completing climate-risk reporting for the first time to comply with CFRD scheme, this will involve a material change to the use of NGER reporting data within organisations. Additionally, conflicting approaches to defining entity boundaries in the Corporations Act and NGER - both of which appear to be required by the current draft ASRS - requires a clear resolution.

Recommendation: We strongly recommend that the Australian Government conducts a review of the NGER scheme alongside proposed CRFD requirements to ensure that NGER offers fit-for-purpose methodologies to support the identification of material climate-related financial risks, for those organisations required to report under both schemes. To the extent there are gaps and challenges identified, we urgently call for a collaborative resolution between administrators of the NGER scheme and the AASB to ensure the ASRS links to NGER do not result in unintended consequences.

Recommendation: In readiness for the introduction of the CRFD, the private sector needs clarity from the Australian Government about the role of the NGER scheme in the context of financial reporting. Given the fast-approaching implementation of the CRFD, industry is currently forced to make assumptions based on the draft material available to begin preparing for the CRFD requirements, including investment in building internal capacity as well as creating and updating relevant processes. Given the proposed links between the ASRS under the Corporations Act and the NGER scheme we request that practical guidance material is developed to explain the alignment of NGER reporting and the CRFD scheme reporting.

2. Introduction of State-based Residual Mix Factors

Based on the current draft ASRS, NGER scheme reporters will be required to prepare climate-related financial disclosures in accordance with ASRS Standards. While only location-based Scope 2 emissions will be required for the first 3 reports, following this, the draft standards propose to phase in mandatory disclosure of market-based Scope 2 emissions. Assuming, this approach it is retained within the final ASRS, NGER methodologies for both location-based and market-based measurement of Scope 2 emissions will, in effect, become mandatory.

⁴ Para 20.

Market-based accounting creates a more direct supply chain link with the sources of electricity and encourages procurement of renewable electricity through Australia's robust Renewable Electricity Certificate scheme. It is an enabler for organisations of all sizes to engage supply chain strategies for reduced emissions across the economy and it provides alignment with the international GHG Protocol.

Consistent with the intent of the GHG protocol, the requirement for dual reporting of a location-based and a market-based measurement of Scope 2 emissions is intended to support a more comprehensive view on and organisation's indirect emissions. By comparing both sets of data, companies can identify gaps and opportunities for further reducing their GHG emissions. For example, if market-based emissions are significantly lower than location-based emissions, it may indicate effective mitigation of Scope 2 emissions through use of renewable energy purchases. If they are similar, it may signal opportunities for more renewable energy procurement or efficiency measures.

For the purposes of climate-related financial disclosures, the comparison of market-based and location-based scope 2 measurement is a valuable tool provided the market-based methodology reflects accurate market data to avoid double counting and enhance transparency comparability.

We agree that Renewable Energy Certificates, Large-scale Generation Certificates and GreenPower purchases must be included in market-based emissions inventories as zero emissions electricity, and that any remaining electricity not covered by certificate purchases has a Residual Mix Factor (RMF) applied. It is however essential that the calculation methodology for the RMF be transparent and the factors themselves should deliver decision-useful information.

We do not agree with the proposed introduction of state and territory based RMFs without further detailed consultation. As a threshold issue, it is not clear why after only one year following the introduction of a voluntary NGER market-based methodology using a national RMF, that state and territory data is needed to improve reporting accuracy. Prima facie, the method for calculating the RMF for each state and territory appears to only consider emissions associated with the generation of electricity within that state and it is not clear how electricity that may be imported from other states and territories is accounted for.

While the location of and emissions associated with generation can be easily located by state and territory, Australia's national energy infrastructure is not clearly delineated a state-by-state basis. Australia's National Electricity Market (NEM) connects multiple states and territories, facilitating the transfer of electricity across state borders. Additionally, national aggregation reflects the broader dynamics of the Australian energy market, including large-scale renewable energy projects as they come online and interstate electricity trading provides, providing a more accurate picture of the residual energy mix available to consumers.

We consider that retaining a national RMF better captures the reality of this interconnected system and the shared energy resources, while retaining the benefits of nationally comparable data.

Recommendation: Further opportunities for detailed consultation with reporting entities and industry groups on the calculation methodology for the RMF is needed. State and Territory Residual Mix Factors should not be introduced to the NGER scheme methodology for market-based Scope 2 before further consultation is completed.

The Property Council would welcome further engagement on this important issue. Please reach out to Eleanor Sondergeld, National Policy Manager - Sustainability and Regulatory Affairs at esondergeld@propertycouncil.com.au should you wish to discuss this submission in further detail.

Sincerely,

Francesca Muskovic



National Policy Director
Property Council of Australia

Enclosures: Property Council Submission on 2023 NGER Scheme Updates