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Department of Climate Change, Energy, the Environment and Water
https://consult.dcceew.gov.au/2023-nger-scheme-proposed-updates/submit-your-feedback

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Dear Minister

National Greenhouse and Energy Reporting Scheme – 2023 Proposed Amendments Consultation Paper

The Australian Aluminium Council (the Council) represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the nation's economy. It includes six mines which collectively produce over 100 Mt per annum making Australia the world's largest producer of bauxite. Australia is the world's largest exporter of alumina with six alumina refineries producing around 20 Mt per annum of alumina. Australia is the seventh largest producer of aluminium, with four aluminium smelters and additional downstream processing industries including more than 20 extrusion presses. Aluminium is Australia's highest earning manufacturing export. The industry directly employs more than 17,000 people, including 4,000 full time equivalent contractors. It also indirectly supports around 60,000 families predominantly in regional Australia.

The Department of Climate Change, Energy, the Environment and Water (DCCEEW) has released a Consultation Paper (the Paper) and a draft Amendment (the Amendment) focussed on the 2023 Proposed Amendments to the National Greenhouse and Energy Reporting Scheme (NGER). Of the proposed amendments for 2023, only the introduction of an optional supplementary 'market-based method' for calculating the emissions associated with electricity consumed from the grid or generated and consumed by a facility behind its meter ('scope 2' emissions) is of relevance to the Council. The Council also notes the administrative amendment to removed method 1 for tetrafluoromethane and hexafluoroethane estimations.

The Council notes that as outlined in the Paper, this new 'market based method' can be reported along with the existing compulsory 'location based method' reporting under NGER. The Paper indicates that consideration will be given to whether the new method becomes mandatory in the future through NGER, or other Commonwealth legislation as may be determined by the Climate Change Authority (CCA).

The Council is very concerned with the short consultation period considering the 1 July 2023 start date for the inclusion of this amendment. This implementation timeline is too fast to properly consult on the technical details and evaluate the potential impacts to the affected facilities. The Council strongly advocates for the exclusion of this proposed market based Scope 2 methodology in the NGER (Measurement) Determination's 2023 amendments until the issues outlined in this submission are reviewed and addressed.

The Council supports the market based Scope 2 reporting option to the extent that it addresses its purpose to "enable NGER reporters to make unique claims on the 'zero emissions intensity' attributable to renewable electricity purchases and reflect these in their Scope 2 emissions reporting." This is meant to give corporations greater flexibility to report location and market based emissions within eligible extended reporting boundaries of aggregated facilities to avoid double counting of emissions. However, the proposed methodology does not promote this, is not 'fit for purpose' for facility reporting under NGER and problematic in its current form.

Residual Mix Factor (RMF)

The Council is concerned about the use of a single national RMF for market based reporting instead of having state and territory (or grid) based residual mix factors available, similar to the location based factors under NGER. This is important, even while this is a voluntary option, to maintain the standard and integrity of NGER reporting.

The Council has been raising concerns about Scope 2 methodologies with both the Department and the Clean Energy Regulator (CER) since early 2020 and believes that substantial progress has been made to improve the Scope 2 emission factors methodology since this time, including as part of the 2022 NGER amendments. However, with the proposed methodology, the Council is concerned by both the use of a single national RMF instead of state based RMFs, and how the RMF has been calculated.

The market based method should have state and territory based RMFs on the same basis as the location based factors since this will help the sites show comparable dual electricity reporting. Due to the large differences in state by state generation, a single national RMF leads to high or low electricity reporting for some states that are unrepresentative and shows a distorted view when comparing emissions side by side between location based and market based methods. It is essential that RMFs are provided on the same basis and boundary as the location based factors for the quality and accuracy of reporting.

In instances where the facility purchasing electricity is not on one of the primary electricity grids such as the NEM, the formula for calculating market based Scope 2 emissions should allow the facility to use an emission factor from a local electricity generation grid including direct connections.

Large-scale Generation Certificates (LGCs) are created based on generation while the location based factors have been calculated based on generation sent to the grid. This will likely lead to an underestimation of generation when calculating the RMF denominator as some of the electricity will have been consumed by the power station or in some cases by another directly connected user. Using this calculation, it should be checked that the LGCs removed is not greater than the total Renewable Energy Target (RET) eligible large scale renewable generation in the denominator.

During the deeming period, Small-scale Technology Certificates (STCs) are bought for grid consumption, regardless of whether the electricity is consumed behind the meter. As STCs are ineligible Renewable Energy Certificates (RECs) under this method, their generation should be considered when setting the RMF e.g., all behind the meter consumption should not be excluded.

While recognising that NGER is an annual scheme, ability to achieve temporal matching of the RMF is also critical to provide an incentive for measures such as daytime electric vehicle (EV) charging and powering down ancillary equipment overnight, as well baseload customers, such as aluminium smelters, that can flex their demand to support the grid. For practicality this could be done as annual averages. For example, for the SWIS for a single year there may be three RMFs based on period of use similar to time of use retail electricity plans. To further support these activities, consideration could be given to seasonal, instead of annual RMFs, consistent with other future changes in reporting and Guarantees of Origin.

The residual mix factor formula includes methane emissions due to organic matter decomposition within hydroelectric dams. These emissions are not covered or recognised as covered Scope 1 emissions under

NGER and typically form part of a lifecycle assessment. Standard accounting practices for residual mix factors take a generation only emissions approach relating to the fuels and energy consumed in electricity production. The Council would like to see a generation only approach to emissions in market based and location based electricity intensity factors.

Additional Concerns

Renewable Power Percentage (RPP) and Jurisdictional Renewable Power Percentage (JRPP)

The formula applies renewable energy attributes through the use of the RPP to all facilities including those getting electricity from grids that do not have RPP surrender compliance obligations under the RET. This needs to be reviewed on the relevance of its application and materiality to the Scope 2 market based emissions calculations. In instances where the electricity is purchased off grid and the renewable attributes have not been included with the purchase (including thermal generation where no LGCs are created), the method should allow the reporting facility to use a local grid factor provided by the electricity supplier instead of state or national factor for more accurate reporting, the same as Method 7.3 for location based reporting.

The inclusion of JRPPs can trigger additionality or double counting of the state or jurisdictional renewable surrenders and is a metric that lacks transparency. These State based JRPPs are presently unclear and not yet universally regulated under the different States' requirements or schemes. The JRPP in a state or territory scheme should represent the percentage of total electricity use that is additional to the RPP.

Where RPPs are to be used, consideration should be given to monthly calculations instead of an average of the annual values. This would be of relevance if a facility has sporadic grid based electricity use, for example a facility which largely generates onsite but draws from the grid during maintenance.

Amendment Method 7.4

It is unclear whether under Method 1a—market-based method for the purchase and loss of electricity, the Subsections 7.4 (3) and 7.4 (4) would also apply to L (the number of Renewable Energy Certificates). This requires further clarification.

Eligible Units

Consideration should be given under NGER to recognise use of other abatement credits that corporates might choose to purchase such as carbon offsets like Australian carbon credit units (ACCUs) and other carbon credits to apply against their emissions inventory more generally.

Record keeping

Record keeping requirements such as providing LGC serial numbers and GreenPower receipts to validate market based claims should be carefully considered as to how much needs to form part of NGER reporting disclosures and how frequent that is. If requested, the NGER reporter should have the option of providing a third party assurance statement as evidence to validate the claim.

Double counting of Facility emissions in Corporate reporting

NGER reporting should also be further aligned with the GHG Protocol Corporate Accounting Standards that allow for the removal of the double counting of Scope 2 emissions. This occurs when a facility within the same controlling corporation reports Scope 1 emissions from generating electricity and a second facility consumes that electricity. When facilities are aggregated into a corporate level report this leads to double counting which should be addressed.

Conclusion

Despite the optionality of the proposed Scope 2 market based method for reporting under the NGER Scheme, the Council is very concerned with the short consultation period considering the 1 July 2023 start date for the inclusion of this amendment and the reference to reviewing making the method mandatory. The Council believes this proposed market based Scope 2 methodology in the NGER (Measurement) Determination's 2023 amendments should be excluded until the issues outlined in this submission are reviewed and addressed.

The Council is happy to provide further information on any of the issues raised in this submission.

Kind regards,

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