

Town of Gawler Proposal - Transition to full market based accounting for Scope 2 Guidance

Respondent information

Name

Tim Kelly

Organization

Town of Gawler

Email address

Tim.kelly@gawler.sa.gov.au

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Proposal and supporting information

- 1. Which standard or guidance does the proposal relate to (Corporate Standard, Scope 2 Guidance, Scope 3 Standard, Scope 3 Calculation Guidance, general/cross-cutting, market-based accounting approaches, or other)? If other, please specify.**

Scope 2 Guidance

- 2. What is the GHG accounting and reporting topic the proposal seeks to address?**

Complexity of the Scope 2 Guidance to address:

- Conflicting text.
- Loopholes that lead to systemic double counting of renewable electricity use and the related zero Scope 2 emissions.
- confusion on how the Guidance is interpreted and applied in jurisdictions.

- 3. What is the potential problem(s) or limitation(s) of the current standard or guidance which necessitates this proposal?**

The current GHG Protocol Scope 2 Guidance is designed to guide corporate accounting and influence the development of schemes in jurisdictions, noting the GHG Protocol cannot dictate policy within jurisdictions as this is the responsibility of governments and their departments. When governments implement policy in a way that only partially aligns with the protocol, weaknesses and loopholes are exploited leading to systemic double counting, pricing unfairness, free riding and confusion.

Some of the issues experienced have also been described within the Town of Gawler Survey responses.

This reform proposal seeks to close the loopholes which result in systemic double counting of renewable electricity in end user allocation and claims.

RENEWABLE ELECTRICITY

In Australia, voluntary renewable electricity schemes do not meet the Scope 2 Guidance Quality Criteria.

Those not buying renewable electricity are not required to report or make claims using a Residual Mix Factor (RMF), they are given a choice not to.

The Australian Government is yet to provide its RMF for widespread use under the National Greenhouse Accounts (NGA) factors publication which is a key document used in voluntary reporting of emissions and claims. Australia's RMF additionally lacks integrity as it does not net out voluntary renewables, or small scale and household renewables produced and consumed behind the meter.

There is also no standard legislated definition of what constitutes renewable electricity use in Australia. The only legally defined users are National Greenhouse and Energy Reporting (NGER) liable companies that produce and consume renewables on site. These companies are legally

able to claim renewables use on site under the NGER Act whilst also creating and selling RECs (as Large Scale Generation Certificates) at the same time, with 100% systemic double counting.

It appears that partially due to the reluctance to require corporations to report the use of the RMF as well as the location factor for dual reporting (when they are not buying renewable electricity), that the use of the RMF is skipped where it is needed most.

KEY PROBLEM

The Scope 2 Guidance appears to have contradictory text surrounding Table 7.1 Quality Criteria which undermines the quality criteria and enables systemic double counting to continue and be justified:

For companies adding together scope 1 and scope 2 for a final inventory total, companies may either report two corporate inventory totals (one reflecting each scope 2 method), or may report a single corporate inventory total reflecting one of the scope 2 methods.

• if reporting a single corporate inventory total, the scope 2 method used should be the same as the one used for goal setting. Companies shall disclose which method was chosen for this purpose.

If our understanding is correct, then this text creates a loophole that undoes the entire Quality Criteria Table by suggesting that a choice is possible between location based and market based methods. As soon as this occurs renewables are being double counted. Loopholes such as this are fully exploited and must be closed to prevent systemic double counting, unfair pricing, free riding and policy misinterpretation and confusion.

Only the market based method should be used for goal setting and claims. The only choice available regarding targets and claims should be to buy renewable electricity for zero Scope 2 emissions or accept standard grid electricity at residual mix emissions.

Dual reporting has caused more harm than it has solved - if the Scope 2 Guidance is not tightened to remove the option to choose between location based or market based accounting, systemic double counting will continue. Trying to fix the situation with more complexity is not the solution.

4. Describe the proposed change(s) or additional guidance.

To fully enable the Scope 2 Guidance to be meaningful, discontinue support for location based accounting as a method or choice for end users to make reputational, product or service based claims.

In practice, location based accounting is only continuing for the purposes of free riding.

In no other market does a reporting purchasing choice by a customer need to be compared with a market average.

The GHG Protocol should guide claims reported under its Scope 2 guidance to be limited to either a renewable electricity claim at zero Scope 2 emissions or a standard grid electricity claim at residual mix emissions.

To achieve this outcome, the criteria needs to be strengthened to require that market based

accounting is underpinned by legislation in the local jurisdiction in order for organisations and governments to be able to say that market based claims for reputation products and services and schemes align with the Scope 2 Guidance.

Where this is not achieved, the Scope 2 Guidance Quality Criteria is not complied with, and no claims should be made with reference to the Scope 2 Guidance.

What about jurisdictions where market based claims are not supported?

If, and only if, there are jurisdictions where no market based claims are supported, those jurisdictions could utilise location based accounting.

What about jurisdictions where all electricity is produced from renewable electricity?

In jurisdictions where all electricity is renewable electricity then this can be reflected in contracts for electricity with each consumer which are by default, market based electricity. This can only occur at 100% or near a practical completion of 100% renewable electricity generation in a grid.

In jurisdictions such as the Australian Capital Territory, their 100% renewable electricity claims can only be market based because they exist as a small part of the greater Eastern Australia Grid.

5. Please explain how the proposal aligns with the GHG Protocol decision-making criteria and hierarchy (A, B, C, D below), while providing justification/evidence where possible.

A. GHG Protocol accounting and reporting approaches shall meet the GHG Protocol accounting and reporting principles (see Annex for definitions):

- Accuracy, Completeness, Consistency, Relevance, Transparency
- Additional principles for land sector activities and CO₂ removals: Conservativeness, Permanence, and Comparability if relevant

The proposal will support the removal of systemic double counting which undermines the relevance of the other GHG Protocol Principles. The Town of Gawler's response to the Market Based Accounting survey includes a recommendation that a 'No Double Counting Principle' be added to the existing principles.

B. GHG Protocol accounting and reporting approaches shall align with the latest climate science and global climate goals (i.e., keeping global warming below 1.5°C). To support this objective (non-exhaustive list):

- Direct emissions reported in a company's inventory should correspond to emissions to the atmosphere. Reductions in direct emissions reported in a company's inventory should correspond to reductions in emissions to the atmosphere.
- Indirect emissions reported in a company's inventory should in the aggregate correspond to emissions to the atmosphere. Reductions in indirect emissions reported in a company's inventory should in the aggregate correspond to reductions in emissions to the atmosphere.

Scope 2 renewable electricity and emissions accounting is about accounting and dealing with indirect emissions. If the accounting is done well then this ensures that acknowledgement of direct Scope 1

emissions is correctly associated with an entity through their contractual connections to the zero emissions associated with renewable electricity generation.

Market based accounting improvements will ensure that use claims are not double counting renewable electricity generation. In this regard, the payments for accredited renewable electricity correspond with the prevention or removal of Scope 1 emissions.

C. GHG Protocol accounting frameworks should support ambitious climate goals and actions in the private and public sector.

- Would this proposal enable organizations to pursue more effective GHG mitigation/decarbonization efforts as compared to the existing standards and guidance? If so, how?
- Would this proposal better inform decision making by reporting organizations and their stakeholders (e.g. related to climate-related financial risks and other relevant information associated with GHG emissions reporting)?

The reforms to simplify the Scope 2 Guidance to only market based accounting for claims, will help to remove and prevent systemic double counting, confusion, pricing unfairness, free riding and lack of integrity. In achieving these outcomes, voluntary markets will grow with confidence.

Renewable electricity is now the cheapest form of electricity to produce yet will continue to be the most expensive form of electricity for ordinary household and small business customers to buy, for as long as the cross subsidy exists for voluntary markets to be supporting the location based free riding and claims by those not buying renewable electricity.

D. GHG Protocol accounting frameworks which meet the above criteria should be feasible. (For aspects of accounting frameworks that meet the above criteria but are difficult to implement, GHG Protocol should provide additional guidance and tools to support implementation.)

- What specific information, data or calculation methods are required to implement this proposal (e.g., in the case of scope 2, data granularity, grid data, consumption data, emission information, etc.)? Would new data/methods be needed? Are current data/methods available? How would this be implemented in practice?
- Would this proposal accommodate and be accessible to all organizations globally who seek to account for and report their GHG emissions? Are there potential challenges which would need to be further addressed to implement this proposal globally? What would be the potential solutions?

Reforms to remove location based accounting for end use claims are entirely feasible and would indeed result in more jurisdictions following the Scope 2 Guidance. Currently, the Guidance is simply too complex so short cuts are being taken and the Guidance is not working.

Governments can continue to keep data on whole of jurisdiction grid intensity, but this should not be a burden on consumers.

6. Consistent with the hierarchy provided above, are there potential drawbacks or challenges to adopting this proposal? If so, what are they?

The resistance to the stopping of double counting Australia's schemes appears to be caused by the impact in those who are receiving a free ride in reduced emissions and the fact that the GHG Protocol incorporates contradictory text which suggests that jurisdictions supporting market based claims do not need to move away from parallel location based claims relating to renewable electricity use and electricity related emissions.

7. Would the proposal improve alignment with other climate disclosure rules, programs and initiatives or lead to lack of alignment? Please describe.

Reforms in the GHG Protocol to fully transition to market based accounting for Scope 2 emissions and renewable electricity claims can lead the way for such a principle to be established in other climate disclosure programs and initiatives.

8. Please attach or reference supporting evidence, research, analysis, or other information to support the proposal, including any active research or ongoing evaluations. If relevant, please also explain how the effectiveness of the proposal can be evaluated and tracked over time.

This should not be necessary beyond the examples that have already been provided. However further information is available on request.

9. If applicable, describe the process or stakeholders/groups consulted as part of developing this proposal.

In June 2021, at the Australian Local Government Association National General Assembly, the following motion was passed:

The National General Assembly calls on the Federal Government to amend the National Greenhouse and Energy Reporting (NGER) Framework to establish a legal definition of what is required to buy renewable electricity via the electricity grid and claim 100% renewable electricity use and zero emissions. This will establish market based accounting for renewable electricity that is consistent with the internationally respected Greenhouse Gas Protocol Scope 2 Accounting Guidelines. It will create a single nationally consistent method that applies to electricity and renewable electricity consumption and prevent double counting for all customers including for councils, households, and small to medium businesses seeking legally assured, clearly defined and fairly priced renewable electricity.

In 2022 the National General Assembly passed an extended resolution which also covered carbon offsets:

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That this National General Assembly, building on the 2021 National General Assembly resolution and

progress to date towards clear and transparent rules for renewable electricity, calls for formal engagement with the Federal Government and Department of Industry, Science Resources and Energy to accelerate reforms for nationally legislated market-based greenhouse accounting and rules for renewable electricity and carbon offsets to be established in Australia.

Since 2019, the Town of Gawler has engaged in numerous consultation processes that cover renewable electricity and carbon offsets and has engaged with key Government Agencies including regulators. The Town of Gawler has also played a key role in seeking renewable electricity procurement options through the Electricity Working Group of South Australian Councils.

10. If applicable, provide any additional information not covered in the questions above.

Additional information on any aspect can be provided upon request.