



VOLUNTARY CARBON MARKETS ASSOCIATION INC.

**RESPONSE TO DISCUSSION PAPER:
“Treatment of voluntarily purchased renewable energy in the
National Greenhouse and Energy Reporting System”**

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CONTACT:

**Mr Peter Shuey
Chair Technical Sub-committee
Voluntary Carbon Markets Association
0419 348 284
ps@arkclimate.com**

VOLUNTARY CARBON MARKETS ASSOCIATION INCORPORATED (VCMA)

Response to Discussion Paper issued by the Renewable Energy and NGER Reporting Policy Team:

“Treatment of voluntarily purchased renewable energy in the National Greenhouse and Energy Reporting System”

Introduction

The VCMA welcomes this opportunity to provide comments to the Renewable Energy and NGER Reporting Policy Team in the Department of Climate Change and Energy Efficiency, in response to the Discussion Paper entitled “Treatment of voluntarily purchased renewable energy in the National Greenhouse and Energy Reporting System” (the “Discussion Paper”). We understand that the Discussion Paper is designed to resolve a number of issues surrounding the treatment of GreenPower™ in the National Greenhouse and Energy Reporting System (NGERS).

Of the issues raised and the options provided in the Discussion Paper, the VCMA contends that option 3 – which requires an adjustment to the state emissions factors - is preferred. However, the VCMA is concerned that selecting this option might give the impression that all of the problems surrounding the treatment of GreenPower for greenhouse gas reporting in Australia have been resolved, since this clearly would not be the case. There are numerous and significant methodological issues relating to the conversion of energy use to Greenhouse Gases (GHG) that the Discussion Paper does not consider. NGERS is not designed to deal with these methodological issues. The VCMA is concerned that using NGERS in the way proposed in the Discussion Paper may lock in future anomalies and over-simplifications.

Accordingly, VCMA contends that the solution proposed in the Discussion Paper’s Option 3 should be regarded as an interim approach only. VCMA urges the Renewable Energy and NGER Reporting Policy Team to conduct or commission additional work, to develop a more sophisticated and workable approach for the longer term.

Furthermore, the VCMA believes that there are more pressing issues which will require a thorough review and determination procedure to be put in place before such matters are resolved satisfactorily. Currently there are conflicts between state and federal emissions factors which affect the retirement of international permits. The effect of these conflicts is that currently, meaningful and consistent greenhouse gas emissions statements simply cannot be produced across Australia.

The problems associated with conversion of energy usage to GHG are complex. Whether claims of GHG abatement - by paying for RECs - should be based on local, state or national emissions factors and based on average rather than marginal emission factors, is an argument which is yet to be had. To that end, as noted above, the options put forward in the Discussion Paper cannot be regarded as final or long-term solutions to all issues associated with renewable energy reporting. Accordingly, this VCMA submission does not claim to provide the answers – it is intended only to highlight some of the issues and suggest some **interim** solutions.

About the VCMA

The Voluntary Carbon Markets Association was established in November 2008 as an independent, non-profit incorporated association working to promote a vibrant and rigorous voluntary carbon market. We represent all aspects of the voluntary carbon market, including businesses and local governments purchasing carbon abatement, carbon offset providers, carbon accountants and academic institutions.

The VCMA aims to restore the link between voluntary abatement action by Australians and real reduction in Australia's (and global) greenhouse gas emissions.

The VCMA represents a broad range of organisations and individuals, including (for example):

- **Providers of offsets** from both within and outside sectors covered by the CPRS;
- **Organisations** (such as businesses, local governments, etc) that wish to be seen as '**carbon neutral**', or wish to reduce their greenhouse gas emissions and contribute to Australia's reduction in emissions by purchase of Greenpower or offsets;
- **Businesses** that provide **goods and services** that may contribute to voluntary abatement; and
- **Community organisations**, households and/individuals wishing seeking recognition for their voluntary abatement action.

One of the key focus areas of the VCMA is to advocate simple changes to Australia's Kyoto compliance reporting regimes so that voluntary abatement action by households and businesses contributes to additional reduction of Australia's greenhouse gas emissions beyond those delivered under Australia's Kyoto emissions reductions targets.

The VCMA's view is that failure to give appropriate credit to voluntary abatement will disenfranchise Australian households and businesses, and drive investment in locally-based low carbon businesses and infrastructure offshore.

Similarly, the VCMA has previously advocated changes to the (then) design of the Australian government's proposed CPRS so that voluntary abatement action by households and businesses contributes to additional reduction of Australia's greenhouse gas emissions beyond those delivered under the CPRS.

Another key focus area of the VCMA has been advocacy in relation to the National Carbon Offset Standard (NCOS). The voluntary abatement market is absolutely dependent on public acceptance of its credibility and in the VCMA's view, it is critical to ensure the integrity of all claims made by both those organisations that seek to undertake abatement activities and those that seek to provide products and services to facilitate abatement and offsetting.

Purpose of this submission

The VCMA notes the stated purpose of the Discussion Paper, as follows:

“The aim of this paper is to seek feedback on the appropriate treatment of renewable energy purchases – notably GreenPower™ and voluntarily surrendered Renewable Energy Certificates (RECs) – under the National Greenhouse and Energy Reporting System (NGERS).”

Organisations already reporting under the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) and other interested stakeholders are invited to comment. The Australian Government will consider possible changes to the method for calculation of scope 2 emissions for renewable energy under NGERS following stakeholder feedback on this discussion paper.”

This submission is intended to respond to the questions and options proposed in the Discussion Paper. The VCMA's positions in response to the Discussion Paper are outlined below.

Overarching Comments

1. NGERS is primarily for the purpose of acquiring data to record and account for national energy usage and GHG emissions through individual corporate reports.

According to the Department of Climate Change and Energy Efficiency website, the NGERS Act 2007:

“introduced a national framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations.”¹

The VCMA notes that the objectives of the NGER Act, as stated in the legislation, are to:

- inform government policy formulation and the Australian public;
 - help meet Australia's international reporting obligations;
 - assist Commonwealth, state and territory government programs and activities;
 - avoid the duplication of similar reporting requirements in the states and territories; and
 - underpin the introduction of an emissions trading scheme.²
2. Accordingly, the VCMA notes that NGERS was not specifically designed as a system for making public environmental claims on behalf of individual companies. As such, the purchase of GreenPower has not been given high priority in individual NGERS reports.

¹ Department of Climate Change and Energy Efficiency website: <http://www.climatechange.gov.au/government/initiatives/national-greenhouse-energy-reporting.aspx>. Sourced 19 September 2010.

² *ibid*

3. That said, it has become an issue for organisations liable to report within the NGERs framework that the public is able to form a view on their environmental performance based on NGERs reports, particularly where voluntary efforts such as purchasing GreenPower go unrecognised.
4. The VCMA believes that reports based on the National Carbon Offset Standard (NCOS) - rather than NGERs - should be the basis for making corporate claims concerning net GHG performance.

“The NCOS is intended to ensure that consumers have confidence in the voluntary carbon offset market and the integrity of the carbon offset and carbon neutral products they purchase. It provides guidance to businesses who wish to make their organisation carbon neutral or develop carbon neutral products in a way that achieves emissions reductions, through the purchase and retirement of carbon offsets that are beyond those achieved by the CPRS and achievement of Australia’s national emissions reduction targets”³.

As such, the NCOS framework is intended to apply to all organisations seeking to provide a comprehensive account of their GHG performance, taking into account actions undertaken outside compliance regimes such as NGERs.

5. It is unfortunate the NCOS has not yet been accepted widely and integrated into public reporting methodologies, such as NGERs. This creates potential confusion and conflict between different accounting and reporting regimes that apply to corporations liable to comply with NGERs and that must also comply with NCOS to make environmental claims based on voluntary abatement activity.
6. The VCMA contends that it is **not appropriate** for NGERs/OSCAR to become the default carbon reporting standard, at the expense of NCOS, because it is not designed to definitively capture that part of an organisation’s abatement activity arising from voluntary measures. Also, as noted above, there are many methodological issues relating to the conversion of energy use to GHGs and NGERs is not designed to deal with these.
7. The VCMA considers that NGERs and NCOS have different objectives. It also notes that a number of organisations wish to incorporate non-mandatory material (eg on Scope 2 and 3 matters) in its NGERs reports in order to provide a comprehensive overview of GHG performance. The VCMA contends that neither the NGERs nor the NCOS system should be compromised in order to meet the demands of users who wish to use NGERs as a form of environmental statement.
8. However, VCMA submits that there is no reason why NCOS and NGERs should **necessarily** be incompatible, as long as the primary objectives of each framework are met.

³ National Carbon Offset Standard., Australian Department of Climate Change, page 1 (Sourced online on 19 September 2010 at <http://www.climatechange.gov.au/government/initiatives/~media/publications/carbon-accounting/revise-NCOS-standard-pdf.ashx>)

9. Indeed, the VCMA believes that NGERs and NCOS can and should be made compatible in their reporting protocols, as this would save time and money for organisations that need to comply with both systems. The inclusion of a non-mandatory NCOS based calculation and statement at the end of the NGERs report would seem to satisfy most requirements of all interested parties – namely government, reporters and stakeholders interested in reporters' performance.
10. The VCMA has previously called for the OSCAR reporting calculator and database to be made available for **all** organisations, regardless of an organisation's NGERs liability.

Legitimising GreenPower as a form of claimable GHG abatement

11. The VCMA has also previously called for the removal of GreenPower™ contribution from state based emissions factors for the purpose of NCOS emissions statements (although the VCMA recognises that the effect will be minor and may be less than the emissions factor rounding error in many cases).
12. The larger and more fundamental issue remains the manner in which GreenPower™ purchases are dealt with at a national level in order that they comply with developing conventions in offsetting and carbon accounting when making environmental claims. Whilst the Australian government has made statements to the effect that AAUs will be retired in response to GreenPower™ sales, it has yet to determine the timing of the retirement and the calculation method to convert MWh of GreenPower™ sold to AAUs retired.
13. On the matter of timing of retirement of AAUs, the VCMA's position is that AAUs should be estimated and set aside at the beginning of each GreenPower™ year and adjusted at the end of the year. The method of the calculation is more problematic and is dealt with below.

Calculation of GHG Abatement from GreenPower™

14. Australia is in the unfortunate position of having a system of state based emission factors for GHG reporting purposes but a nationally based REC market and renewable energy target. This creates a fundamental conflict where GreenPower™ is concerned, as one system cannot be perfectly reconciled against the other.
15. Buyers of GreenPower™ in effect purchase RECs from a homogenous national pool which also supplies the mandatory and larger (L)RET market. This means that the purchase of a REC from a particular source in a particular state will have the effect of increasing demand for all sources of renewable energy across the country, regardless of location and not specific to the state of purchase or the state of generation or the physical location of the buyer. This is because any REC can be used to satisfy demand in a homogenous national REC market. In other words, purchasing RECs from a Victorian source will not increase demand specifically for more Victorian generation but will increase demand for RECs equally throughout the country, as the (L)RET does not discriminate on the basis of source.

16. Therefore it could be argued that the purchase of 1MWh of GreenPower™, by anyone and from any source, will lead to a carbon reduction equal to the **national** average grid emissions factor⁴, not the state emissions factor.
17. Many organisations and households seek to claim GreenPower™ as a “Zero Emissions” source of electricity for the purpose of individual carbon accounting. However, in order for this to be true and accurate, the removal of the REC and the corresponding AAU at the national level must have a value equal to the claimed emissions offset. In Victoria this would be 1.23 tonnes. In Tasmania it would be 0.32 tonnes.
18. As convention requires that the environmental claim must be backed by the removal of a carbon permit from the relevant cap, for the purpose of making an environmental claim when using GreenPower™ as a Zero Emissions source of energy, the Australian government must surrender 1.23 AAUs and 0.32 AAUs for each MWh of GreenPower™ purchased in Victoria and Tasmania, respectively.
19. Alternatively:
 - Victorians would need to buy 123% GreenPower™ and Tasmanians 32%; or
 - Sales to Victorian entities would require the GreenPower™ provider to surrender (and price accordingly) 1.23 RECs for every MWh of GreenPower™ purchased.

However these would find significant resistance both from an administrative and a marketing point of view and are considered impractical.

20. There have been suggestions that GreenPower™ purchasers should be required to buy the RECS from their own state based sources. However, this would only work if the (L)RET was also state based - otherwise any higher demand for, say Victorian RECs, would be nullified by supply “leakage” across state borders in the national (L)RET market.
21. Therefore, having the Australian government surrender AAUs in accordance with the emissions factor of the buyer’s state would appear to be the only workable alternative. Whilst superficially unattractive to Tasmanians etc, it should be remembered that it has effectively always been thus. The the resulting high comparative cost of abatement explains the low take up rate of GreenPower™ in states with lower emissions intensities.
22. All of this assumes that average emissions factors are appropriate for calculating GHG emissions and offset values. A counter argument is that marginal emission factors are more appropriate. If that were the case, then the state based factors would change significantly and perhaps have much more similar values. eg. Tasmania and Victoria, circa 0.9 t/MWh. This may be an argument for removing State based factors altogether, since State-based factors are indicative only and do not reflect the actual emissions arising from energy use, which varies with time of day, specific location and level of grid interconnection.

⁴ circa 0.9 tCO₂-e/MWh

Adjusting the State Based Emissions Factor

23. A complication when adjusting state based emission factors for GreenPower, is the method for calculating the quantum of adjustment. Should the calculation take into account the purchaser's location or the generator's location? In the VCMA's view, as a result of the nationally homogenous REC market, the actual source of the RECs becomes irrelevant.

Therefore, once again, in the VCMA's view, the volume of GreenPower™ **purchased** in a state should be the sole determinant of the adjustment required (under the current framework). As the volume of *GreenPower*™ purchased by *state* is already published by the GreenPower™ authority annually, such an adjustment becomes straightforward.

Voluntary Surrender of RECs

24. A further issue for the VCMA is the suggestion in the Discussion Paper (and found elsewhere in the NCOS Questions and Answers) that the voluntary surrender of RECs can be counted as a purchase of renewable energy in the same way that GreenPower™ is. The VCMA is fundamentally opposed to this.

24.1. Firstly the Australian government has not agreed to surrender AAUs in response to the voluntary surrender of RECs. Therefore, there would be no *additionality* of abatement and it cannot be seen as the same thing as GreenPower™ for reporting/offsetting purposes. Such a concept would run counter to the principles of additionality under the NCOS.

24.2. Another difference between GreenPower™ system and the voluntary surrender of RECs is that in the second case there is no standardised audit or national reporting protocol. As verification of voluntary surrender would be required for reporting anyway, in order to achieve consistency between the two systems we would need to replicate (or duplicate) the GreenPower™ audit and reporting systems. This would do nothing but add expense to both systems and eventually undermine the existing GreenPower™ program.

Conclusion

In light of the above comments, the VCMA recommends in the short term Option 3, as proposed by the DCC discussion paper; namely

“adjustment to the state-based emissions factor ‘netting out’ voluntary purchases of renewable energy sources”.

However, the VCMA emphasises that this must only be regarded as an interim solution and it should be subject to the following caveats:

- Any environmental claim of net GHG emissions should be consistent with the National Carbon Offset Standard.
- The location of the source of any REC surrendered should be irrelevant, as the source of a REC has no particular effect on demand for generation at that location.

- The location of the consumer should be the only determinant of :
 - the amount by which the state base emissions factor is adjusted; and
 - the number of AAUs retired at a national level to compensate for voluntary GreenPower™ purchases.
- In the VCMA's view, voluntary retirement of RECs outside of the GreenPower™ scheme should not be allowed for claims of reduced GHG as it is not anticipated that international permits will be cancelled in response to REC surrender and in any case such a system would require a duplication of GreenPower™ processes for no advantage.
- A thorough review of GHG accounting procedures must be undertaken in order to resolve conflicts and inconsistencies in the current framework. The VCMA is of the firm view that such a review **must**:
 - explore the range of issues regarding conversion of end-use energy consumption into GHG and abatement values;
 - promote a more informed discussion that reflects the complexities facing different organisations required to comply with both NGERs and NCOS;
 - implement a range of methodological approaches, including numerical analysis, scenarios and modelling; and
 - clearly identify the significance of each assumption and approximation employed.

This would allow a simplified approach to be developed that is transparent, and which bears a greater relationship to the reality of organisational abatement drivers, strategies and actual experience.

The Voluntary Carbon Markets Association appreciates the opportunity to provide the above comments to the Renewable Energy and NGER Reporting Policy Team in response to its Discussion Paper on the treatment of voluntarily purchased renewable energy in the National Greenhouse and Energy Reporting System.

Any queries or requests for additional information in relation to this submission should be directed to:

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Voluntary Carbon Markets Association
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ps@arkclimate.com