



## **BHP Submission to the 2023 Corporate Emissions Reduction Transparency report Consultation Paper**

BHP welcomes the opportunity to provide feedback on the Clean Energy Regulator's 2023 Corporate Emissions Reduction Transparency report Consultation Paper. We recognise the importance of the proposed reforms as an early step in improving the transparency of corporate greenhouse gas emissions reporting, as well as standardising data.

At BHP, our purpose is to bring people and resources together to build a better world. We have an extensive presence in Australia and are proud of the contribution we make to Australian society. We have around 50,000 employees and contractors across the country and our total economic contribution in Australia was A\$79.3 billion (including A\$18.5 billion in taxes and royalties paid) in FY2022.

BHP produces essential resources that the world needs to decarbonise and develop sustainably. Copper for the expanded electricity networks critical to the energy transition. Nickel for the batteries needed to store renewable energy and power electric vehicles. Higher-quality iron ore and metallurgical coal for steel needed to build our cities and create new infrastructure, such as fast trains and wind turbines.

BHP was one of the first companies to align its climate-related disclosures with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We published our Climate Change Report in 2020, and are included in the CA100+ Net Zero Company Benchmark (NZCB), which assesses the world's largest corporate GHG emitters on their progress in the transition to the net zero future.

In September 2021, we published our [Climate Transition Action Plan](#) (CTAP), which sets out the steps that BHP intends to take to reduce greenhouse gas (GHG) emissions to net zero within our own operations and to pursue net zero emissions in our value chain.

Thank you for the opportunity to put forward a submission to the Clean Energy Regulator's consultation paper. We would welcome further discussion on any of the proposals that we have raised.

## 1. Independent assurance of commitments and supporting information

### Questions

1. Would recognition of the independent assurance of company commitments and/or progress statements increase transparency where progress data cannot otherwise be verified by the Clean Energy Regulator (e.g., international, scope 3 and emissions intensity commitments)?

Yes, third party assurance is important to foster transparency and confidence by users in the reported information. BHP obtains reasonable assurance over the Scope 1 and Scope 2 greenhouse gas emissions and limited assurance over reported performance of BHP's material sustainability issues, including Scope 3 emissions. Refer to section 7.19 Independent Assurance Report in the Annual Report 2022, page 64 for further details.

2. Is limited assurance a sufficient minimum standard for the CERT report?

We believe that reasonable assurance for performance against Scope 1 and 2 emissions and commitments and limited assurance for performance against Scope 3 emissions and commitments should be the minimum standard.

3. Do Climate Active, RE100 and Science Based Targets provide sufficient verification and assurance to be included in the CERT report? Should other assurance arrangements and frameworks be considered?

The reporting company should be free to specify the assurance provider and criteria used for their targets and subsequent progress reporting. To maintain an independent process, it is sensible that organisations that design performance criteria (e.g. SBTi, Climate Active) do not then act as an assurer of action against those criteria.

4. Is independent assurance of commitments and/or progress appropriate for companies with complex reporting arrangements, such as equity-share or calendar year reporting?

Yes, these factors should not impact the ability of a company to obtain assurance over their reported emissions and progress to targets.

## 3. Residual Mix Factor (RMF)

### Questions

5. Is the proposed RMF methodology appropriate for the CERT report's scope 2 market-based accounting?

The current wording in the consultation document is not clear on whether the change would apply across section 5.3 or only specifically for definition of the residual market factor (**RMF**) in 5.3.9 of the CERT report guidelines. If the definition of the Renewable Power Percentage (**RPP**) is also altered in 5.3.10, this will result in double counting of Scope 2 emissions reductions. Furthermore, although the proposed RMF calculation is a significant improvement, it still does not fully align with the RMF definition in the widely adopted and internationally recognised Corporate GHG Protocol Scope 2 Guidance<sup>1</sup> (**Scope 2 Guidance**). The lack of alignment is primarily because the proposed approach does not track and remove claims with other contractual rights for energy and emissions attributes for contracted electricity volumes for lower-emissions fossil fuel sources such as for combined cycle gas generation, and thus

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<sup>1</sup> GHG Protocol Scope 2 Guidance, An amendment to the GHG Protocol Corporate Standard [https://ghgprotocol.org/scope\\_2\\_guidance](https://ghgprotocol.org/scope_2_guidance)

likely understates the emission intensity of the RMF. To arrive at a more accurate RMF and to encourage more efficient use of non-renewable generation, the ability to track and remove claims for contracted emissions attributes associated with higher efficiency generation sources is essential.

Finally, given multiperiod comparability is paramount when reporting emissions, and to fairly assess progress against target(s), we strongly encourage that revised residual mix factors for prior year periods (at least back to FY2020) are published. Alternatively, at the very minimum, data should be publicly available for companies to calculate the historic residual factors.

### Detailed response

**Scope 2 Guidance** provides companies with principles and accounting methods to develop meaningful scope 2 emissions figures which recognises low-carbon or renewable contracting choices companies are making, even where a companies' facilities may physically be using inherently untraceable grid-distributed energy as is the case in most of Australia.

Market-based accounting of Scope 2 GHG emissions is based on the generators (and therefore the generation fuel mix) from which the reporter contractually purchases electricity and obtains the underlying rights to the energy attributes (either bundled with instruments, or unbundled instruments). Scope 2 Guidance provides examples of 'contractual instruments' which can be used to allow for energy attributes such as GHG emissions to be allocated along the lines of contractual relationships among producers, suppliers, and consumers. Contractual instruments listed include energy attribute certificates (such as Large Scale Generation certificates (**LGCs**)), direct contracts (for low-carbon, renewable, or fossil fuel generation), supplier specific emission rates, and other default emission factors representing the remaining 'untracked or unclaimed' energy and emissions (the 'residual mix') which remains after the other contractual instruments are removed from the system if a company does not have other contractual information that meets the GHG Protocol's Scope 2 Quality Criteria on page 60 of the Scope 2 Guidance.

Under the Scope 2 Guidance, market-based emissions for electricity provided via contracts which do not specify a choice of underlying generation mix or where the rights for the energy attributes are not retained (E.g., LGCs are sold on) should be calculated by applying the default 'residual mix' emission factor (RMF), where available. The RMF reflects emissions from all untracked and unclaimed energy.

While the proposed change to how the RMF is calculated is an improvement given it removes the voluntary LGCs created in addition to the regulatory LGCs under the Renewable Energy Target (**RET**) there are concerns with both the application of the "Claimable Renewables Percentage" in formula 5.3.10 of the pilot [CERT report guidelines](#) as well as the calculation of the RMF itself.

### Application of "Claimable Renewables Percentage" in calculation 5.3.10 to estimate the 'Residual electricity'

The original formula published on pages 10-11 of the pilot [CERT report guidelines](#) is documented below in Figure 1. From the consultation content, it is not clear whether the proposed approach would replace the RPP term in the calculation 5.3.10 to derive *Residual Electricity* with the "Claimable Renewable Percentage (**CRP**)" that considers the LGCs generated beyond those generated for purposes of RET. If this is the case, this results in double counting of reductions between companies using the market-based accounting approach for the following reasons:

- **Double-counting across companies using market-based method:** Applying CRP to the *Imported Electricity*, reduces the imported electricity value (and the emissions as a

result) of the company from the voluntary LGC market to which it may not have the underlying contractual rights. I.e. a company may not have surrendered all the voluntary LGCs proportionate to the level of reduction it receives from CRP. When this formula is applied across the market, this results in an inflated Scope 2 emissions reductions as reductions associated with voluntary LGCs could be double counted across companies. Additionally, this mechanism inadvertently benefits companies who would not surrender voluntary LGCs, and in the same way penalises those who do.

- **Double counting within a company’s own Scope 2 inventory:** Further double counting of reductions is created in the calculation of *Residual electricity* through subtraction of *LGCs surrendered (voluntary)*. Given, CRP already considers the voluntary LGCs created above the RET, the removal *LGCs surrendered (voluntary)* in the *Residual electricity* calculation effectively creates a double counting of reductions within a company’s own Scope 2 market-based accounting inventory. This is because the voluntary LGCs surrendered would be already captured in the CRP calculation’s numerator, albeit with a temporal difference given the CRP calculation is based on LGCs created and not surrendered.

**Figure 1 – Current market-based accounting formula with CRP term replacing RPP term**

$$\begin{aligned}
 \text{Total emissions} &= \text{Residual emissions} \\
 \text{Residual emissions} &= \text{Residual electricity} \times \text{Residual mix factor} \\
 \text{Residual mix factor} &= \text{NGA National Scope 2 emission factor} / (1 - \mathbf{RPP[CRP]}) \\
 \text{RPP} &= \text{Average of the two relevant calendar year RPP values for financial year reporting} \\
 \mathbf{[CRP]} &= \left( \frac{\text{MWh LGCs created for large scale solar, wind, hydro and biofuels} + \text{MWh of small scale solar generation}}{\text{MWh national electricity generation}} \right) * 100 \\
 \text{Residual electricity} &= (\text{Imported electricity} - \text{EITE electricity consumption}) \times (1 - \mathbf{RPP[CRP]}) \\
 &+ \text{EITE Electricity consumption} + \text{Renewable on-site electricity consumption (LGC)} \\
 &- \text{LGCs surrendered (voluntary)}
 \end{aligned}$$

As a solution to avoid the double counting in the *Residual Electricity* calculation, we propose that the *Residual Electricity* calculation retains the ‘RPP’ term per Figure 2. The ‘RPP’ term in this equation represents the compliance LGC surrendered by (or on behalf) of the imported electricity consumers and therefore the consumers have the underlying rights to the energy/emissions attributes for this electricity. The *Residual Mix factor* calculation should replace the RPP term with CRP term to better reflect the residual emissions mix in the grid after renewable electricity (backed by LGCs) has been removed as suggested in the consultation.

**Figure 2 – Proposed market-based accounting formula**

$$\textit{Total emissions} = \textit{Residual emissions}$$

$$\textit{Residual emissions} = \textit{Residual electricity} \times \textit{Residual mix factor}$$

$$\textit{Residual mix factor} = \textit{NGA National Scope 2 emission factor} / (1 - \textit{RPP}[\textit{CRP}])$$

*RPP* = Average of the two relevant calendar year RPP values for financial year reporting

$$[\textit{CRP}] = \left( \frac{\text{MWh LGCs created for large scale solar, wind, hydro and biofuels} + \text{MWh of small scale solar generation}}{\text{MWh national electricity generation}} \right) * 100$$

**Residual electricity**

$$\begin{aligned} &= (\textit{Imported electricity} - \textit{EITE electricity consumption}) \times (1 - \textit{RPP}) \\ &+ \textit{EITE Electricity consumption} + \textit{Renewable on-site electricity consumption (LGC)} \\ &- \textit{LGCs surrendered (voluntary)} \end{aligned}$$

### **RMF Equation calculation**

- The proposed methodology for RMF calculation for CRP does not account for impacts on the residual mix within the grid due to not tracking other individual Power Purchase Agreements between generators and consumers with market-based emissions based on supplier-specific emission factors where the rights to the underlying attributes are claimed (e.g., low carbon electricity generation or other). We recognise that this may be challenging to track, but until it is captured, the intensity specified in the residual mix factor will likely be understated and not fully aligned with the Scope 2 Guidance definition. We recommend exploring ways of how these contractual arrangements can be captured and tracked to be removed from the RMF calculation.

Finally, given multiperiod comparability is paramount when reporting emissions and to fairly assess progress against target(s), we strongly encourage that revised residual mix factors for prior year periods (at least back to FY2020) are published. Alternatively, at very minimum data should be publicly available for companies to calculate the historic residual mix factors.