Submission to the Consultation Paper – Corporate Emissions Reduction Transparency report

BHP welcomes the opportunity to provide a response to the Clean Energy Regulator (CER) on the Consultation Paper for the proposed Corporate Emissions Reduction Transparency report (CERT).

BHP has set greenhouse gas (GHG) emissions targets for more than 20 years. At present, we have:

- A short-term target of maintaining our FY2022 total operational GHG emissions at or below FY2017 levels while we continue to grow our business;
- A medium-term target of reducing our operational GHG emissions by at least 30 per cent from FY2020 levels by FY2030; and
- A long-term goal of achieving net-zero operational GHG emissions by FY2050.

BHP provides stakeholders with a range of climate-related information. For instance, BHP's *Climate Change Report 2020* details our approach to climate change, including the results of our most recent portfolio analysis, our high level pathway to achieving net zero operational emissions, and the climate-related risks the Company faces. We also:

- Disclose Scope 1, 2 and 3 emissions in BHP's annual reporting suite;
- Discuss our plans to decarbonise our operations, and the actions we have taken which includes renewable power purchase agreements to meet half of the electricity needs across our Queensland Coal mines from low emissions sources; and
- Comply with relevant GHG emissions reporting requirements, including the National Greenhouse and Energy Reporting scheme (NGER).

As our own disclosures attest, BHP supports the goal of providing stakeholders with transparency on how companies are achieving their GHG emissions reduction targets. However, there are a range of technical challenges involved in designing a reporting framework that can adequately and accurately capture the progress of all companies. Further engagement with industry will be needed to ensure these challenges can be overcome. It is important that participation in CERT remains voluntary in case a 'one size fits all' model proves to be unachievable.

Specific responses to questions posed in the Consultation Paper

Is the proposed reporting structure suitable for demonstrating how a corporation is offsetting or reducing its scope 1 emissions and scope 2 electricity consumption?

The proposed CERT scheme is based on NGER facility level emissions data reported in Australia. There are several issues with the proposed approach to tracking and demonstrating how a corporation is offsetting or reducing its Scope 1 emissions and Scope 2 electricity consumption. These include:

- For many organisations, including BHP, voluntary emissions targets are set based on an international emissions inventory of the organisation that includes Australian operations amongst others. This is an accepted practice by international standard setters such as the GHG Protocol developed by the World Resources Institute and the Science Based Targets Initiative. Recognising that many organisations set global targets (as opposed to regional and specific asset targets), emissions reduction progress within specific national boundaries (such as Australia) will almost certainly be asymmetric to global progress due to the differing availability and cost of abatement options. The current design of the CERT scheme does not capture the full GHG emissions profile of these organisations. As a result, presenting the progress against the voluntary emissions target as it currently stands in *"Table 1: Corporate Emissions Reduction Transparency report"* may be misleading to the users of the report as international reductions are not recognised.
- It is not clear how an organisation would present progress against its voluntary emissions target contributed by decarbonisation of its own operations rather than from offsetting. The "Progress towards emissions target (including all eligible units) (%)" column in *"Table 1: Corporate Emissions Reduction Transparency report"* appears intended to capture the contribution of offsets to progress, rather than total progress (own reductions and surrendered offsets). While users could compare the "Total Scope 1 Emissions before surrenders" and "Total Scope 2 Emissions before surrenders" columns across consecutive annual CERT reports to determine year-on-year abatement, it would be more effective and transparent to report the relative contribution of both internal decarbonisation and offsetting to progress against an organisation's voluntary emissions target within each annual CERT report.
- The approach to setting voluntary emissions targets is different across different organisations: some aggregate Scope 1 and Scope 2 emissions, while others disaggregate. The current presentation in *"Table 1: Corporate Emissions Reduction Transparency report"* provides the net Scope 1 emissions, however it does not provide the net Scope 2 emissions.
- Due to different power generation mixes between Australian States, the emissions reductions from he surrender of Large-Scale Generation Certificates (LGCs) will be different depending on which facility it is surrendered against. As voluntary targets typically include both Scope 1 and Scope 2, the net position needs to be presented for Scope 2 as well, otherwise the report will be confusing for the user.
- Furthermore, NGER reporting for Scope 2 emissions is based on a location-based approach requiring application of the grid emission factor. Many organisations with international operations report using the GHG Protocol Scope 2 Guidance that allows recognition for supply of renewable energy certificates (such as LGCs) and power under the market-based approach for Scope 2 reporting. The current emissions reporting under NGER using the grid emission factor does not reflect the actual electricity supply that a corporation is procuring, including the LGCs surrendered.
- Guideline point 6.3 currently does not recognise "Contracts for renewable energy such as Power Purchase Agreements". Recognition of Power Purchase Agreements is important, particular in an international setting where not all markets have instruments such as LGCs and may have exclusive renewable consumption rights written directly into the contract.
- NGER emissions reporting is performed at a facility level. For example, many organisations have multiple facilities registered under the NGER scheme that are held by subsidiaries of the parent entity at which level the voluntary targets are set. The current guidance does not explain how different facilities will be aggregated. Furthermore, within the parent entity's corporate group there may be other sites (e.g. offices) that do not meet the threshold of the NGER reporting requirement and so their emissions are not reported through the NGER scheme. However, the emissions from these sites and associated reductions are captured in the voluntary emission reduction target. This creates a reconciliation and boundary issue for the CERT scheme.
- Voluntary emissions target boundaries can differ between corporations as some corporations can set the target boundary based on an equity control approach to calculating their emissions inventory. On the other hand, NGER reporting is based on an operational control approach. As a result, this may create misalignment between the voluntary emissions target boundary and the progress reported in the CERT.
- Voluntary emissions targets are typically set against a specific baseline year against which the baseline reductions are tracked. Presently, it is not clear how the baseline year will be reflected in the CERT and *"Table 1: Corporate Emissions Reduction Transparency repor*t". Furthermore, it is not clear how the CERT guideline will reflect baseline adjustments when for example divestments, acquisitions, or events outside of the organisation's control occur that would affect the emissions inventory. Recommend that guideline 9.1.2 should require a CERT participant to provide sufficient detail about its target, including its baseline year, to enable a meaningful assessment of the target and progress towards it and the baseline year and emissions should be reflected in Table 1.

Should corporations opt-in each year or should their participation be assumed to continue until they opt-out?

Corporations should opt-in each year. In particular, an annual opt-in would enable a corporation to assess regularly whether changes made by the agency to the terms of the CERT guidelines since its prior year participation affects its ongoing participation (rather than having to cease participation if a change is unsuitable).

Does CERT appropriately manage double counting?

"Table 1: Corporate Emissions Reduction Transparency report" currently does not include net Scope 2 emissions after LGCs and other reductions to Scope 2 emissions have been applied. Net Scope 2 emissions need to be reflected in the CERT to meaningfully track progress against the voluntary emissions reduction targets. However, there is a risk of double counting for organisations that rely on NGER location factors to quantify the emissions from the balance of energy consumption after the LGC claims have be subtracted from the total energy consumption. This is because there is a risk that the zero-emissions power accounted through LGCs may also be included in the calculation of the NGER location factors. Therefore, CERT needs to include a tracking mechanism of all renewable energy claims (both under RET and voluntary) and provide a residual emission factor in each State that is net of those claims.

Should surrenders of ACCUs from NGER facilities delivered under Emissions Reduction Fund contracts be included in the net emissions calculation?

Surrenders of both compliance and voluntary credits should be reflected in the net emissions calculations as these offset the amount of CO2-e emitted by the organisation whether surrendered for compliance or voluntarily. However, a transparent distinction between the two types should be clearly visible in the CERT report for users to understand the contribution of each type of offset.

Should the RPP be included in CERT using the proposed methodology?

The RPP should be included in the CERT methodology. Even though it is a mandatory scheme, renewable power from the RPP represents actual emissions reductions and therefore should be reflected in organisations' Scope 2 emissions reporting. The CERT guidelines should also provide a clear position that RPP LGCs can be accounted towards emissions reductions in organisations' voluntary GHG accounts provided this is transparently disclosed by the organisation and measures are in place to ensure that the LGCs surrendered by retailers on-behalf of their customers match the financial year of the RPP claim and are not on-sold to other parties or deferred.

Are there any other enhancements to CERT that could help build participation?

The CERT registry should reflect the total emissions inventory of the organisation covered by the voluntary emissions reduction target, including the organisation's emissions outside of Australia. This is to ensure that the reported emissions in CERT match the emissions covered by the voluntary emissions reduction target of the organisation. It may be possible to use the NGER data for the majority of Australian emissions and add the balance of emissions for organisations with emissions outside of Australia from publicly reported GHG accounts from the organisation. However, significant further consultation is recommended on this topic.

Draft guideline 5.5 requires CERT participants to consent to terms, conditions and indemnity clauses set out in the opt-in process for CERT, including permitting the disclosure of additional information necessary to populate the report. We would recommend further consultation once the scope of the required commitments, particularly the proposed indemnity clauses, is clear. It would be important to fairly allocate responsibility for, for example, inaccurate transcription, and it may assist if the CERT report includes appropriate notifications to users about reliance and use.

While a lesser order issue, consideration could be given to the placement of the "Climate Active participant" column in "*Table 1: Corporate Emmissions Reduction Transparency report*". While a valuable inititative, Climate Active certification may be less applicable for corporations that do not have consumer-facing products or services or for international corporations participating in global certification initiatives. A "No" response in the column, particularly given its current prominent placement adjacent to an organisation's voluntary targets, may create an inaccurate impression for users. It could perhaps instead be a differently coloured final column in that section.

Provision of residual emission factor calculations at State/network level would improve accuracy when organisations claim LGCs/renewable power. CERT needs to include a tracking mechanism of all renewable energy claims and provide a residual emission factor in each State that is net of those claims. This would improve accuracy in Scope 2 emissions reporting in Australia and minimise the risk of double counting. A form

of a residual emission factor is already provided and required to be applied for emissions reporting through the Australian Government's Climate Active scheme.