

1 November 2021

SA Councils Electricity
Working Group

Australian Government – Clean Energy Regulator
RET and Energy Section
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Dear RET and Energy Section

RE: Consultation on the Second CERT Reporting Scheme Consultation

Thank you for the opportunity for public submissions on the second round of consultation for the Corporate Emissions Reduction Transparency (CERT) report.

We write on behalf of the Electricity Working Group (EWG), a group comprised of 62 councils and 5 associated entities in South Australia. Most South Australian Councils have electricity contracts organised by the Local Government Association Procurement (LGA Procurement) that are set to expire at the end of 2022. The EWG is supporting LGA Procurement to explore accredited renewable electricity options for new electricity contracts, to commence in January 2023.

The EWG is also seeking clarity in renewable electricity markets and advocating for reforms to the National Greenhouse and Energy Reporting (NGER) framework to support market-based trading and claims. The EWG is taking a proactive approach to engage with state and federal governments, agencies and regulatory authorities to seek legal clarity and reforms in defining 100% renewable electricity, so that Councils, households and businesses in our communities can make informed purchasing decisions in a fair, transparent market.

We note that the Town of Gawler made a submission to the first-round consultation. For many councils, the short time provided for submissions to be lodged in this second-round consultation is not sufficient for submissions to be proposed and approved by Council Members. The EWG is therefore keen to make a submission to ensure it is known that South Australian councils are exploring options for 100% renewable electricity and advocating for a fair and transparent market. Councils are also seeking to lead their communities by example.

In order for communities to participate in buying accredited renewable electricity (beyond establishing their own on-site renewable electricity systems), it is necessary to enable small to medium businesses and households to also have access to accredited renewable electricity that has fair pricing structures and is underpinned by legislation.

As there are currently multiple methods and conflicting advice on what constitutes the use of 100% renewable electricity, one of the tasks of the EWG is to participate in advocacy for clarity and reforms in renewable energy and low carbon markets so that reasonable and informed choices can be made.

Currently, Australia does not have legislated market-based accounting rules for renewable electricity or carbon offsets. This lack of legislation results in multiple methods being used to underpin reputational product and service-based claims. Each scheme has different accounting rules and organisations operating outside the schemes have no real constraints on methods they use to make claims.

Without an economy-wide, market-based accounting framework for greenhouse gas emissions and the use of renewables, the renewable electricity produced may be double counted and sometimes triple counted. Double and triple counting are also problematic for organisations claiming zero Scope 2 emissions or the use of renewable energy. Carbon offset abatement can also be double counted.

Because there is no legal definition of what constitutes the use of 100% renewable electricity for a consumer, some consumers may make renewable claims without purchasing Large-scale Generation Certificates (LGCs) to support their claims. The purchasing of LGCs could ensure that the electricity used was generated renewably and was not double counted, as long as LGCs are retired when claims are made.

The purchasing of LGCs is problematic as it is currently applied to GreenPower. In order to claim 100% GreenPower, households and small businesses are forced to pay for LGCs to cover 120% of their use of electricity. This over-charging occurs because GreenPower requires 100% of the use of electricity to be covered by LGCs, plus the consumer is mandated to pay the Renewable Power Percentage by the Renewable Energy (Electricity) Act 2000. The Renewable Power Percentage forces consumers to pay for renewables for close to 20% of their use of electricity, even where they are already purchasing LGCs to cover 100% of their use of electricity.

Councils are taking action

Councils are calling for reform for clear and consistent rules for renewable electricity. 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, create a single nationally consistent method that applies to electricity and renewable electricity consumption and prevent double counting for all customers including for councils, seeking legally assured, clearly defined and fairly priced renewable electricity.

On 29 October 2021 at the South Australian Local Government Association Annual General Meeting, the following similar motion was passed:

1. The LGA to support advocacy led by the Australian Local Government Association calling 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, create a single nationally consistent method that applies to electricity and renewable electricity consumption and prevent double counting for all customers including for councils, seeking legally assured, clearly defined and priced renewable electricity; and

2. The LGA President write to the Minister for Energy and Emissions Reduction to confirm member councils support for the above position.

Market-based accounting is required to be implemented in a credible way across the whole market for voluntary markets to function. This is not achievable when location-based accounting is still being used at the same time for reputational product and service-based claims and when there are multiple schemes each with inconsistent rules.

Why are councils and communities impacted by the CERT?

The CERT enables NGER Corporations and others using the NGER location-based accounting framework to choose between market-based and location-based accounting options in order to make reputational, product and service-based claims.

This means that when councils, small to medium businesses and households pay for their mandatory Renewable Energy Target (RET) contributions and any voluntary accredited renewable electricity, their contributions are pooled and claimed by all consumers of the grid using the location-based state grid factors (via the NGER Determination or National Greenhouse Accounts (NGA) Factors). This is even the case for Trade Exposed Energy Intensive Industries (EITEIs) where they can claim ever decreasing Scope 2 emissions from the *whole of country* effort. Even where the CERT may place additional requirements on EITEIs, because participation in the CERT is voluntary, they may continue to make those claims based on any location benefit, which in South Australia will be close to zero Scope 2 emissions in just a few years' time. It means that the abatement is double counted.

The CERT distorts the concept of consumers having exclusive use of the renewables and offsets abatement that they have paid for. It enables other consumers not paying to receive a free ride for renewable energy, which could be minor or significant depending on the state that they are located in.

In addition, the CERT is a scheme that applies its own accounting rules for approximately 415 Corporations or others opting to use the CERT methods, but it does not address the inconsistencies and safeguards required across the whole market in order for the integrity of market-based claims and protection of consumers that sit outside the scheme. For example, while the CERT enables renewable electricity consumed to be calculated on claiming the mandatory Renewable Power Percentage (RPP) and then claiming the balance by surrendering Large Scale Certificates (LGCs) to the Clean Energy Regulator in order to claim 100%, ordinary consumers that purchase accredited GreenPower (as the only practical choice for many small to medium consumers), are being charged for approximately 120% LGCs.

Other pricing and fairness issues

Consumers are paying for 33,000,000 MWh for renewable electricity under Australia's mandatory Renewable Energy Target that is not available to buy and claim in the market. At

a nominal price of \$40/LGC-MWh this equates to \$1,320 M, payment per year until 2030 for a target that has already been achieved.

It is also the case that Australia's pre 1997 renewable electricity is not made available to the market as renewables. By the Government frameworks creating scarcity of LGCs and renewable electricity in the market, there is a major upward pressure on prices for renewable electricity products and this is unfair to consumers.

Renewable electricity is now cheaper to produce compared with fossil fuel electricity, even with measures to cover the cost of continuous supply to match demand. It is therefore of great concern for councils and their communities that renewable electricity products for most consumers are still based on the total price of electricity plus an unfair cost premium which is usually correlates to a modelled LGC price.

The CERT makes some unique arrangements for NGER reporting organisations but does not address market-based accounting needs of all customers.

Reforms required for Market-based accounting in the CERT and across the broader economy

In order to achieve a level playing field and to establish integrity and fairness in market based voluntary claims, it is necessary to establish a single market-based accounting, allocation and claims framework to apply across the economy. This will require:

- Market-based accounting to be integrated with the NGER Determination and NGA Factors so that all entities, (sellers and end use consumers) follow the same set of market rules under a legislated framework. The accounting foundation should apply to all domestic schemes, including: NGER reporting, Climate Active, GreenPower, the Hydrogen Guarantee of Origin Scheme and the CERT.
- The reforms in the NGER Determination implement the transition to market based accounting for Scope 2 emissions, aligning with the GHG Protocol Scope 2 Guidance. All eight criteria of the GHG Protocol Scope 2 Guidance should be achieved.
- A single method to claim the use of renewable electricity and zero Scope 2 emissions is required.
- National Residual Grid Mix Factor should be applied across the market via the NGA Factors and the NGER Determination. The NGA Factors should be linked to the NGER Determination as a statutory instrument. Those not making emissions-specific claims for renewable electricity should be reporting their electricity emissions using the Residual Grid Mix Factor as the primary method, including to make any and all reputational, product and service-based claims.
- Use of the location-based factor to become a reference point only in dual reporting, not a choice for primary reporting, to prevent double counting.
- State location-based factors should not be used as the dual reporting reference point. To enable dual reporting to have any meaning, it is necessary for market-based

claims using the National Residual Mix Factor (RMF), to be compared against a National location-based factor.

- If LGCs are to be treated as incorporating renewable use and zero Scope 2 emission attributes, then these attributes need to be legally assigned with the Large-scale Certificates.
- A change to the NGER Determination is needed to formally introduce market-based accounting for carbon offsets as negative Scope 3 emissions. Basic debit and credit rules for trading and claiming Scope 3 offset emissions needs to apply.

Residual Mix Factor

It is noted that the Climate Active interpretation of a RMF is proposed for the CERT.

Currently, the method to calculate the RMF does not establish a true residual mix factor because it only nets out mandatory renewables and not voluntary renewables. The GHG Protocol Scope 2 guidelines are very clear about what is required to make a unique claim for market-based accounting to work. Unless the voluntary renewables are removed from the RMF, market-based accounting cannot work with integrity.

Further, unless all consumers not buying renewable electricity apply the RMF for their primary reporting to make reputational, product and service-based claims, then market-based accounting cannot work with integrity because double counting and free riding are not prevented.

The safeguards to ensure that market-based accounting has integrity and fairness, are included in eight criteria outlined in the GHG Protocol Scope 2 Guidance as shown below.

From GHG Protocol Scope 2 Guidance Table 7.1 Scope 2 Quality Criteria

All contractual instruments used in the market-based method for scope 2 accounting shall:

1. Convey the direct GHG emission rate attribute associated with the unit of electricity produced.
2. Be the only instruments that carry the GHG emission rate attribute claim associated with that quantity of electricity generation.
3. Be tracked and redeemed, retired, or canceled by or on behalf of the reporting entity.
4. Be issued and redeemed as close as possible to the period of energy consumption to which the instrument is applied.
5. Be sourced from the same market in which the reporting entity's electricity-consuming operations are located and to which the instrument is applied.

In addition, utility-specific emission factors shall:

6. Be calculated based on delivered electricity, incorporating certificates sourced and retired on behalf of its customers. Electricity from renewable facilities for which the attributes have been sold off (via contracts or certificates) shall be characterized as having the GHG attributes of the residual mix in the utility or supplier-specific emission factor.

In addition, companies purchasing electricity directly from generators or consuming on-site generation shall:

7. Ensure all contractual instruments conveying emissions claims be transferred to the reporting entity only. No other instruments that convey this claim to another end user shall be issued for the contracted electricity. The electricity from the facility shall not carry the GHG emission rate claim for use by a utility, for example, for the purpose of delivery and use claims.

Finally, to use any contractual instrument in the market-based method requires that:

8. An adjusted, residual mix characterizing the GHG intensity of unclaimed or publicly shared electricity shall be made available for consumer scope 2 calculations, or its absence shall be disclosed by the reporting entity

Conclusion

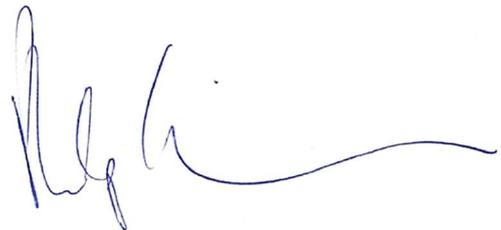
The Electricity Working Group is a strong supporter of market-based accounting, provided it is implemented fairly across the whole economy and underpinned by legislation. It is plausible that some larger councils will make public facing claims using the CERT, however, most councils are still likely to be participating in renewable electricity and carbon offset markets in some form, as are their communities. For the interests of all consumers, there is a need for fair, transparent and legislated accounting, allocation and trading rules in low carbon markets.

We would be happy to discuss the detail of this letter through an online meeting.

Yours sincerely



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List of SA Councils registering an interest in the LGA Procurement Process

South Australian Councils	
Adelaide Hills Council	District Council of Mount Remarkable
Adelaide Plains Council	The Rural City of Murray Bridge
Alexandrina Council	Naracoorte Lucindale Council
The Barossa Council	Northern Areas Council
Berri Barmera Council	City of Norwood Payneham & St Peters
City of Burnside	City of Onkaparinga
Campbelltown City Council	District Council of Peterborough
City of Charles Sturt	City of Playford
District Council of Cleve	City of Port Adelaide Enfield
Coorong District Council	Port Augusta City Council
Copper Coast Council	City of Port Lincoln
District Council of Elliston	Port Pirie Regional Council
The Flinders Ranges Council	City of Prospect
District Council of Franklin Harbour	Renmark Paringa Council
Town of Gawler	City of Salisbury
Regional Council of Goyder	Southern Mallee District Council
District Council of Grant	District Council of Streaky Bay
City of Holdfast Bay	Tatiara District Council
Kangaroo Island Council	City of Tea Tree Gully
District Council of Karoonda East Murray	District Council of Tumby Bay
District Council of Kimba	City of Unley
Kingston District Council	City of Victor Harbor
Light Regional Council	Wakefield Regional Council
District Council of Lower Eyre Peninsula	Corporation of the Town of Walkerville
District Council of Loxton Waikerie	City of West Torrens
City of Marion	Wudinna District Council
Mid Murray Council	District Council of Yankalilla
City of Mitcham	Yorke Peninsula Council
Mount Barker District Council	
Local Government Affiliated Organisations	
LGA of SA	Fleurieu Regional Aquatic Centre
ERA Water	Northern Adelaide Waste Management Authority
Eastern Waste Management Authority.	