



EnergyAustralia

LIGHT THE WAY

16 February 2023

The Hon Dr Jim Chalmers MP
The Treasury
Langton Crescent
PARKES ACT 2600

Lodged electronically: climatereportingconsultation@treasury.gov.au

Dear Minister,

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CLIMATE-RELATED FINANCIAL DISCLOSURES

EnergyAustralia (EA) welcomes the opportunity to comment on the Treasury's consultation paper on Climate-related Financial Disclosures. EA is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. EA owns, contracts and operates a diversified energy generation portfolio that includes coal, gas, battery storage, demand response, solar and wind assets. Combined, these assets comprise circa 5,400MW of generation capacity.

EA is dedicated to building an energy system that lowers emissions and delivers secure, reliable and affordable energy to all households and businesses via both our existing generation fleet and our growing portfolio of lower emissions assets. We recognise the value of working with Aboriginal and Torres Strait Islander peoples as the traditional custodians of this land in achieving this. We, therefore, acknowledge and respect their continued connection to all aspects of Country.

EA applauds Treasury's commitment to developing and implementing a standardised and internationally-aligned disclosure framework for climate-related financial reporting in Australia. A well-designed framework will strengthen economy-wide decarbonisation objectives and contribute to a rapid, robust and orderly energy market transition. In this regard, we highlight that:

- EA supports the Australian Accounting Standards Board (AASB) being made responsible for the development, implementation and monitoring of climate and sustainability-related standards in Australia.
- We endorse the use of the International Sustainability Standards Board's (ISSB's) climate-related disclosure standard as the template for this work. This is subject to confirmation that the final standard elements are appropriate for Australian conditions and minimise compliance, reporting and administrative burden.
- Both emissions intensity and absolute emissions should be included as key reporting cohort determinants with prioritised reporting based on company-specific Materiality Assessments.

- Although the use of a common baseline of metrics per current ISSB guidelines is supported, we suggest specific industry metrics are best avoided at this time to avoid implementation delays.
- We support the proposal for climate modelling to reference Intergovernmental Panel on Climate Change (IPCC) or International Energy Agency (IEA) scenarios. However, we highlight that other credible industry scenarios, such as those in the AEMO's Integrated System Plan (ISP), will also be required to provide a more fulsome sustainability assessment in some industries.
- We support additional design flexibility to future-proof the disclosure regime by providing scope for biodiversity and natural capital accounting developments.
- Assurance requirements for climate-related financial disclosures should be no different to that for other financial information in requiring quality processes and independent assessment from a qualified auditor or another relevant expert.
- Greater data granularity in the Australian Energy Market Operator's (AEMO's) Carbon Dioxide Equivalent Intensity Index (CDEII) would allow more accurate reporting of emissions associated with electricity production and use.
- Digital reporting should not be mandated at this time given concerns over administrative burden and technology immaturity.
- A phased approach to framework implementation should begin in 2024-25, with a regular review cycle of no more than three years to minimise the risk that the Australian disclosure regime falls out of step with international best practices.

Full responses to consultation questions are provided below. We look forward to hearing more of the Treasury's thoughts on these and related issues as the consultation progresses. Should you have any questions on this submission or would like to meet to discuss matters further, please contact me on [REDACTED] or via email at [REDACTED]

Regards,

[REDACTED]
Climate Change and Sustainability Strategy Principal

Question 1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular: What are the costs and benefits of meeting existing climate reporting expectations? What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

EA supports Treasury's view that the credibility and informational transparency provided by disclosure standards will be vital in supporting more efficient foreign direct investment in Australia. Failure to align with global standards would risk international capital being deployed elsewhere or domestic corporations moving offshore to support their growth agendas in extreme cases. Neither is in the long-term economic interests of Australia.

With that said, wholesale importation of international standards without consideration of their fitness for Australian conditions should be avoided. We note that the International Sustainability Standards Board (ISSB) guidance is yet to be delivered. Further, work on the EU Sustainability Taxonomy, which may form the basis of an Australian taxonomy, is ongoing. We highlight there could be material recurring cost impacts from people, process and technology investments to meet any new reporting obligations. We, therefore, suggest that Treasury validate the suitability of any final ISSB recommendations for Australian conditions to support prompt, pragmatic and parsimonious domestic deployment.

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25? What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

EA supports a phased approach to implementation beginning in 2024-25. This should allow any 'teething problems' to be appropriately identified and dealt with while supporting business understanding and growing disclosure capability.

Future phases should be driven by considerations of regulatory burden and any possible unfair advantage resulting from any inconsistent regulatory application. Disclosure should, therefore, only be required for:

1. entities that have material climate-related risks, whether transitional and/or physical, and with
2. entities with similar emissions (emissions intensity and absolute emissions) and size being either required to report or not. This point is discussed further in the response to question three below.

A similar phased approach should be taken for any framework extensions. As noted further below, EA considers that other sustainability elements, particularly biodiversity and natural capital accounting, will see international acceptance in due course. A regular framework review timetable of no longer than three years will mitigate the risks that Australian disclosure requirements fall out of step with international best practices.

Question 3: To which entities should mandatory climate disclosures apply initially? What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively? Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

EA agrees that mandating disclosures by size and listed status has several advantages and should be a factor in determining the initial application cohort. By themselves, however, these factors will not capture those businesses with the greatest climate-

related risks and opportunities. For example, a smaller, privately-held entity could have great climate-related risks that it would not be forced to disclose.

While climate-related financial disclosure standards have been formulated to address the information needs of financiers, we highlight that such information is also useful for other groups. These include both downstream customers and upstream suppliers looking to reduce their own emissions. We, therefore, suggest that emissions intensity and absolute emissions be added as mandatory reporting determinants. For example, with small or private companies included as part of the initial disclosure cohort if they exceed absolute emissions or emissions intensity thresholds.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards? Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets? Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

EA considers that adopting the ISSB standards, once finalised, would have several advantages. These include the use of Taskforce on Climate-related Financial Disclosures (TCFD) elements which are strongly backed and understood by investors and auditors alike. ISSB standards adoption would, therefore, minimise compliance, reporting and assurance burdens while increasing informational transparency. In turn, this would avoid the possible risks to the Australian economy highlighted in the response to question 1 above.

The one caveat to this support stems from the fact that the ISSB standards remain unfinalised at the time of writing. Although EA is broadly comfortable with how the draft standards have developed, we note there could still be the potential for last-minute changes that are ill-suited for Australian corporates.

We support the proposal for climate modelling to reference Intergovernmental Panel on Climate Change (IPCC) or International Energy Agency (IEA) scenarios. However, we highlight that other credible industry scenarios will also be required in some cases to provide a more fulsome sustainability assessment. The Australian Energy Market Operator's (AEMO's) Integrated System Plan (ISP) scenarios are one such example. These have been developed and refined in consultation with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and industry players over several years. They include consideration of many elements relevant to the Australian energy industry that cannot be factored in broader IPCC and IEA scenarios. These scenarios can be useful in describing the maximum possible pace of decarbonisation given supply chain, logistical, planning, operational and technical challenges.

Question 5: What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

EA supports building on existing requirements to disclose any material risks with overarching obligations set through relevant regulatory guidance and standards. For example, via the forthcoming ISSB standards. Doing so will allow the swiftest, smoothest and least costly implementation. It would also provide the most flexibility for updates and revisions to framework obligations that would not be possible if enshrined directly within legislation.

Regardless of which approach is ultimately supported, the regulatory framework must minimise compliance, reporting and administrative burden. In particular, consideration

should be given to resolving overlap and duplication with other existing reporting obligations such as the National Greenhouse and Energy Reporting Standards (NGERS).

Question 6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

EA considers participating entities should have the freedom to choose how to best meet their reporting obligations. In particular, noting that although disclosures in annual reports may be suitable for larger corporations, they will be a non-starter for smaller and privately-held companies. Allowing discretion in publication location and timing will support the most efficient and expeditious disclosure outcomes.

Question 7: What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

As noted in the consultation paper, the ISSB view on materiality was recently changed with further sustainability-related guidance expected in the coming months. The most recent guidance was delivered in December¹ with the ISSB defining sustainability as:

'the ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short, medium and long term.'

Further that:

'Sustainability is a condition for a company to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development and regeneration, to achieve its goals.'

EA supports these definitions and considers that reference to them as part of the new disclosure framework will promote better explanation to customers, suppliers and investors of how both climate and sustainability concerns may materially impact company value. We encourage prioritised reporting based on company-specific Materiality Assessment findings.

Question 8: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

EA considers that assurance requirements for climate-related financial disclosures should be no different to that for other financial information. That is, with quality, independent assessment from a qualified auditor or other relevant expert required. This will ensure the necessary accuracy, transparency and timeliness of information provided to customers, suppliers and investors.

We note the discussion around auditing resourcing constraints held at the Roundtable. However, we highlight that auditors and related professionals are rapidly developing their offerings in this space, particularly in light of the strong support for ISSB standards. This has been facilitated and promoted by the ISSB itself through the establishment of its partnership framework². The sole purpose is to help investors, auditors, reporting entities and other capital market participants improve their understanding, implementation and adoption of the forthcoming standards.

¹ See [IFRS - ISSB Update December 2022](#)

² See [IFRS - ISSB at COP27: ISSB makes key announcements towards the implementation of climate-related disclosure standards in 2023](#)

Given this, different entity annual reporting cycles, potential implementation staging and the time until standards are finalised in Australia, we do not expect assurance constraints to be a large or long-term problem. In particular, if Australian standards closely mirror the final ISSB standards as recommended. To the extent material assurance constraints do arise, however, we note these could be addressed by lengthening the first assurance and reporting window.

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

As above, and as highlighted in the consultation paper, the key reporting aim should be to avoid duplication and overlap with existing compliance obligations. Doing so will minimise administrative burden and best support the swiftest, least costly and most efficient framework implementation.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

EA notes that the ISSB deliberated and decided against introducing industry-specific measures at its December 2022 meeting due to complexity and equity issues³. We agree with this sentiment and suggest that while a common baseline of metrics be defined per current ISSB guidelines, specific industry metrics are best avoided at this time.

Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate-related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

EA notes that all these considerations would be covered if the current draft ISSB framework recommendations are adopted. Subject to final guidance being reviewed for suitability in the Australian context, we see this as another reason for adoption.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

EA notes that the ISSB has proposed to delay the implementation of scope 3 emissions reporting disclosures for a year⁴. This is to allow more time to better address data availability and data quality challenges seen in some industries. Although recognising the nature of the challenge in some industries, we do not see that this should stop scope 3 disclosures in others. Where credible and robust data is available, scope 3 disclosures should be made.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements? How and by whom might any data gaps be addressed? Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

Greater granularity within AEMO's Carbon Dioxide Equivalent Intensity Index (CDEII)⁵ would allow more accurate reporting of emissions associated with electricity production and use. Currently, the CDEII is reported on an average daily basis only. As more or less renewable energy is dispatched throughout the day, emissions intensity will be under or

³ Ibid.

⁴ Ibid.

⁵ <https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/market-operations/settlements-and-payments/settlements/carbon-dioxide-equivalent-intensity-index>

over-stated compared to the daily average. To correct this, we suggest dispatch interval emissions intensity data be made available.

Question 14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

Per the answer to question 4 above, EA considers there should be flexibility within any new framework to leverage alternate scenario modelling or methodological approaches where robust, credible and independent options exist.

Question 15: How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

EA considers current requirements are both appropriate and clear given updated guidance and interpretation from ASIC⁶, ACCC⁷, APRA⁸, AICD⁹ and CPA Australia¹⁰ along with recent corporate actions. See for instance ASIC versus Tlou Energy Limited¹¹.

Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?

EA has no further comments beyond the relevant points made in the answers to the questions above.

Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

Treasury is right to consider the future purview of Australian climate-related disclosure frameworks. In December, the ISSB indicated it would explore incorporating additional biodiversity, human capital and human rights factors as part of future standards updates¹². EA expects these developments will be well supported internationally, particularly biodiversity and natural capital accounting elements given recent Conference of the Parties to the UN Convention on Biological Diversity (COP15) and Taskforce on Nature-related Financial Disclosures (TNFD) developments. We, therefore, support additional flexibility being designed into the proposed framework to future-proof the disclosure regime and avoid risks of misalignment with international best practices. A regular framework review cycle of no more than three years should also be enshrined to further support this.

⁶ <https://asic.gov.au/regulatory-resources/financial-services/how-to-avoid-greenwashing-when-offering-or-promoting-sustainability-related-products/>

⁷ <https://www.accc.gov.au/speech/acccs-enforcement-and-compliance-policy-update-2022-23>

⁸ <https://www.apra.gov.au/news-and-publications/apra-finalises-prudential-guidance-on-managing-financial-risks-of-climate>

⁹ <https://www.aicd.com.au/risk-management/framework/climate/climate-risk-governance-guide.html>

¹⁰ <https://www.cpaustralia.com.au/-/media/project/cpa/corporate/documents/tools-and-resources/environmental-social-governance/guide-to-climate-change-and-financial-reporting.pdf?cid=internal-page-banner>

¹¹ <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-294mr-asic-acts-against-greenwashing-by-energy-company/>

¹² [IFRS - ISSB Update December 2022](https://www.issb.org/updates/2022/12/15/IFRS-15-Update-December-2022)

Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

EA's experience is that digital reporting platforms and processes are not yet at the point where no undue administrative cost or impost is imposed. As such, we recommend digital reporting not be mandated at this time.

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate-related risk reporting? Why?

EA supports the Australian Accounting Standards Board (AASB) being made responsible for the development, making and monitoring of climate and sustainability-related standards. As noted in the consultation paper, this best aligns with current practice and leverages the AASB's involvement in the development of other international standards. It would also avoid the cost, bureaucratic and timing risks associated with the other proposed approaches. That is, from setting up a new bespoke entity or amalgamating existing entities into one super-entity.