



APA Submission: Sustainable Finance Strategy

8 December 2023





SustainableFinanceConsultation@treasury.gov.au

Lodged online

8 December 2023

RE: APA Group - Submission on Australia's Sustainable Finance Strategy

Dear Sir / Madam,

Thank you for the opportunity to comment on the Australian Government's consultation paper regarding its Sustainable Finance Strategy (**Consultation Paper**).

APA is an Australian Securities Exchange (**ASX**) listed owner, operator, and developer of energy infrastructure assets across Australia. Through a diverse portfolio of assets, we provide energy to customers in every state and territory on mainland Australia. As well as an extensive network of natural gas pipelines, we own or have interests in gas storage and generation facilities, electricity transmission networks, and 692 MW of renewable generation infrastructure.

We support the global transition to a lower carbon future and are actively supporting the energy transition taking place across Australia. In August 2022 we released our Climate Transition Plan, outlining APA's pathway to net zero operations (scope 1 and 2) emissions by 2050, including interim targets for different aspects of our portfolio. In addition to these actions, we are also taking steps to reduce emissions through our own operations and playing an active role in supporting our customers to decarbonise through the development of lower carbon bundled energy solutions.

Our submission below provides recommendations in respect to '*Pillar 1: Improve transparency on climate and sustainability*' of the Consultation Paper, in particular Priorities 1 to 3. APA views these priorities as crucial to supporting Australia's pathway to net zero and APA's own Climate Transition Plan.

In addition to this submission, APA has contributed to and supports the submission from the Business Council of Australia on the Consultation Paper.

If you wish to discuss our submission, please contact our General Manager Sustainability, Victoria Somlyay, on 0412 925 069 or victoria.somlyay@apa.com.au.

Kind regards

A handwritten signature in blue ink, appearing to read 'Liz McNamara'.

Liz McNamara
Group Executive Sustainability and Corporate Affairs
APA Group

1 Key Points

This submission is informed by APA's own climate policy through which APA recognises that climate change presents both opportunities and risks not only to our business, but also to the long-term prosperity of the Australian economy and communities we serve. APA is committed to being part of the successful and orderly transition to a net zero emissions economy and is actively responding to the challenges and opportunities inherent in this transition.

The table below summarises APA's key submissions on the Consultation Paper. While this submission does not expressly deal with each question in the Consultation Paper, APA is broadly supportive of the priorities and proposed approaches set out by Treasury. This support aligns with APA's commitment to enhanced transparency in corporate reporting of climate-related information. We view this transparency as critical to providing our securityholders and other external stakeholders with timely and credible information. Further, APA supports the view that transparent disclosures support effective planning, policy certainty and well-designed market-based mechanisms which in turn provide for the most orderly, efficient, and least-cost, transition in support of the Paris Agreement.

Priority	Question for feedback	Summary of APA submission
1 Establish a framework for sustainability-related financial disclosures	❖ What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations?	<p>The Government should provide guidance to assist entities with Scope 3 data challenges and in standardising scenario analysis. That guidance should:</p> <ul style="list-style-type: none"> ❖ provide standardised scenarios for use by Australian entities; ❖ set expectations regarding assurance over climate disclosures; ❖ identify and explain the appropriateness of various methodologies for scenario analysis and emissions data collection; and ❖ provide examples of how entities could determine whether there are 'reasonable grounds' to support a disclosure.
2 Develop a Sustainable Finance Taxonomy	❖ What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy?	<p>The Government must adequately recognise and support the role of gas when developing and implementing Australia's sustainable finance taxonomy. A June 2023 report released by Boston</p>

- ❖ What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?

Consulting Group (**BCG Report**) found that natural gas can support the displacement of fossil primary energy sources..¹ [Gas fired renewable solutions for off-grid applications, particularly in regional and remote locations, will be essential for Australia to develop future industries. Adopting this approach is consistent with taxonomies adopted in other jurisdictions.]

3 Support credible net zero transition planning

- ❖ What are key gaps in Australian capability and practice, including relative to 'gold standard' approaches to transition planning developed through the UK Transition Plan Taskforce (**UK TPT**) and other frameworks?

Australia should prioritise the development of sector-specific guidance to transition planning. This approach would be consistent with the UK TPT 'gold standard' disclosure framework. The Australian Government should also emphasise the importance of effective and ongoing collaboration between Government, industry and other stakeholders in respect to transition planning.

¹ The BCG Report explains what is meant by the term "low-carbon gases" on page 5, stating:

"Low-carbon gases include:

- Biomethane, derived from biomass feedstock
- Natural gas with carbon capture and storage (CCS)
- Green hydrogen, derived from electrolysis using renewable electricity
- Blue hydrogen, derived from steam methane reforming (SMR) with CCS
- Synthetic methane, synthesised from green hydrogen and direct-capture carbon dioxide".

We note that the BCG Report was commissioned (in part) by APA Group and that the commissioning organisations were able to provide feedback on drafts of the Report. However, the BCG team assigned to the project retained full control over the content and the conclusions presented are the views of that BCG project team.

2 Submission Response

2.1 Priority 1 – The role of Government in respect to Scope 3 data challenges and scenario analysis of APA Group

APA is supportive of the Government's proposed mandatory climate-related financial disclosure regime. Our current reporting aligns with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), which is beneficial in our preparation for future reporting requirements of Australia's mandatory disclosure regime once it is implemented. However, there are several issues which would benefit from further explanation to assist companies to meet the disclosure requirements under the new regime.

First are existing limitations in respect to collecting accurate and comprehensive Scope 3 emissions data. Without detailed guidance from regulators, the current expectations regarding the maturity of data to be disclosed may be unrealistic given the proposed timeframes for the implementation of the mandatory disclosure regime. APA notes that the methodologies for calculating Scope 3 emissions data continue to evolve and there are challenges associated with Scope 3 reporting such as categorisation of purchasing data, availability of data from assets operated by others, and estimating methods for some categories. This means that the accuracy of each entity's Scope 3 disclosures is conditional on the precision of third-party upstream and downstream data. APA considers this to be a key area in which the Government could provide clarity by consulting with industry and issuing guidance. Similarly, APA considers that Australian entities would benefit from further Government guidance in respect to disclosure concerning scenario analysis.

We envisage that the development of guidance could, at a minimum:

- provide standardised scenarios, relevant to the Australian operating and reporting environment, that could be utilised by organisations or sectors. The level and sophistication of analysis expected against a certain scenario should be explained (particularly with reference to the concept of "climate resilience assessments" and the Government's proposal to phase-in a requirement for quantitative analysis);
- set expectations in relation to obtaining reasonable assurance over disclosures that are reliant on estimation and third-party data;
- identify and explain the appropriateness of various methodologies for scenario analysis;
- identify and explain the appropriateness of various methodologies for emissions data collection; and
- provide examples of how to determine whether there are "reasonable grounds" to support disclosures, particularly where disclosures rely on incomplete or third-party data sets.

APA is supportive of the current framework whereby prescriptive requirements are intended to sit within the AASB's Australian Sustainability Reporting Standards. Ideally, any

supplementary Government guidance will not be legislated, nor take the form of additional requirements. The guidance should be positioned as a reference tool with practical step plans, sector-specific information, and clearly set out the Government's expectations in respect to the scope and detail of mandated disclosures.

2.2 Priority 2 - The role of gas in Australia's sustainable finance taxonomy and climate transition

APA sees a need for stable and uninhibited capital flows into transition activities to facilitate Australia meeting its national ambition of net zero emissions by 2050.

APA supports the implementation of a sustainable finance taxonomy in Australia on the basis that a well-designed taxonomy can send the necessary signals to support an efficient and orderly decarbonisation pathway. In particular, APA advocates for a greater focus on "transition activities" in the development and implementation of Australia's sustainable finance taxonomy. Without this focus, the Government's key policy objective to "support the mobilisation of private capital towards sustainable activities" may overlook the necessary role of Australia's key industries (including gas production and transmission) in the energy transition and fail to recognise the unique geographical and other features of the Australian economy. It is important that an Australian taxonomy prioritises the stability of the national energy supply, particularly with reference to the criticality of off-grid gas firmed power solutions in regional Australia to current and future industries, and ultimately Australia's future economic growth.

Further, consistent with the Australian Government's intention to promote international alignment (see Consultation Paper '*Priority 11: Promoting international alignment*'), APA supports efforts to move towards a single global taxonomy. Doing so would aid comparability between jurisdictions and facilitate more efficient allocations of capital. We agree with the Consultation Paper that "policymakers need to develop frameworks that are suitable for their markets, while also minimising compliance costs and complexities that may result from divergences with global frameworks".

2.2.1 Role of gas within the Australian market

In terms of suitability within the Australian market, a Net Zero Australia report released in July 2023 found that Australia would need to commit approximately AUD \$1.5 trillion by the end of the decade, and AUD \$7 trillion by 2050, to facilitate its transition. Several key industry figures have warned that the energy transition is far too slow with no new renewable energy generation projects reaching a final investment decision in the March 2023 quarter.

A June 2023 report released by BCG² considered the role of gas infrastructure in Australia in the transition to, and in, a net zero future. Notably, it viewed natural gas as continuing to play an important role. Gas can support the displacement of fossil primary energy sources in the transition to electrification by serving applications that are hard or expensive to electrify. A sequential approach towards electrification (where natural gas is retained for these hard or expensive applications) will make the transition more robust and mitigate the risks of a

² Boston Consulting Group (June 2023) [the role of gas infrastructure in Australia's energy transition](#)

disorderly exit of coal-fired generation. The BCG Report proposes that this approach will reduce emissions sooner with lower total system costs.

Importantly, the BCG Report warns that the potential role for gas infrastructure to play in the transition will not happen automatically. It also advises that stakeholders need to avoid near-term natural gas supply shortfalls and move low-carbon gas supply down the cost curve. Relevant to the Consultation Paper, and specifically to the development of Australia's sustainable finance taxonomy, the capital flows into gas transition activities need to be prioritised in the short- and medium-term.

2.2.2 *Alignment with international taxonomy practices*

Recognition of the role of gas in the energy transition is consistent with international taxonomy practices, including in Canada, China and Japan. In each of these jurisdictions' taxonomies, gas is an eligible transition activity to significantly reduce emissions from existing hard-to-abate sectors, subject to certain conditions. Examples of how taxonomies can include gas transition activities are set out in the table below.

Jurisdiction	Conditions for the use of gas
Canada – Green and Transition Finance Taxonomy	<ul style="list-style-type: none"> ❖ having a clear pathway to decarbonisation ❖ using carbon capture and storage technologies ❖ reducing methane emissions and flaring ❖ supporting the integration of renewable energy sources
China – Green Industry Guidance Catalogue	<ul style="list-style-type: none"> ❖ using natural gas as a substitute for coal or oil ❖ using biogas or hydrogen as a clean energy source ❖ reducing greenhouse gas emissions and air pollutants
Japan – Green Bond and Sustainability Linked Bond Guidelines	<ul style="list-style-type: none"> ❖ using natural gas as a bridge fuel to reduce emissions from coal or oil ❖ using biogas or hydrogen as a low-carbon energy source ❖ using carbon capture and utilisation technologies

APA recognises the Government's commitment in the Consultation Paper to partner with and consult industry to support the initial taxonomy development phase, and we would like to be involved in the proposed sectoral stakeholder working groups. However, in the meantime, industry would be assisted by the Government providing a transparent plan as to how the

Australian Sustainable Finance Institute (**ASFI**) and the Council of Financial Regulators (**CFR**) Climate Working Group, will respond to industry feedback as they work to develop Australia's taxonomy.

In relation to how the taxonomy is to be effectively embedded in Australia's financial and regulatory architecture, the Consultation Paper proposes medium-term options of requiring large firms and financial entities to disclose the degree of alignment of their activities or investment products / portfolios respectively with the taxonomy. Our overarching concern is not with the practicality of this disclosure but is instead with the potential effect on investment decisions. The framing of "alignment" will need to be carefully construed so as not to disincentivise or discourage the financial (or otherwise) support of transition initiatives. Transparency is a key pillar of a successful sustainable finance taxonomy. However, any meaning attributed to concepts such as "alignment" and "progress" must pay adequate attention to the necessary short- and medium-term funding of transition activities.

2.3 Priority 3 – Developing effective transition plans through sector specific guidance and collaboration

The development and disclosure of transition plans are a core component of Australia's transition strategy and are also critical to an entity's own strategy and its engagement with investors. Credible and effective transition plans provide investors with the information they require to finance the energy transition. APA suggests that there are two key priorities to move towards a consistent standard of transition planning: sector specific guidance and ongoing collaboration.

2.3.1 Sector specific guidance

While all entities are influenced to some degree by macroeconomic trends and geopolitical events, other factors are sector specific. For example, policy and regulatory frameworks, technological developments, the availability of finance, stakeholder expectations and supply chains can vary considerably between sectors. These factors can play a significant role in how entities undertake transition planning and mean that a "one-size fits all" approach is unlikely to facilitate credible and accurate transition planning in Australia.

The Government will be aware that the UK TPT is currently consulting on sector-specific guidance for preparers and users of climate transition plans, including the Oil and Gas sector. The key benefit of this approach is allowing the sector-specific context to inform transition planning, which in turn leads to more tailored and effective plans. APA advocates for sector-specific guidance, to facilitate reliable and consistent transition planning in Australia.

APA further suggests that the development of this sector-specific guidance should align with and be informed by the sectoral decarbonisation pathways that the Climate Change Authority (**CCA**) is currently developing. The CCA's project will consider each sector's opportunities to achieve emissions reductions, barriers to implementation, technologies that might be deployed to support emissions reduction and how public and private finance can support emissions reduction pathways (among other factors). Enabling sector-specific guidance for transition planning to be informed by the CCA's work would strengthen the integrity of transition planning in Australia.

2.3.2 Collaboration

APA supports the Government's proposal that Treasury will consult with industry and other stakeholders to strengthen Australia's transition planning. Notably, the UK TPT 'gold standard' disclosure framework was produced with input from over 100 organisations across finance, business, civil society, government and academia. Further, over 500 organisations were engaged to test the robustness of the framework.



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