



CREATE. CONNECT. CONVINCED.

<http://www.cpd.org.au>

4 Feb 2021

Centre for Policy Development Submission on Draft 2021 IASR

The Centre for Policy Development (CPD) welcomes the opportunity to make a submission to the Australian Energy Market Operator's (AEMO) *2020-21 Planning and Forecasting Consultation on Inputs, Assumptions and Scenarios Report (IASR)*.

This submission focuses upon the 'Central scenario' proposed in the IASR. We submit that this scenario is overly conservative with respect to the reduction of emissions over time. For example, whilst the Central scenario envisages Australia reaching its 2030 Nationally Determined Contribution (NDC) under the Paris Agreement,¹ it does not envisage Australia achieving net zero emissions by 2050.² This is despite all the participating National Electricity Market (NEM) jurisdictions and many of Australia's major corporations, financial institutions and largest trading partners having made clear net zero commitments.³ The IASR's Central scenario is likely to be overly conservative with respect to modelling emissions reductions over time and the pace of the energy transition. This will likely distort the scenario's practical value.

The features of the IASR 'Central scenario' are particularly important given growing emphasis on scenario analysis as a tool for stronger corporate climate-related governance, and the likelihood that AEMO's scenarios will be an influential benchmark for industry, government and regulators.

High quality scenario analysis has emerged as a critical litmus test for governance and disclosure of climate risk.⁴ Most notably, it is a key element of the global Taskforce for Climate-Related Financial Disclosures (TCFD) framework, which has been endorsed and emphasised by Australia's financial regulators as the key standard for climate risk governance and disclosure.⁵ As a result, Australian firms and institutions are facing growing pressure from investors and regulators to adopt global best practice on scenario analysis, and scrutiny of how these scenarios are designed and applied is growing.

¹ Australia's NDC under the Paris Agreement is a 26-28% reduction of emissions on 2005 levels by 2030.

² AEMO, 'Draft 2021 Inputs, Assumptions and Scenarios Report' (December 2020) *AEMO Reports 22* https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/inputs-assumptions-methodologies/2021/draft-2021-inputs-assumptions-and-scenarios-report.pdf?la=en

³ Notable recent announcements include net zero commitments by Japan, China and South Korea, the recommitment of the United States to the Paris Agreement under the Biden Administration.

⁴ CPD's '*Climate Horizons*' research series in 2017 and 2018 highlighted the growing focus on scenario analysis including in the context of the TCFD framework and statements by Australian and global regulators. Available here: <https://cpd.org.au/2018/06/climate-horizons-2/>

⁵ See for example 'Climate Change and the Economy', speech by Reserve Bank Deputy Governor Dr Guy Debelle, 12 March 2019. Available here: <https://www.rba.gov.au/speeches/2019/sp-dg-2019-03-12.html>

Scenario exercises that incorporate flawed or outdated assumptions could create commercial and reputational risks for organisations that rely on them, and/or lead them to overlook critical opportunities. At the highest level, this goes to the question of whether boards and directors are ensuring appropriate oversight, management and disclosure of climate-related risks. The Hutley SC legal opinion commissioned by CPD in 2016 highlighted that directors who do not properly manage climate risk could be held liable for breaching their legal duty of due care and diligence. A supplementary opinion released in 2019 concluded that legal benchmark on climate risk was rising fast.⁶ It cited a number of material developments, including a series of coordinated, well-publicised steps taken by Australia's financial regulators to explain the risks posed by climate change and highlight the need for better climate risk governance by the entities they regulate. Subsequent analysis by CPD has concluded that directors of public sector bodies and authorities have duties to consider climate risk which are at least as stringent as the duties of their private sector counterparts.⁷

While more companies and investors are now adopting scenario analysis and strengthening climate-related disclosures, the scenarios employed by different organisations can vary widely in terms of their quality, parameters and approach. This is a critical juncture for mainstreaming expectations that sophisticated firms perform rigorous scenario analysis. We submit that a best practice approach now requires central scenarios that are firmly aligned with Paris Agreement commitments to limit global warming to well below two degrees.

Given the above, it is concerning that the central IASR scenario is not consistent with Paris Agreement targets and the emerging Australian consensus on achieving net zero emissions by 2050. In our view this should be a critical focus for AEMO's review process ahead of finalisation of the IASR in July 2021.

Thank you for considering CPD's submission. We would be happy to provide further information if that would be useful for the next stage of the process.

Yours sincerely



Sam Hurley
Policy Director

⁶ The 2016 Memorandum of Opinion '*Climate change and directors' duties*' by Noel Hutley SC and Sebastian Hartford Davis, and the supplementary opinion issued in 2019, are available here:

<https://cpd.org.au/2019/03/directors-duties-2019/>

⁷ See CPD Discussion Paper, *Public sector directors' duties and climate change*, January 2019. Available here:

<https://cpd.org.au/2019/02/public-authorities/>