

28 November 2007

Climate Change Group
Department of Prime Minister and Cabinet
PO Box 6500
Canberra ACT 2600

Dear Sir/Madam

Submission to the Department of the Prime Minister and Cabinet regarding the Early Abatement Incentives Discussion Paper

Ernst & Young Australia is pleased to provide our comments to the Climate Change Group on the Early Abatement Incentives Discussion Paper ('the Paper').

We welcome the opportunity to contribute to the development and introduction of early abatement incentives in anticipation of an Australian emissions trading scheme ('AETS') coming into operation. This matter is of particular significance to Ernst & Young owing to the fact that as a firm we are likely to provide advisory and assurance services to clients in the lead up to the introduction of an Australian emissions trading scheme and beyond.

We have provided comments on specific areas that we wish to emphasise to the Climate Change Group and have not sought to provide broader comments across the entire Discussion Paper.

2.1 'No disadvantage' arrangements

Under the 'No disadvantage' arrangements the Paper proposes that the National Greenhouse and Energy Reporting ('NGER') Regulator may supplement emissions data verified under the NGER System (i.e. from 2008/2009 onwards) with other verified abatement data. Where reliance is placed on data verified other than under the NGER system, the quality of such verification, and hence the data, is prone to variability. As such, it is critical that there are clear standards and criteria in place against which to evaluate any such verified data. This will ensure not only data integrity but also parity with the data under the NGER System.

In terms of broader verification considerations, we refer you to our *Submission to the Department of Environment and Water Resources National Greenhouse and Energy Reporting System: Regulations Discussion Paper*. A copy of that Submission is enclosed for your reference as the points made therein still stand.

3.1 Standards for abatement recognised by the scheme

The Paper proposes that credits will only be provided for activities that represent abatement that has actually occurred, is additional, permanent, measurable and verifiable. From our experience, it is important to have in place:

- criteria against which eligibility of projects can be evaluated;
- specific guidance regarding the eligibility of an abatement project; and
- guidance regarding those systems and mechanisms a company must have in place in order for any abatement to be recognised as being valid.

Where this is not possible, we recommend that eligibility should be evaluated by the NGER Regulator upon application.

3.3.2 Streamlining administration of offsets and early action credits

We agree that where possible and timely to do so, the development of protocols for the evaluation of abatement projects would be of benefit. Owing to the time it may take to develop protocols to address all types of abatement, offsets and credits that may arise, we agree that priority area protocols be developed first. It is our view that, where a protocol is not in existence at the time approval is sought for an offset and early action credit project, the person seeking approval proposes the methodology that should apply and obtain approval for that methodology from the NGER Regulator. This is consistent with the approach adopted in relation to Clean Development Mechanism projects. International Financial Reporting Standards (IFRS) also encourage robust methodologies to be used when determining recognition and / or disclosure of financial information.

In addition, and as mentioned above, we encourage you to develop a set of clear standards and criteria against which abatement projects can be evaluated.

3.3.5 Developing offset standards for the emissions trading scheme

We believe that our comments above suffice in this regard.

We would be pleased to discuss our submission with members of the Climate Change Group and to engage in a more detailed dialogue with you.

Please do not hesitate to contact Liza Maimone, Oceania Practice Leader, Sustainability Advisory and Assurance Services (03 8650 7348 or liza.maimone@au.ey.com) with any queries that you may have.

Yours sincerely

Graham Ezzy
Managing Partner - AABS

Attachment - Submission to the Department of Environment and Water Resources National Greenhouse and Energy Reporting System: Regulations Discussion Paper