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AGL Response to Independent Review of Australian Carbon Credit Units

AGL Energy (**AGL**) welcomes the opportunity to comment on the Independent Review of Australian Carbon Credit Units 2022 (**Consultation Paper**).

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market (**NEM**). We have the largest renewables and storage portfolio of any ASX-listed company, having invested \$4.8 billion over two decades in renewable and firming generation. AGL offers carbon neutral options across all of our products - including Climate Active certified electricity, gas, mobile, internet, and both residential and commercial solar and battery products, as well as GreenPower certified electricity.

An important role in the energy transition

Since the Emissions Reduction Fund (ERF) was established in 2014, significant changes have occurred in the energy sector. The imperative to act on climate change by reducing emissions in the electricity sector has coincided with the expansion of a much more participatory customer base and an increase in customers seeking to take voluntary action to contribute to emissions reduction, which has significantly accelerated the demand for products and services that support decarbonisation. Accordingly, AGL has committed to offering customers the option of carbon neutral options across all of its products.

However, as customers become more engaged in the various types of carbon neutral products available, there is also increasing scrutiny on the detail of products that claim to be carbon neutral and/or supporting emissions reductions. At AGL, we welcome these trends and strongly support customer engagement and choice in the range of products that are available to help customers reducing their carbon footprint while also contributing to reducing emissions on a broader scale.

We recognise that although customers should have a range of choices available to them in terms of their energy supply, it is important that claims made about carbon neutral products are transparent in order for customers to make informed decisions. Carbon neutral products should therefore be generally available and priced on a reasonable basis, but also marketed and sold to customers with an appropriate level of disclosure regarding relevant details.

Within this context, AGL supports the review of ACCU integrity and hopes to see more transparency and reporting data of ACCUs as a result of this review, in line with the original objectives of the ERF and the country's decarbonisation objectives more broadly.



AGL's experience with the ERF scheme

AGL dedicates significant time and effort to verifying ACCU quality and integrity to ensure they are of a high standard for inclusion in our carbon neutral products. Not all ACCUs are created equal – with differences in methodologies leading to differential pricing (often as a result of co-benefits) and affecting standardisation of individual units.

We have experienced a lack of transparency and reporting for some ERF projects. Available information on the registry is insufficient meaning additional time and effort must be dedicated to determining project quality and integrity before procuring for our carbon neutral products. In our view, ACCUs would benefit from more transparency, reporting, and data through regular auditing and monitoring of projects in line with international voluntary schemes where this information is publicly available.

Our teams have also experienced issues with the administration of the Australian National Registry of Emissions Units (ANREU) particularly regarding new and updated access arrangements, resulting in additional resources required to administer ACCU units.

In addition, it would be beneficial to be able to view ANREU account holdings and market creation of ACCUs, similar to other domestic environmental certificate schemes.

We have had much better experiences with the Renewable Energy Certificate (REC) Registry and would welcome changes to ANREU to allow transparency of information for participants, similar to the level demonstrated in the REC registry.

Governance of the ERF

From a governance framework point of view, we would welcome increased transparency through independent performance or audit reports on the scheme and greater visibility of committee membership appointments to the Emissions Reduction Assurance Committee. We understand that the Chubb review will likely cover these aspects of scheme governance and we suggest semi-regular review of scheme transparency and integrity following the review.

Rigour and integrity of ERF methods and projects

We have no concerns with the existing six Offsets Integrity Standards, however we believe that it could be worth adding *Permanence* as a seventh standard, acknowledging its importance in ensuring that carbon offsets represent permanent emission reductions and removals. At a minimum, there need to be adequate safeguards in place to ensure that the risk of reversal is minimised, noting that the internationally accepted norm for offset permanence is 100 years.

Co-benefits and other impacts

We tend to seek projects with co-benefits where possible due to the added value, particularly as there are questions around the integrity of some methodologies. ACCUs with co-benefits tend to attract a premium as they are seen as a way to achieve other sustainable development goals



(SDGs) such as improvements to health, biodiversity etc. We believe that co-benefits should be recognised and measured in a similar way to international voluntary carbon offsets, in line with SDGs so that they are officially recognised and verifiable.

Relationship to voluntary Climate Active certification

We would welcome further rationale behind the decision to implement a 20% domestic ACCU requirement, what perceived issues with the current certification program this is seeking to resolve and an indication of future policy direction to rely more heavily on domestic offsets. This rationale should include supporting analysis as to the underlying objectives of the change, likely impacts on the ACCU market, the effect on voluntary participation in Climate Active, and the long-term direction of the scheme.

In our view, the question of whether an increase in ACCU requirements is likely to provide more integrity to the Climate Active standard cannot be resolved until concerns with both international and domestic offset transparency and integrity are addressed. There may therefore be merit in finalising this review prior to making significant changes to certification requirements that are seeking to improve scheme integrity.

Both this review and the recent review of international carbon offsets have brought issues of offset integrity into the spotlight with further scrutiny of green claims being targeted by the ACCC and ASX. Discrepancies in quality exist between both international carbon offset projects and Australian emissions reduction fund methodologies. While customers are becoming increasingly aware of the quality claims of carbon neutral products, it has yet to be demonstrated that this stretches as far as discerning the difference in individual offset quality and the link to pricing for products and services they purchase. Additionally, there is a lack of broad understanding regarding the differences between offsets and other units that represent more direct abatement for certain products, such as renewable energy certificates for electricity products.

AGL has a rigorous due diligence framework when assessing carbon offsets for our carbon neutral products, which comes at a corresponding cost to customers as it is reflected in the pricing of our carbon neutral products. It would not be a positive outcome for customers if changes in certification requirements increased these costs and resulted in businesses having an incentive to source cheaper, lower integrity international offsets to make up the balance of their requirements.

Raising the bar in transparency and integrity across all carbon offsets would help to even the playing field for businesses competing to offer high-quality carbon neutral products and improve the overall reputation of carbon neutral products and services. Transparency could also aid customer engagement by allowing customers to know exactly what benefit is being purchased, lowering the informational barrier to participation in Climate Active and increasing consumer trust and confidence in the Climate Active brand.

Understanding the impact of increased ACCU demand

The 20% ACCU requirement along with the Safeguard Mechanism reform and increased voluntary commitments could have significant impacts on the demand side of the ACCU market. While high demand may in the longer-term stimulate new supply, new ERF projects will take time to come online. With no corresponding policy to ramp up supply in line with what could be a sudden demand, it may be worth considering more flexibility in the short term in meeting minimum



domestic requirements, for example, by starting with a lower requirement that ramps up in future years. This would minimise carbon market volatility and adverse customer impacts from short-term increases in ACCU prices.

The ACCU market would also benefit from a stable policy landscape where any changes to government policy are developed taking into account stakeholder views and supported by a strong underpinning evidence base.

Finally, an important consideration for any proposed change to Climate Active that could increase the price of carbon neutral products is the cost-of-living pressures customers are currently facing. In the current economic climate, an increase in cost could see churn away from voluntary carbon neutral schemes, eroding Climate Active participation.

Whatever option is chosen for Climate Active, as a voluntary scheme where customers opt-in to a carbon neutral product, customer needs must remain the central focus. There should be as few barriers as possible to accessibility.

Future

Looking to the future, there needs to be an acknowledgement that carbon *avoidance* activities will begin to be BAU and will therefore have lower additionality, with carbon *removal* activities becoming the norm as they represent higher additionality. Currently, the majority of ACCUs are created from carbon avoidance activities and further investment signals will be required to move to carbon removal activities, ensuring sufficient supply in the future from these activities. We see it as important that there are regular reviews of the scheme and carbon offsets going forward to ensure they are fit-for-purpose, particularly as expert advice and both domestic and international goals such as Paris commitments change.

The relationship between offsets and other units that represent abatement or other emissions reductions efforts should also be considered in the future.

For example, in addition to the range of domestic and international offsets available to use for carbon neutral claims, the electricity sector must also consider interactions with several other units, including different State-based energy efficiency certificates (VEECs, ESCs, REPS) and small- and large-scale renewable energy certificates (STCs, LGCs).

There are further discussions regarding the development of other certificate-based schemes that may further complicate the landscape, such as the Guarantee of Origin scheme for certified fuels and NSW Renewable Fuel Scheme for green hydrogen, and the creation of Safeguard Mechanism Credits under the Safeguard. Discussions regarding certification for products and services in other sectors are also ongoing.

While these different schemes have specific objectives and the units created within them do not necessarily represent true offsets, the certificates these schemes create may lead to a more complex operating environment where the role of offsets and their integrity become a more prominent concern.

Going forward, it is worth considering what role each unit or certificate plays in achieving the best emissions reduction outcomes and how we can simplify the way these schemes generate products for customers.



We consider there is opportunity for the right balance to be struck and for confidence in ACCU and international offset integrity to be restored through actions stemming from this and related reviews. ACCUs and other high-integrity offsets will remain an integral part of reaching net-zero commitments and we look forward to offering robust carbon neutral products with renewed confidence to our customers.

If you have any queries about this submission, please contact Aleks Smits (Senior Manager Policy) at asmits@agl.com.au.

Yours sincerely,

Chris Streets

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