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AGL Response to NSW EPA Draft Climate Change Policy and Action Plan

AGL Energy (**AGL**) welcomes the opportunity to respond to the consultation drafts of the NSW EPA Climate Change Policy and NSW EPA Climate Change Action Plan 2022-25 (**the Plan**).

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.

As Australia's largest electricity generator, AGL is also Australia's largest greenhouse gas emitter. Our operated scope 1 and 2 emissions account for approximately 8% of Australia's total emissions, over 95% of which come from the combustion of coal for the generation of electricity for our customers. As the global community responds to the risks of climate change, AGL Energy recognises the large part that we must play in the transition to a low carbon economy.

The emissions reduction imperative

AGL accepts the science on climate change and supports policy action to meet Australia's commitments under the Paris Agreement, including the commitments by the Commonwealth and State Governments to reach net zero emissions by 2050.

In 2020, AGL committed to net zero emissions by 2050 and introduced carbon transition metrics as a performance measure in executive remuneration frameworks to provide a focus for AGL executives to progress the transition. AGL has taken a market leading position in this regard, being the first ASX50 organisation to link executive long-term variable pay to climate-related goals.

Most recently, in September 2022, AGL released its inaugural Climate Transition Action Plan (**CTAP**) under the Say On Climate initiative, which states AGL's updated ambition for decarbonisation, including the following commitments:

1. Targeting a full exit from coal-fired generation by the end of FY35 (up to a decade earlier than previously announced).
2. Ambition to meet customer energy demand with around 12 GW new firming and renewable assets by 2036.
3. An initial target of 5 GW new firming and renewables by 2030.



AGL has committed to repurposing its large thermal generation sites into low carbon industrial Energy Hubs. Our industrial Energy Hubs at Loy Yang, Torrens Island and in the Hunter will bring together renewable energy production and storage with energy-intensive industries, centred around a shared infrastructure backbone.

Our plan recognises that a balance needs to be struck between responsible transition and rapid decarbonisation to keep Australia's electricity supply secure, reliable, and affordable.

The interaction of energy and environmental policy

AGL is supportive of strong action on climate change and the setting of ambitious targets to instigate action. Regulation of businesses can be a strong motivator as it sets the guideposts for such ambition. However, Australia's carbon policy landscape is becoming increasingly complex with overlapping state and federal government and state regulator actions all targeting emissions reductions in one form or another. This not only increases the administrative burden for government but also for companies navigating their compliance obligations.

The NSW electricity sector has explicit policy in place to reduce emissions including the NSW Government's Electricity Strategy (DPIE 2019) and Electricity Infrastructure Roadmap (DPIE 2020) which are designed to enable the orderly transition to renewables as existing coal-fired power stations retire.

We believe that government energy departments and regulators are best placed to develop, implement and enforce the major policy decisions impacting the energy sector as they place both the consumer and the stability of the energy system at the heart of their policy. We hold some concerns that EPA's involvement in driving down electricity sector emissions could have unintended consequences and flow on impacts across the NEM, and for consumers. We welcome further clarification of the EPA's intended role in these processes.

For this reason, we believe the Plan's stated intention to start the development of GHG reduction targets and pathways with sectors where no other significant NSW or Commonwealth Government emission reduction strategy is already in place is wise.

However, from the NSW Net Zero Plan Stage 1: 2020-2030 (DPIE 2020), it appears that reductions in electricity sector emissions will be required to meet the state's legislated emissions reductions targets. AGL seeks clarification on whether this is the case, and whether, if the EPA were legally responsible for enforcing these reductions, it would implement emissions limits on individual environment protection licences issued by the EPA.

AGL's emissions targets and coal generator closure plans will be carried out at a company level and across our portfolio of generators across the NEM. Imposing emissions limits on a single facility could affect the ability of that generator to supply into its local market when it's needed.

Should EPA consider the inclusion of the electricity sector in the future, a thorough and meaningful consultation process will be vital to fully understand the implications of that decision. EPA may also wish to consider how the climate change mitigation and adaptation plan (CCMAP) for each facility would take into account broader energy transition and planning.



The broader impacts of coal closures

The emissions reductions of thermal power stations occur as step-changes (i.e. following the closure of units) rather than gradual decreases. We acknowledge that operators of these facilities have a responsibility in terms of the responsible and efficient running and closure of assets in the period of operation leading up to closure. We have committed in our CTAP to responsible running and closure of our assets, continuing to deploy capital to our existing thermal assets to ensure they remain safe and reliable for the remainder of the period to their targeted closure dates. Asset closure management plans are currently under development. We plan to provide further details of the operational plans leading up to closures in future.

With that said, setting very strict GHG emissions limits for thermal power station licences that don't take into account the limited options for emissions reductions open to them, could force early closure of the facility. While this might facilitate achievement of GHG emissions reduction targets, an unplanned coal exit would have impacts on areas outside of the NSW EPA's mandate. These closures, without a plan for replacement generation and infrastructure in place, could have a destabilising effect on the grid and impact wholesale electricity prices.

The closure of a large coal fired power station could also lead to increases in carbon emissions from the remaining thermal generators within the electricity sector to meet energy demand. This could result in an overall decrease in electricity sector emissions but be coupled with an increase in emissions of the individual facilities remaining. How might this be managed?

For climate policy to be effective, it should state clear objectives, assign clear responsibilities and streamline administrative compliance mechanisms. We would therefore welcome further information from the NSW EPA clarifying its role in setting, managing and enforcing emissions reductions in the electricity sector.

If you have any queries about this submission, please contact Siobhan Bradley (Policy Manager) at sbradley4@agl.com.au.

Yours sincerely,

Chris Streets

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