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AGL Response to Safeguard Mechanism Reform Position Paper

AGL Energy (**AGL**) welcomes the opportunity to comment on the Safeguard Mechanism Reform Position Paper (**Position Paper**).

AGL is one of Australia's leading integrated essential service providers. We have a 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.3 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia, some of whom will be captured under this proposed reform.

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 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.

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

AGL is also a purchaser of Australian Carbon Credit Units (ACCU) and we seek out high integrity offsets for our carbon neutral products. We offer customers the option of carbon neutral prices across all of our products, providing viable carbon-neutral supply options for households, business, and wholesale customers.

Achieving emissions reductions through the Safeguard Mechanism

We are very supportive of the overall design of the proposed Safeguard Mechanism Reform and welcome the proposed settings outlined in the government's position paper. These settings allow each sector to contribute their fair share of the overall emissions reductions task, in line with a carbon budget that is consistent with Australia's required contribution to the objectives of the Paris

Agreement. However, we note the following issues that may require further consideration before scheme implementation.

Offsets

Both Australian and international carbon credit units have been the subject of increased scrutiny with recent reviews, consultations, media coverage, and exposés raising doubt over the integrity of some specific projects. In our view, this focus on the integrity of credits is important, as high-quality offsets will be a critical part of reaching the global net-zero emissions target.

If liable entities are able to purchase offsets in lieu of abatement, where abatement options are not currently viable and Safeguard Mechanism Credits (SMC) stocks are exhausted, high integrity offsets will be a vital part of ensuring overall scheme integrity.

Offset integrity is also integral to major government climate and energy reforms linked to the Safeguard Mechanism such as the review of ACCUs, review of international carbon credits, climate related financial disclosures and voluntary corporate emissions reductions transparency reporting. Offsets are already used for voluntary emissions reduction claims – for example, under ClimateActive accredited products.

Exclusion of International offsets

Given issues recently reported with the integrity of international carbon offset projects, the inclusion of international offsets could potentially jeopardise the integrity of the reformed Safeguard scheme. It could add a layer of complexity, result in movement of investment offshore due to lower cost of international credits and reduce stability of the ACCU market, strongly influencing prices. As negotiations surrounding Article 6 of the Paris Agreement continue, alleviating concerns of double counting issues by clearly establishing which country's targets the emissions reductions count towards, we would propose revisiting this possibility in future through a separate consultation process.

Policy linkages

There is a link to existing State-based energy efficiency schemes and the proposed National Energy Performance Strategy where liable entities can achieve both energy performance improvements and their Safeguard required emissions reductions by switching from gas or other fossil fuel use to efficient and or electric appliances. Getting the settings right for the Safeguard so that emissions reductions are adequately incentivised and supported for both EITE and non-EITE facilities could enable impact beyond this individual policy – reducing reliance on fossil fuels, enabling efficient energy use, meeting efficiency or performance targets the government may set in future all the while reinforcing our ability to meet our emissions reductions targets.

Sector-specific solutions

Each of the industries covered by the safeguard scheme will require tailored solutions – the decarbonisation pathway of a steel maker could look very different from a chemical, glass or aluminium business. Further, decarbonisation pathways may be very complex and highly non-linear for specific industries requiring expert assistance for businesses who aren't adequately resourced or informed to research optimal solutions. For industries with relatively immature, high cost of capital decarbonisation technology options, government can play a supporting role in helping to fund trials by businesses to demonstrate best practise for new technologies. Trials will be important for demonstrating possible pathways, giving other businesses a very clear idea of how implementation might work and setting a level of ambition, increasing competition within a sector. These pilots could be supported through an established entity such as ARENA or the CEFC. In this way, government can play an active role in achieving the Safeguard objective of *Equity* across the scheme.

Clean Energy Regulator – role and resourcing

There are a number of recommendations resulting from the Independent Review of Australian Carbon Credit Units which are relevant to reiterate for the Safeguard Mechanism to function appropriately. Firstly, recommendation 3 – the separation of the powers currently managed by the Clean Energy Regulator (CER). It is proposed the effectiveness of the ERF could be boosted with separation of governance, ACCU purchasing and method development functions. Were this to not be enacted in time for Safeguard scheme start, the CER would be responsible for determining project eligibility and managing compliance, running auctions, and also becoming a major purchaser of ACCUs for the Safeguard Mechanism. In our view, this could present competing incentives for the CER, which should be resolved through the allocation of functions across separate entities in order to drive scheme efficiency and integrity. This is particularly the case in the instance where ACCUs may need to be created and sold to liable entities at the proposed ceiling price.

Secondly, recommendation 1 calls for adequate resourcing of the CER. The future CER functions proposed by recent government consultations could expand to include ERF governance (developing methods, regulating projects, and issuing ACCUs); Guarantee of Origin (GO), Renewable Electricity Guarantee of Origin (REGO) and National Greenhouse Emissions Reporting (NGER) scheme administration, and potentially other climate-related transparency reporting measures. We therefore reiterate the need for enhanced resourcing for the CER to adequately perform these functions.

Finally, recommendation 4 aims to maximise transparency, data access and sharing to promote greater public trust and confidence in ACCUs. In line with this recommendation, the ANREU registry should be redesigned to facilitate more transparency of market information and data.

Focus on abatement over offsetting

As a general principle, the scheme should seek to drive primary emissions reductions rather than offsetting – especially where relevant technologies are available and cost competitive. In the situation where emissions reductions are not immediately viable for liable entities, a detailed plan would be beneficial explaining what technologies are in the pipeline, and why they are not viable at the present time; for example, what the nature of the barrier is, be it supply chain, financial, technical or regulatory and how they may be resolved in future.

Alongside other reporting frameworks, such as the Taskforce on Climate-related Financial Disclosure (TCFD) and the Australian Government's commitment to standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia, this information could help government to understand the issues businesses face in decarbonising and identify opportunities to step in and support. These opportunities could include pilots, trials and demonstrations which could facilitate the rollout of new technologies, coordinating purchase of technology at scale across industry to attract supply chains or streamlining regulatory approvals processes, among other solutions. This would also contribute to scheme equity where businesses that cannot decarbonise are demonstrating their efforts to find solutions and government is providing needed assistance.

While we accept that some businesses may need to utilise offsets in order to meet their liability, unrestricted use of offsets could result in very high demand, impacting the stability of carbon markets and voluntary climate action that is supporting decarbonisation in other parts of the economy. We recommend that government mitigate this risk by regularly reviewing the functioning of the Safeguard scheme and its effect on carbon markets to be sure that the right signals are being sent to market encouraging abatement rather than offsetting.

Together with this reporting process, industry and government should maintain an ongoing, open dialogue so that barriers are communicated early and government can partner with industry to resolve them, benefitting an entire industrial sector rather than individual entities.

AGL supports the role of the Safeguard Mechanism to deliver emissions reductions across the economy. Long-term signals to deliver abatement at lowest cost supports meeting Australia's national climate targets while also supporting industry through the transition and limiting costs on customers. We hope to see this scheme legislated in the coming months.

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

Yours sincerely,

Chris Streets

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