



AGL Energy Limited

T 02 9921 2999

F 02 9921 2552

agl.com.au

ABN: 74 115 061 375

Level 24, 200 George St

Sydney NSW 2000

Locked Bag 1837

St Leonards NSW 2065

Climate Change Authority

By email: consultation@climatechangeauthority.gov.au

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AGL Response to the Climate Change Authority's Issues Paper - Setting, tracking and achieving Australia's emissions reduction targets.

AGL Energy (AGL) welcomes the opportunity to contribute to the CCA's Issues Paper consultation.

About AGL

AGL is a leading integrated essential service provider, delivering 4.3 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 and have the largest renewables and storage portfolio of any ASX-listed company, having invested billions over two decades in renewable and firming generation.

As the global community responds to the risks of climate change, AGL Energy recognises the large part that it must play in the transition to a low carbon economy as Australia's largest greenhouse gas emitter. 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:

- 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 renewable assets by 2030.

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. We are committed to working constructively with our stakeholders, including government, our people, and the communities in which we operate, to lead a responsible and orderly transition.

Ambitious targets for 2035 and beyond – meeting the emissions reduction imperative

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

By 2050, we believe that Australia can be both carbon neutral and an energy superpower. This will be realised by Australia generating low-cost power using zero emissions wind and solar resources, backed up by technologies like batteries, hydro power and, for some of this transition, gas. We believe this will underpin the competitiveness of the Australian economy just as fossil fuels did in the twentieth century.

Interim emissions reduction targets to set guideposts for this transition to a robust net zero economy are an important component of realising this objective. In addition to an overall emissions budget and a legislated long-term emissions reduction trajectory, interim targets help to provide clarity on the future operating environment and allow all stakeholders and communities to plan for the future.



Interim targets can also support an increased level of coordination between government policy action and voluntary private sector action to maximise the efficiency of abatement activities. Certainty of long-term policy settings provides a more stable environment for the deployment of capital to support economies and communities going through transition. Although voluntary corporate action should be encouraged, it should not be relied upon to make up ground if governments do not act with the requisite pace to meet their stated targets.

At the same time, substantial reductions in emissions and a shift away from current dependence on fossil fuels represents a major transformation for the entire economy, with very large transitional costs required to replace existing products, services, technologies, and infrastructure with zero-emissions alternatives.

Current state of Australian climate and energy policy

While the electricity sector is currently leading on Australia's emissions reduction efforts, it also has an enduring role in the decarbonisation of Australia's broader economy, both as a sector that contributes to significant emissions itself and as an enabler for other organisations and sectors to meet their climate ambitions.

There is always scope for greater alignment on the pace of the energy transition. This is because deeper decarbonisation efforts will require challenging infrastructure replacement programs on an accelerated timeframe and actions taken to reduce emissions may have material impacts on grid reliability and price outcomes for customers. Efforts to reduce emissions across electricity and gas sectors need to be well coordinated across regions or focused by a carbon budget or pricing constraint to operate over a long-term basis.

In recent times, state and local governments have ratcheted up their climate action, reflecting high, but varying levels of ambition. The setting of an ambitious new interim target now presents an opportunity to realign local, state, and national policy and streamline action to achieve the best economic and social outcomes for Australians over the longer term.

Leadership on setting and tracking towards long-term climate targets and sectoral decarbonisation pathways remains critical. Over the long term, nationally consistent emissions reduction targets and frameworks will have significant benefits as compared with state-level approaches by allowing least-cost economy-wide abatement to be realised first, enabling more comprehensive and economy-wide climate action, and better protecting against carbon leakage and competitiveness impacts across states. Although ambitious state and local government targets may still be effective at realising some abatement, subnational targets are likely to be less efficient and may be more costly than similarly ambitious coordinated national approaches. A coordinated national approach is likely to be more comprehensive and could consider the imperative to reduce emissions throughout the entire economy, not just in certain areas, driving increased efficiencies and lowest cost.

The need to encourage decarbonisation beyond the electricity sector

While all state governments have made net zero commitments and implemented major energy policies to support the uptake of renewables, government policy action with regard to decarbonisation in other sectors of the economy, is critical if Australia is to accelerate emission reductions and reach net zero in the next few decades.

In this regard, the current federal government and Energy and Climate Change Ministerial Council have provided some useful recent policy direction. Since Australia updated the ambition of its 2030 target to 43% in June 2022, there have been significant national reforms aimed at supporting other sectors to decarbonise more rapidly. Major changes to the safeguard mechanism and the introduction of a fuel efficiency standard will stimulate reductions in the industrial and transport sectors respectively. Several initiatives across



Australia are driving the uptake of decarbonisation initiatives at a residential and small business level. The federal government is embarking on meaningful reforms to unlock greater amounts of sustainable finance and improve transparency regarding the disclosure of corporate climate commitments, as well as the present consultations on ensuring the emissions reporting scheme and carbon farming initiative are fit for purpose in the future.

Each of these programs highlight actions that are appropriate for federal government to take to support a more ambitious Nationally Determined Contributions (NDC) through efficient emissions reductions at a national and economy-wide level. Nevertheless, it is clear that to meet the monumental task of net zero on an ambitious timeframe, further policies and national coordination will be required for climate action to become more pervasive and deeper emissions reductions to be realised.

Appropriately ambitious national climate targets with clear sectoral decarbonisation pathways can help to provide this overarching framework and overcome inefficiencies of state-based climate and energy policies, allowing Australia to significantly accelerate investment in energy resources and embark on major decarbonisation programs across the entire economy.

Opportunities arising from an ambitious target

On the global stage, Australia will be expected to set a 2035 target with an appropriate level of ambition reflecting its share of the global decarbonisation burden, and the next NDC will be a step towards the longer-term goal of net zero emissions globally. Setting less ambitious targets now will only delay the effort needed to meet targets to limit global warming to well below 2 degrees. While this presents a significant challenge for Australia and for large emitters within the economy, if the NDC is set appropriately high with a clear plan for action across the economy, regular checkpoints, and monitoring, it could ramp up action and investment in emissions reduction solutions, which could benefit Australia more broadly over the long term.

In addition to increased voluntary demand for low-emissions products globally, nations are also considering more direct trade regulation to drive global climate action. For example, the European Carbon Border Adjustment Mechanism (CBAM) is due to begin its transitional phase from October this year, with other nations also considering similar schemes. The CBAM will seek to put a price on the carbon emitted during the production of goods entering the European Union, beginning with cement, steel, aluminium, fertilisers, electricity, and hydrogen. Pivoting now to adopt lower emissions production processes could give Australia an early mover advantage.

Where government can have most impact

We propose that governments consider focussing their efforts towards areas where they can have most impact – in fostering the investment conditions that encourage climate ambition through clear policy and effective regulation rather than participating in those markets themselves. Regulatory frameworks should be robust to enable accelerated emissions reductions. Carbon market integrity, as well as emissions reporting frameworks such as NGERs, should be appropriately robust to deliver trust and integrity in measuring emissions and making claims about emissions reductions. Government policy should be focused on driving private investment in decarbonisation, by setting clear targets and focussing on overcoming barriers to or uncertain risks for private investment, including those that can arise because of government interventions.

Our position on these issues is further elaborated in our responses to the consultation questions included at Appendix A to this submission.

We look forward to further opportunities to engage on these issues. If you would like to discuss this submission further, please contact Siobhan Bradley (Policy Manager) at sbradley4@agl.com.au or Aleks Smits (Senior Manager Policy) at asmits@agl.com.au.



Yours sincerely,

Chris Streets

General Manager (a/g), Policy and Market Regulation

AGL Energy



Appendix A – Response to Questions Raised in Issues Paper

Frameworks

Strategic Framework

1. What actions and enablers beyond those identified in the Strategic Framework could help Australia progress towards a prosperous and resilient net zero future? What are your highest priorities?

The Strategic Framework provides a good balance of economic and social considerations, but a key aspect not covered in the framework is community benefit and social licence. These issues present barriers to accelerated decarbonisation in the electricity sector with consequential impacts for sectors reliant on renewable electricity to decarbonise. We also note that while both ‘markets’ and ‘investment’ are highlighted, at present, increasing government intervention can have the effect of destabilising both of these key enablers. This is an opportunity for government to carefully think through its role and where and how it can have the most impact.

Government role

We see an opportunity for government to streamline its role for greatest effect – as policy maker and regulator. This will involve analysing the impacts of government intervention and then designing the right conditions with clear market signals to attract private investment, building on the new federal government’s strong climate agenda.

A further complicating factor is the complexity of the interactions between climate and energy policy in Australia. Federal government sets the national NDC and is responsible for the climate policy needed to meet the national target. However, state governments develop their own energy policy and have been setting their own ambitious – and often legislated – emissions reduction targets. An appropriately ambitious NDC could bring some stability to national policies and have the effect of bringing the various policies into alignment.

Social licence

We consider social licence issues in the regional areas where future renewable energy assets and transmission lines will need to be located to be a significant risk to the energy transition. In our view, governments can assist the building of community awareness of the need for these assets, the building of trust in industry and engagement with communities, so communities are part of the process, feel heard and are set to benefit.

Our highest priorities

As a large energy company, our highest priority is finding an economic pathway to transition our energy portfolio and connect our customers to a sustainable future.

The decarbonisation of the electricity sector is a critical step to unlock decarbonisation in other industries. We have a responsibility to achieve



this transition via a least cost pathway as these costs will ultimately be passed on to customers who are already facing significant cost of living pressures and commercial and industrial businesses customers are facing high energy input costs that threaten competition at this early stage of the transition.

Progress Framework

2. How are you and the people around you impacted by or preparing for the net zero transition and Australia's climate future? How can governments better support you to prepare for or respond to the impacts?

How AGL is preparing for the net zero transition

In 2022 we renewed our strategic direction and released our first Climate Transition Action Plan (CTAP) which set out clear goals for us to meet in decarbonising our generation portfolio, including targeting an exit from all coal-fired power generation by 2035. Our plan involves targeting ~5 GW of renewable generation, firming and distributed energy capacity to be in place by 2030 and ambition to be net-zero for scope 1 and 2 emissions by the end of FY35 coinciding with the coal closures.

The speed of this transition and the degree of success increases with higher levels of collaboration across industry and government. We set out a few example areas below.

Workforce

Safe closure of large base-load generation requires cooperation from many stakeholders including government, energy system operators and planners along with local government. Further information on view of workforce transition can be found in our [submission](#) to the National Energy Transition Authority Bill 2022 inquiry.

There are many roles the government could play in facilitating the transitioning of the energy work force, including:

1. *Data/analysis role*
Providing the underlying analysis on current and projected skills shortages and related workforce transition pathways.
2. *Educational role*
Coordinating training programs to address skills shortages at a national level.
3. *Consensus builder*
Facilitating discussions between stakeholder groups (unions, communities, local council, state government, industry) to develop collective workforce plans.
4. *Support role*
Developing information and support services for workers looking to transition into new areas within the energy sector, identifying redeployment pathways and training opportunities.

Policy

While the current government has made significant progress in building up a comprehensive policy agenda for decarbonising the economy to encourage investment in low-carbon technologies in Australia, clarity on the drivers for decarbonisation across all sectors of the economy will be



important.

As discussed above clear markets signals to attract private investment will be critical for the transition.

Government can also support by identifying sectors and technologies requiring tailored policy or financial support and by investigating solutions beyond underwriting capacity investment, for example, by supporting the development of market solutions to incentivise demand flexibility. Further detail on our view of demand flexibility and energy performance is outline in our [submission](#) to the National Energy Performance Strategy consultation.

3. What should the Authority measure or assess to determine progress towards a just transition and improved wellbeing?

For the electricity and gas sectors, given that energy is an essential service, there needs to be a measure that captures equity - the ability for all Australians to participate in and benefit from the energy transition. This could include measures like energy costs as a proportion of total household income or the proportion of installation of rooftop solar, batteries, energy efficient devices or uptake of government subsidies for these appliances broken down into income bands.

4. What more could the Government do to help you reduce your carbon footprint?

Government can ensure a stable policy environment, allowing for strong market signals for investment in low-carbon solutions and supporting communities to improve social licence in regions where generation and transmission build will be significant. See Question 1 for more detail.

5. What are the other challenges and opportunities the global context presents Australia with in responding to climate change?

Challenges

International competitiveness - as more countries implement ambitious climate policies, there is a risk that Australian industries could face competitiveness challenges if they are not sufficiently aligned with global emission reduction efforts. Trade restrictions or carbon border adjustments imposed by other countries could impact Australian exports and competitiveness in international markets.

Opportunities

Our key trading partners such as the US, Europe, Japan, and Korea are a source of demand for decarbonised energy carriers. We are seeing increasing foreign investment in renewable energy projects in Australia. These trade relationships are an opportunity to share learnings in technology development and to achieve project scales Australia might not be able to reach without a large pool of foreign investment.

In decarbonising our fossil fuel-based export economy, the global context presents a significant economic opportunity for Australia in exporting low carbon goods and services, including energy carriers.

6. What role is there for corporate action to 2030 and beyond?

It is clear that voluntary corporate climate action has a reputational value. This value is important for leveling the playing field between companies going above and beyond in their climate action efforts and those taking no action - sparking competition and innovation. While we believe that government should not rely on additional contributions from voluntary



corporate action to meet its NDC, voluntary emissions reductions and the programs and frameworks that enable competition and ambition will nevertheless have a role in the global emissions reduction task. Corporate action also enables individual action where consumers can exercise their buying power, choosing products and services from companies aligned with their values and feeling that they can take action.

However, fragmentation can erode the integrity of corporate climate action and allows for greenwashing which then impacts consumer agency. Frameworks like the International Sustainability Standards Board (ISSB) and the Task Force for Climate-Related Financial Disclosures (TCFD) are being developed to standardise the reporting on this ambition, which will bring more integrity to this reporting.

For corporate action to continue to contribute to global emissions reduction there needs to be transparency and clarity on targets, a stable investment environment and uncomplicated reporting frameworks.

7. When is it appropriate for the Government to regulate something?

Effective government action to support decarbonisation efforts will take many forms. In addition to the general role for government to coordinate, educate, support, and monitor, there is a role for government to develop, maintain, and evolve healthy and competitive markets for the delivery of products and services that support decarbonisation efforts.

In relation to energy, markets should be closely monitored and regulated, but should also be structured in ways that support innovation and promote increased investment from private capital to meet long-term decarbonisation targets.

For several other products and services, where market participation is less regulated, there may be advantages in governments regulating products and services more directly through specific standards, which over time can provide lower-emissions outcomes.

As a general principle, however, government should only seek to intervene in markets where that market has failed to produce the right outcomes – in general, that will not be a failure of markets, but a failure to establish an appropriate regulatory framework at the outset.

Target-setting Framework

8. How could the Authority best strike a balance between ambition, domestic considerations and the international context in its 2023 NDC advice?

Like every other signatory to the Paris Agreement, Australia will be expected to do its fair share when it comes to the emissions reduction task. As we approach 2050 and the decarbonisation task gets harder, the pressure on Australia is only going to increase. Setting a weak target now will lead to reputational and economic repercussions down the line.

9. What do you think Australia's 2035 target should be and why?

Australia's NDC should be based on up-to-date modelling and analysis including the recent IPCC Sixth Assessment report which confirmed, achieving the Paris Agreement goal of limiting warming to 1.5°C requires "rapid and deep and, in most cases, immediate greenhouse gas emissions reductions in all sectors this decade."



Broadly speaking this target should be set at a level that reflects Australia's fair share of emissions and signals a level of ambition that will activate entrepreneurs, investors, technology companies and industry to develop the funding and technology needed to achieve both the 2030 and then 2035 target.

Our key international trade partners are increasingly adopting carbon border-adjustment mechanisms, indicating that there will be a future demand for low-carbon products. Australia has an opportunity through the setting of ambitious targets and supporting rapid sectoral decarbonisation, to gain first-mover advantage and become a low-carbon supplier of choice for international markets.

Cross-cutting Issues

Leading Indicators

10. What are some leading indicators of progress towards net zero emissions?

First and foremost, it will be important that any leading indicators developed have alignment with current disclosure frameworks and data availability for reporting metrics. These indicators could be aligned with international indicators for comparative purposes. They could be presented relative to historical trends and future modelled projections.

If a sector-based target approach is adopted, sector-level granularity should be presented. Using the electricity sector as an example, leading indicators could include:

Renewable energy/EV uptake

- Grid emissions factor
- Share of renewable energy in final energy consumption by sector
- Electrification of the economy
- EV import data/proportion of EVs in vehicle fleet by vehicle class
- Electric charging infrastructure and usage
- Share of low emissions fuels in total national consumption
- Curtailment hours
- Infrastructure build – e.g., solar, wind, battery, storage, transmission
- Outages
- Productivity measures

Financial

- Investment in R&D, battery minerals, adaptation
- Fossil fuel subsidies
- Levelised costs of energy by technology, storage etc.
- Share of household expenditure on energy, with a breakdown by income bracket (as a measure of equity)
- Energy costs in Australian industry compared to international jurisdictions
- Environmental market commodity prices/total carbon avoidance/removal by offsetting method
- Finance indicators – total sustainable investment product



- availability/uptake versus standard products.
- Cost of capital for sustainable investments

11. What are some leading indicators of progress towards preparing for and adapting to climate change?

No response.

Sectoral Pathways

12. What factors should the Authority consider when developing sectoral decarbonisation pathways?

- What are the risks and opportunities for households, business, workers and communities affected by the transition?
- Are there supply chain pressure points

Sectoral targets present both benefits and drawbacks. They can provide certainty of likely future operating environments, which can help support longer-term investment by reducing risk.

They also ensure that the burden of decarbonisation is shared across each section of the economy, provide the opportunity to set the level of ambition for a sector, and in the best-case scenario can even spark competition across sectors. Depending on the level of ambition, sectoral targets could present opportunities – for example by positioning a sector to take advantage of global trade in green products and services by decarbonising early to meet the demands from international jurisdictions with carbon border taxes as they begin to take hold in the coming years.

However, policy to meet emissions targets will be lowest cost when it draws on efforts from the broadest range of sectors, fuels, technologies, and both demand and supply side options.

The different stage of decarbonisation of each sector, the technology readiness of low carbon solutions for different applications and the interdependency of sector pathways could present equity issues necessitating careful calculation of each sector target.

In developing its advice, the CCA should be very clear on its objectives. For example, lowest cost decarbonisation should be one pursuit and will require targets that encourage sectors to adopt mature low carbon technologies at scale whilst trialling the next tranche of newer technologies in preparation for the next stage of sector decarbonisation.

13. What is the role for Government in reducing these risks and assisting households, business, workers and communities to realise the opportunities?

Some flexibility will need to be built-in given the uncertainty of technology development and cost declines.

If the government takes the sectoral approach, sectoral targets could be designed to provide clarity on decarbonisation challenges and opportunities. Priority areas could be identified through consultation with the different sectors for targeted investment. This could be areas that are ripe for deployment or areas that will require government support to reach maturity.

We recommend the sectoral decarbonisation pathways be developed so that those captured under the target understand the timeframes and costs to implement. Businesses will need to be consulted to understand the technology/commercial readiness of the climate solutions available to



them, the costs and any subsidies on offer.

Progress towards targets should be assessed at regular intervals and the target should be regularly revised to update ambition where possible.

Contributing beyond Australia's borders

14. What are the most important things to consider when assessing the adequacy of a country's NDC?

A country's NDC should be:

1. Ambitious – reflecting a country's share of emissions.
2. Realistic - with a clear plan to achieve it.
3. Measurable – with monitoring/reporting on progress at a sufficient level of detail.

15. How could Australia partner with other nations to accelerate global progress towards meeting the Paris Agreement goals?

There could be advantages to opening up linkages with other nations to collectively tackle emissions. For example, one could imagine an offsets market for Pacific nations where Australia buys offsets from projects in smaller nations who might struggle to fund decarbonisation initiatives without foreign investment. On the other end of the scale, joining markets with larger trade partners like Japan might open up opportunities for Australia to be a major supplier of offsets.

Whatever the format, there are critical reforms that need to happen before such markets are put in place to ensure integrity. A strong Article 6 framework is first required to allow for corresponding adjustments and ensure no double-counting or carbon leakage. It would also be important to avoid a situation where action on domestic emissions reduction was disincentivised. Issues around competing land use and foreign ownership would also need to be addressed.

Government could start thinking about the role that green trade agreements could play in Australia's global trade strategy and could target areas of the economy where low carbon manufacturing could be ramped up to meet future projected demand stemming from the introduction of carbon border taxes.

Government could also consider how it can leverage Australia's natural resources, negotiating mutually beneficial arrangements with countries producing advanced renewable and storage technologies required for Australia's net-zero plan.

16. What do you see as the challenges and opportunities from a phase out of fossil fuel production? What should the Government consider when determining a plan for the phase out of fossil fuels?

Currently, the production and export of gas and coal is a significant contributor to Australia's broader economy, and a transition away from these industries represents a major shift for the organisations, infrastructure, workforce, and supply chains associated with these sectors. Given the size and pace of this transition, several major challenges with phasing out of fossil fuels are apparent, including agreeing a timeframe for transition, developing viable zero-emissions alternatives in some sectors, and impacts on workforces and regional communities.

However, the transition to production of zero emissions energy sources represents a substantial opportunity for Australia, especially if this energy can be exported or used domestically to produce low-emissions



commodities and products for export.

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17. Should the Authority consider international maritime and aviation emissions in its advice
- No response.
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Preparing for change

18. What risks and opportunities do you (including your household, business, workers and communities) face as the world decarbonises and as Australia responds to the impacts of climate change?
- This question is covered in the response questions 1 and 2.
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19. What could governments do to help?
- This question is covered in the response questions 2 and 4.
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Targets

20. What types of targets do you see as important and/or problematic, and why?
- No response.
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Are Kyoto-era schemes for the Paris Agreement era?

21. What do you see as the strengths and weaknesses of the NGER scheme? How could it be improved?
- NGER's key strength lies in its ability to provide a robust and consistent framework that is regularly updated to align with international standards. By establishing independent methodologies and calculations for emissions reporting, NGER ensures both consistency and adherence to best practices. This approach enables reliable and comparable data, making it an effective tool for tracking emissions.
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22. What aspects of methane measurement, reporting and verification should the Authority focus on as part of the NGER review?
- No response.
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23. Following the Government's acceptance of recommendations of the Chubb Review, what do you see as the strengths and weaknesses of the CFI and ERF?
- The Chubb review highlighted and is now addressing many of the concerns with carbon offsets we raised. Further detail can be found in our [submission](#) to the consultation.
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24. How could the CFI, ERF and
- In broad terms, the CFI, ERF and NGER should be aligned with
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NGERs be improved in the context of the Paris Agreement era?

international best practice where possible and updated in accordance with new agreements and NDCs.

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 (GO) scheme for certified fuels and NSW Renewable Fuel Scheme for green hydrogen, and the creation of Safeguard Mechanism Credits (SMCs) under the Safeguard scheme. 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.

As mentioned in AGL's Response to the Independent Review of Australian Carbon Credit Units, 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.

Carbon credit integrity

25. Following adoption of the Chubb Review

AGL is 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,



recommendations, what concerns about ACCU integrity remain?

providing viable carbon-neutral supply options for households, business, and wholesale customers.

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.

Following the acceptance of the Chubb Review recommendations from earlier in the year, AGL still holds concerns as follows:

- Following Recommendation 10 of the Chubb Review that landfill gas (LFG) method and crediting period extensions should incorporate upward sloping baselines, we are still yet to see an adjustment to these baselines and therefore the concerns around the additionality of ACCUs from LFG methods still remain.
- Following Recommendation 9 of the Chubb Review that no new project registrations be allowed under the current avoided deforestation method, ACCUs from this methodology are still in the market despite the additionality issues. Many participants are avoiding this methodology when trading and specifying 'no avoided deforestation' which is leading to price stratification and affecting liquidity.
- Although the Chubb Review acknowledged that the integrity of the scheme has been called into question in recent times, it did not go into a sufficient level of detail to address specific concerns raised by high profile commentators. AGL is concerned that these issues may be renewed in the future.
- There appears to be a lack of ERF-specific information making its way to market. For example, following Recommendation 8, ensuring that all HIR projects conform to the current intent, it is our understanding that HIR issuance was put on hold while the CER reviewed additional evidence requirements however this information was not clearly stated. AGL would welcome more visibility around information and announcements that impact the market.

26. What are the risks to integrity that should be buffered against?

Any buffer that is applied to ACCU issuance needs to be carefully considered but specific to the methodologies, given that integrity concerns and risks are not equal across different methods. AGL understands that some methodologies already factor in a buffer for ACCU issuance e.g., plantation forestry projects have a permanence discount applied of a minimum 20% for projects electing a 25-year permanence.

To understand if these buffers are appropriate or in need of update, the government should seek evidence from entities closer to method development and project monitoring phases.

27. How should a buffer be applied (e.g., government purchase, supply-side reserve, demand-side correction, other)?

See response to Question 26.



28. What role should governments and users of offsets have in ensuring demand-side integrity?

There are already a number of market-guidance and reporting frameworks available for organisations to adopt in establishing and meeting their decarbonisation strategies. Some of these include Taskforce on Climate-related Financial Disclosure (TCFD), Taskforce on Nature-related Financial Disclosure (TCFD), Carbon Principles by the Integrity Council for the Voluntary Carbon Market and the International Science-Based Targets initiative (SBTi).

As a general principle, offsets should be used as a final step in the emissions mitigation hierarchy. There is a strong focus on greenwashing in carbon markets and so consideration needs to be given to claims made and accreditation programs such as Climate Active.

29. What protections are needed to ensure the integrity of carbon trading markets and exchange platforms?

To ensure integrity of carbon trading markets and exchange platforms, we suggest ACCU holdings be clearly visible (refer to previous submission), that baselines be set conservatively, and that the scheme be regularly reviewed for opportunities to improve transparency, the framework for carbon offset measurement and verification.

International units

30. What role should international carbon markets have in Australia?

International carbon offsets already play a part in the Australian context with Australian organisations voluntarily surrendering these offsets to help meet their climate commitments. However, The Authority's 2022 Review of International Offsets highlighted international offset integrity concerns 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. In order for international offsets to be included for compliance purposes in the Australian context, there needs to be a strong framework for Article 6 and Internationally Transferred Mitigation Outcomes (ITMOs) established. As acknowledged in the CCA's Issues Paper, Australia's carbon market is not yet ready to participate in the Paris Agreement trading framework. Without this strong framework, it is unclear how the integrity of international offsets will be determined in the context of corresponding adjustments.

In principle, we would be supportive of the possibility of inclusion of high-integrity international offsets in the future, should this strong Article 6 framework be established.

Other matters

31. What else should the Authority be considering in its advice to Government?

No response.