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## AGL Response to Australia's Guarantee of Origin Scheme: consultation paper

AGL Energy (**AGL**) welcomes the opportunity to contribute to the Guarantee of Origin (GO) 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.

## The role of the electricity sector in supporting decarbonisation

AGL understands the importance of the energy sector to Australia's broader economy and the need to decarbonise the energy sector and reduce Australia's emissions. Reducing emissions in the electricity sector has the potential to unlock substantial reductions across the broader economy, most notably in the transport and industrial sectors through fuel switching and supporting a new era of economic prosperity and growth powered by renewable electricity.

The imperative to act on climate change by monitoring and reducing emissions in the electricity sector has also coincided with exponential growth in the use and capability of digital services, the expansion of a much more participatory energy customer base, and an increase in both residential customers and businesses seeking to take voluntary action to contribute to emissions reduction, which has also significantly accelerated the demand for products and services that support decarbonisation.

We expect that these trends are likely to continue, and that the acceleration of the energy transition will continue to be guided by evolving trends in customer needs, community expectations, and emerging technologies.

## An enduring product certification for low emissions commodities

Within this context, as customers become more engaged in the energy transition, there is also increasing scrutiny on the detail of products that claim to be supporting emissions reductions, and a need to be able to measure green electricity production from generation through to end-use.

Certification of green electricity is therefore a key element not only of driving decarbonisation in the electricity sector, but also supporting decarbonisation of other products and services that use electricity as an energy input. In particular, we note the importance of this with respect to the development of a green hydrogen economy for Australia, and the ambition of several Australian governments to drive this outcome.

As a major energy provider in Australia, with a large portfolio of diverse generation (comprising both thermal and renewable sources), AGL also recognises the strong action being taken by organisations, individuals, and governments to invest in clean energy and reduce emissions.

Governments, businesses, and residential customers are increasingly concerned not just about their primary (Scope 1) emissions, but also emissions associated with the production of energy (Scope 2), and emissions in other parts of supply chains (Scope 3). Being able to track emissions associated with the production of electricity across the value chain (i.e. a Product GO) is therefore central to the objective of broader decarbonisation.

We are therefore very supportive of the need to develop an enduring Product GO certification scheme to support claims on the emissions intensity of produced goods, and to align this scheme with a certification scheme for renewable electricity, as has been proposed under the department Renewable Electricity Guarantee of Origin (REGO) consultation paper.[1]

## Considering the merits of existing schemes

The proposed Guarantee of Origin scheme is similar in scope to international schemes, most notably the Guarantees of Origin (GoOs) scheme required of all member states in the European Union (EU), which has been in operation for several years – and recent discussions that are seeking to leverage the GoOs to develop a harmonised EU Guarantee of Origin scheme for hydrogen and other renewable gases under the CertifHy pilot program. These programs, and other international experiences over several years with similar schemes, provide a valuable source of information for the present consultation to align towards.

[1] For further consideration of issues relating to the creation of a REGO scheme, refer to AGL's submission to the federal government's REGO consultation, published alongside this submission in February 2023.

However, a key difference between the development of a Product GO in the Australian context and the EU scheme is that the EU pilot is seeking to leverage an existing renewable electricity certification scheme that is well established and understood by all member states and participating organisations.

In the present consultation, the development of a Product GO is complicated by a parallel consultation for a new enduring certification scheme for renewable electricity (REGO). While we are supportive of developing a REGO, it is important that the development of a Product GO does not adversely impact electricity markets via unintended consequences.

The current renewable electricity certification scheme, the RET, has been a useful driver of large-scale generation, both in terms of supporting mandated government policy targets and providing a way to substantiate claims of additional voluntary purchases of green energy through the LGC market. The RET has also strongly incentivised small-scale PV through upfront subsidies provided by deemed STCs.

While the RET expires in 2030, it is currently performing well, with LGC prices remaining high as a result of strong voluntary demand for renewable electricity, and because of the high integrity of the established LGC market. The operation of the existing RET therefore provides a useful starting point from which to assess any improvements that could be made to a certification scheme, and some comfort that a REGO scheme does not necessarily need to be urgently implemented in the Australian context in order to support a viable Product GO scheme for hydrogen and other commodities. For example, in the immediate term, LGCs could also be used to support voluntary Product GO claims.

While the government's consultation paper raises a number of possible shortcomings of existing renewable electricity certificates (RECs)—for example, generator eligibility, granularity of certificate creation, and other attributes—the impacts on the electricity market from changing the structure of RECs has not yet been comprehensively assessed.

For example, there may be material impacts on electricity markets, including impacts on wholesale spot prices, REC markets, and existing contracts with renewable generators including government-backed agreements. While the consultation paper has stated that the government intends to minimise these impacts, we would support a phased implementation period for some certificate attributes, guided by possible trials and pilots that can properly assess the impacts of moving towards a more widespread and at the same time more comprehensive certification of renewable electricity.

To the extent that the phased implementation of a REGO may impact on the development of a Product GO, we would support the government considering how a Product GO could also be phased in over time to avoid distorting the electricity market. For example, a Product GO

could begin with trials utilising existing LGCs, followed by the addition of REGOs, followed by expansion of REGOs with other attributes such as more discrete locational data and granular time-stamping.

A phased implementation may support the critical objective for both a Product GO and REGO to be resilient to future changes, given the scope of renewable electricity development that will be required to support the energy transition post-2030.

We anticipate that the CER would also need some time to establish new systems and processes, and that a phased approach may assist with ramping up capabilities to meet these additional requirements. There is therefore a unique opportunity to take some time to carefully consider the best way to structure the new scheme, while the RET continues to be an effective renewable electricity certification for most current purposes.

At the same time, we recognise that there is some immediacy with respect to gaps in coverage of the current RET, which was not established with many of these issues in mind, and the relative urgency required to establish a scheme for green hydrogen given the ambitious targets of Australian governments.

While we support swift action to resolve these gaps and to support the acceleration of the energy transition and the development of a green hydrogen economy, some caution should be exercised to ensure that immediate actions do not have the effect of unintentionally dampening the important investment signals currently provided by the RET out to 2030.

Our position on several of these issues is further elaborated in our responses to the consultation questions raised in the Department's REGO paper.

We look forward to further opportunities to engage on the direction of this scheme prior to commencement. If you would like to discuss this submission further, please contact Aleks Smits (Senior Manager Policy) at asmits@agl.com.au.

Yours sincerely,

Chris Streets

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

AGL Energy