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AGL Response to the Climate Active Program Direction Consultation 2023 paper

AGL Energy (AGL) welcomes the opportunity to contribute to the Climate Active Program Direction Consultation 2023 paper (Consultation Paper).

Proudly Australian since 1837, AGL delivers around 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 \$4.8 billion in renewable and firming generation over the past 20 years and added more than 2,350 MW of new generation capacity to the grid since 2003. AGL offers Climate Active certified electricity, gas, mobile, internet, and both residential and commercial solar and battery products, as well as GreenPower accredited electricity products.

AGL recognises the important role that the electricity sector has in Australia's decarbonisation. 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 of new firming and renewable assets by 2036.
- An initial target of 5 GW new firming and renewables by 2030.

AGL welcomes the opportunity to contribute to improving the Climate Active (CA) program so that customers can better understand and make informed choices around products with associated environmental claims.

This submission's key points are summarised as follows:

- Certification of 'carbon neutrality' (or similar) should be centred on adherence to the mitigation hierarchy and the use of quality offsets. We encourage Climate Active to raise the bar, improve transparency, and provide further guidance around integrity across all carbon offsets.
- Consideration needs to be given to differences in sectoral decarbonisation pathways, and their relative contribution to meeting Australia's climate targets.
- Product certification by CA should continue to be independent of organisation certification by CA.
- Where a superior alternative emissions reduction product is available to customers (e.g., GreenPower for electricity), this should be encouraged over offsetting. Where no alternative exists (e.g., for telecommunications), the role of carbon offsetting should be recognised to encourage widespread participation in voluntary decarbonisation efforts.



- The CA program should be flexible and reflect international best practice.
- Any replacement term to 'carbon neutral' needs to be tested and easily understood by the public. We encourage Climate Active to lead efforts to inform and educate the Australian public about what 'carbon neutral' (or its replacement term) means.
- CA members should be given a minimum of 12 months transition period to adjust to any significant program change, such as any replacement of the widely used term 'carbon neutral'.
- Further industry consultation is required on the detail of the reforms. AGL looks forward to further engagement and discussion on significant changes to the CA program.

Ensuring real emissions reduction

The Australian Government has set ambitious emissions reduction targets including a 43% reduction in emissions on 2005 levels by 2030, as well as net zero by 2050, and is currently developing six sectoral decarbonisation pathways to help reach these targets. AGL recognises the need for direct emissions reduction, as well as the important role that greenhouse gas (GHG) offsets will play in reaching net zero. We also recognise the need to balance a responsible transition with rapid decarbonisation to ensure that Australia's electricity supply is secure, reliable, and affordable. A combined effort across all facets of the economy will be important in recognising Australia's climate ambitions.

Businesses, governments and customers are becoming increasingly engaged in the energy transition, seeking to take voluntary action to reduce their emissions. As a general principle, we believe that businesses and organisations should adhere to the mitigation hierarchy, seeking to avoid and directly reduce GHG emissions prior to the use of offsetting mechanisms. It is crucial that businesses and organisations not only set clear goals for emissions reduction, but that they also have a clear plan to achieve these.

Previous research, reviews and media articles have brought issues of offset integrity into the spotlight, in both a domestic and international context. Not all carbon offsets are created equal: differences in quality exist between methodologies and carbon standards. There has been significant progress in addressing many of the concerns raised around offset integrity, such as the Independent Review of Australian Carbon Credit Units (ACCUs) led by Professor Chubb (and subsequent ACCU Review Implementation Plan)¹ and the Integrity Council for the Voluntary Carbon Market's Core Carbon Principles². However, there is still much ongoing debate, particularly in the international voluntary markets, around the use of carbon neutral terminology and the use of carbon offsets in meeting emission reduction targets.

While customers are becoming increasingly aware of the claims being made around carbon neutral products, it is unclear whether customers are discerning the difference in offset quality and the link to the products and services they purchase, particularly given the lack of offset standardisation. In a broader context, it is also unclear whether there is sufficient understanding of the differences between various GHG abatement products, such as those that represent renewable energy (e.g., renewable energy certificates) as opposed to emissions reduction and/or removal. This can prove difficult for customers to make informed choices about the products they purchase.

¹ For further information, see [AGL's submission](#) to the Chubb Review and [AGL's submission](#) to the ACCU Review Discussion Paper

² For more information, see: <https://icvcm.org/the-core-carbon-principles/>



Given the risks associated with carbon offsets (including with respect to their quality assurance), there is value in an independent certification program to ensure credibility of climate claims, through measures such as public disclosure, standardisation of approach to measuring and reporting, and third-party audits. The Australian Government operating a program such as CA provides assurance to customers that sustainability claims made by businesses are credible. It also supports businesses and organisations seeking to decarbonise by providing clarity and guidance on what is best practice. In-line with CA's mission and objectives, this helps to instil trust and sets a benchmark for integrity and credibility.

Currently though, there is a lack of consistency in terms of credibility of claims, with very different levels of offset integrity being used by CA participants. As a general principle, CA certification should reflect what a customer would consider to be a fair assessment of genuine differences between comparative organisations and/or individual products. When using offsetting mechanisms, it is important that organisations engage in due diligence of carbon projects to ensure integrity around environmental claims. AGL dedicates a considerable amount of time and effort to assess integrity of the offsets it purchases for its carbon neutral products, considering factors including additionality, permanence, reputation of the project developer, co-benefits and social/political impacts. Raising the bar, improving transparency, and providing further guidance around integrity across all carbon offsets would help to level the playing field for businesses and increase customer trust in the CA brand, leading to overall improved reputation of offset products.

Based on quantitative and qualitative assessments, the Climate Change Authority (CCA)'s Review of International Offsets reported that the Clean Development Mechanism (CDM) scored much less favourably than other international offsets standards in respect to both governance and principles³. Although not directly within the scope of the Consultation Paper, AGL would welcome more guidance around what CA deems to be high integrity offsets, given the high level of scrutiny that offsets receive and the potential associated reputational damage. Offset integrity is an integral part of instilling confidence and trust in the CA program, and in contributing towards meeting Australia's climate targets.

We note that the Australian Government is looking to develop an Australian sustainable finance taxonomy, as well as improving sustainability labelling for investment products, to improve transparency and provide guidance on how economic activities contribute to sustainability outcomes. For consistency, it would be worth the Government leveraging and aligning guidance and principles across its programs and frameworks.

Recognising different sectoral decarbonisation pathways

As stated in the Consultation Paper, CA was established "to provide national consistency and support consumer confidence about voluntary climate claims". Consumers rely upon the CA certification to make judgements about an organisation or product's progress towards reducing emissions and meeting climate goals. On this basis, AGL is generally supportive of the requirement for participants to set emissions reduction targets.

However, it is important to recognise that different sectors will have different decarbonisation pathways, and that emissions reduction trajectories are not necessarily linear. The electricity sector, for example, needs to

³ <https://www.climatechangeauthority.gov.au/sites/default/files/2022-08/Review%20of%20International%20Offsets%20-%20Report%20-%20August%202022.pdf>



balance the need to rapidly decarbonise with that of an orderly and responsible transition and therefore, emissions reduction will occur in a non-linear manner over a time horizon of greater than three years.

In other sectors, technologies to reduce emissions are not yet available and/or commercial, and short-term targets may not be practical. AGL acknowledges that the Australian Government is currently working through and consulting on transition planning as part of its Sustainable Finance Strategy, as well as different sectoral decarbonisation pathways. The relative contribution of each sector, and its unique trajectory, to meeting Australia's emissions reduction targets should be considered in the proposed near-term and long-term target requirements for CA accreditation, as a 'one-size-fits-all' approach to emissions reduction may not be appropriate to all sectors. It's also important that a level playing field is established within a given sector.

Mandating certain requirements such as scope 3 reporting may impact smaller businesses disproportionately, given the amount of administration work and costs involved. It would be worth considering the size and sophistication of businesses when designing a more robust CA program. While AGL appreciates the challenges that come with administering a program that allows different targets and granting non-standard allowances, if the intention of the program is to suit a wide range of industries, flexibility will be required.

Proposals outlined in the Consultation Paper, such as mandating near-term emissions reduction targets, will likely lead to a number of organisations exiting the CA program or being precluded from participation. AGL considers that the government should encourage participation in the CA program by a wide range of industries and participants in order to maximise the voluntary action taken to help meet Australia's climate ambitions. With this in mind, tailored, specific sector emissions reduction targets may be required.

Impact of proposed reforms on product certification

It is unclear how the proposed emissions reduction targets would be applied to products as opposed to organisations, which limits interested parties' ability to consider and comment substantively on the proposals set out in the Consultation paper. More detail is required on the differences between certifying a product and certifying an organisation. AGL recommends that product certification by CA continue to be independent of organisation certification (i.e. product certification does not depend on the organisation being certified) to maximise voluntary decarbonisation action.

AGL notes that while there are superior alternative certified emissions reduction programs/products currently available to customers for electricity (e.g., GreenPower), which should be encouraged, the same opportunities are limited for other products such as gas and telecommunications. We encourage CA to consider this for future CA program developments and investigate similar reduction or offset options available for other products. Where no alternatives exist, it makes sense to allow carbon offsetting to encourage widespread participation in voluntary decarbonisation efforts.

Alignment with international developments

As stated in the Consultation Paper, the landscape has significantly changed since CA was formed in 2010. The imperative to act on climate change has intensified: public expectations and views have shifted, the science has evolved, and the political landscape has changed. There is a greater focus now on direct emissions reduction over offsetting, with organisations and businesses increasingly engaged in voluntary action. As Australia looks to reform various areas of climate policy, it would be wise for the government to align with international developments where it makes sense to do so.



The EU is moving away from permitting claims based on emissions offsetting schemes that a product has a neutral, reduced, or positive impact on the environment, as EU authorities have ramped up crackdowns on misleading sustainability claims. The EU is set to ban the use of generic environmental claims such as ‘climate neutral’ and ‘environmentally friendly’ unless there is “proof of recognised excellent environmental performance relevant to the claim”, with the Parliament and Council having reached provisional agreement in September this year on new rules to ban misleading advertising and provide customers with improved product information⁴. The UK Advertising Standards Authority also began stricter enforcement this year of ‘unqualified’ carbon neutral, nature-positive and net zero claims, with companies being required to prove that offsets are effective. Additionally, the UK’s Financial Conduct Authority is putting in place new Sustainability Disclosure Requirements and an investment labels regime to address greenwashing and support sustainable finance, which may also link to the UK Green Taxonomy (currently under development)⁵.

Discussions continue around the Paris Agreement, with Article 6 developments around carbon offsetting being a significant focus and point of contention. Currently, the vast majority of carbon offsets surrendered by Australian organisations are Certified Emission Reduction units (CERs), created under the CDM that previously operated under the Kyoto Protocol. Through Article 6 developments, CDM activities are being transitioned to the Article 6.4 mechanism. Therefore, CERs will likely be phased out over time and so CA will need to remain flexible in order to revise eligible carbon offsets⁶. Additionally, it is likely that in the future, rolling vintages will be widely introduced across many schemes across various offset types. It is essential that the CA program has sufficient flexibility to adapt to best practice trends as required.

AGL recommends that any changes to the CA program be guided by evolving international trends to align terminology and ensure international best practice is adhered to. Reforms should support the ability of Australian consumers to discern between products, but not dampen incentives for organisations to accelerate the development of high integrity products that support emissions reduction objectives.

Allowing for a reasonable transition period

AGL notes that the Australian Government intends to update CA standards from 2024 onwards. Given the significance of these proposed reforms and the potential impact on organisations, businesses and consumers, it is critical that sufficient lead time is provided to adjust to any changes.

While we are open to the replacement of the term ‘carbon neutral’ with another term if found to be more appropriate, we urge the government to consider the timeframe for implementation, given that ‘carbon neutral’ is currently widely used across the economy. Organisations would require a sufficient amount of time to adjust to the new terminology and update systems, marketing and billing processes. Sufficient lead time is also required to ensure that the public, businesses and consumers fully understand the new terminology in order to make informed choices. We also encourage the government to conduct research to gain insights into the level of understanding that consumers have around environmental claims and carbon offsets, to help select a proposed replacement term for CA’s ‘carbon neutral’ certification which will minimise any risk of misunderstanding. We look forward to further guidance and consultation on any replacement term.

⁴ <https://www.europarl.europa.eu/news/en/press-room/20230918IPR05412/eu-to-ban-greenwashing-and-improve-consumer-information-on-product-durability>

⁵ <https://www.fca.org.uk/news/press-releases/sustainability-disclosure-and-labelling-regime-confirmed-fca>

⁶ <https://unfccc.int/process-and-meetings/the-paris-agreement/article-64-mechanism/transition-of-cdm-activities-to-article-64-mechanism>



AGL's responses to the Consultation Paper's Proposals are set out in **Appendix A**.

AGL commends the Australian Government for its ambition to improve the CA program, and we look forward to continued collaboration and the opportunity to further engage on the CA reforms in the coming months.

If you would like to discuss any aspect of AGL's submission, please contact Casey Barkla-Jones cbarkla@agl.com.au or Aleks Smits at asmits@agl.com.au.

Yours sincerely,

Chris Streets

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

AGL Energy



Appendix A – AGL’s Responses to the Consultation Paper

No.	Question	AGL Response
<p>Proposal 1: All participants must produce an emissions reduction strategy that includes a near-term and long-term gross emissions target aligned with Australia’s NDC (at a minimum) applicable to the item being certified.</p>		
1.1	Do you support a requirement for participants to set near-term and long-term gross emissions reduction targets? Why/why not?	<p>In considering a proposed requirement for participants to set emissions reduction targets, it is important to recognise that different sectors will have different decarbonisation pathways and emissions trajectories that are not necessarily linear. Technologies to reduce emissions are not yet available and/or commercially viable for many sectors, and short-term targets may not be practical. A ‘one-size-fits-all’ approach may not be appropriate for all sectors. It’s also important that a level playing field is established within sectors.</p> <p>While we appreciate the challenges that come with administering a program that allows different targets and granting non-standard allowances, if the intention of the program is to suit a wide range of industries, flexibility will be required.</p> <p>Lastly, it is unclear how the proposed emissions reduction targets will be applied to products as opposed to organisations. We would appreciate more detail on the differences between certifying a product and certifying an organisation. AGL recommends that product certification by CA continue to be independent of organisation certification</p>
1.2	Do you agree with aligning the near-term gross emissions reduction target with Australia’s NDC at a minimum? Why/why not?	
1.3	Do you agree with how the department proposes to calculate alignment to Australia’s NDC (i.e. 2.7 per cent annual reduction from Australia’s emissions in 2021 to correspond with the start of the NDC period)?	
<p>Proposal 2: Businesses and organisations must demonstrate that they are on track to meet their near term gross emissions reduction targets to be certified.</p>		
2.1	Do you support limiting certification to businesses and organisations that have demonstrated they are on track to meet their near-term emissions reduction targets? Why/why not?	<p>AGL’s view is that more information will be required as to how organisations can demonstrate that they are on track to meeting their emission reduction targets, as well as how a base year will be set. We’d also like to reiterate that each sector faces unique transition challenges and will have different emissions reduction trajectories which are not necessarily linear. Therefore, demonstrated progress against targets will differ.</p>
<p>Proposal 3: Develop additional guidance to support businesses and organisations to establish robust emissions boundaries, including mandating specific indirect (scope 3) emissions sources.</p>		
3.1	Do you support the department developing additional guidance on emissions boundaries? Why/why not?	<p>AGL supports additional guidance on emissions boundaries, to ensure consistency across organisations and industries, and to reduce risks of customer misunderstanding.</p>
3.2	Do you support mandating specific indirect (scope 3) emission sources for all certification types? Why/why not?	<p>AGL is generally supportive of improvements to consistency of reporting, and particularly of anything that reduces risk of misleading customers.</p> <p>It’s important to consider Scope 3 emissions in the broader context of reporting and measurement, both domestically and internationally, and to align timeframes for implementation with standards such as International Sustainability Standards Board (ISSB), National Greenhouse and Energy Reporting (NGER), and the draft Australian Sustainability Reporting Standards (ASRS). Duplication of reporting requirements should be avoided, and particular attention should be paid to the draft ASRS requirements.</p>
3.3	If so, which scope 3 emission sources should be considered mandatory?	



		Smaller businesses in particular will likely have difficulty meeting any requirements around Scope 3 emission reporting and measurement, and so a materiality threshold might be worth considering.
Proposal 4: All eligible international carbon offsets used under the program are subject to a 5-year rolling vintage requirement.		
4.1	Do you support the introduction of a 5-year rolling vintage rule for eligible international carbon offsets used under the program? Why/why not?	<p>AGL supports this proposal in order to keep up with evolving trends and Paris Agreement standards and rules. It is likely that in the future, rolling vintages will be widely introduced across many schemes across various offset types.</p> <p>We note that currently, the vast majority of carbon offsets surrendered by organisations are CERs. It is likely that through Article 6 developments, the 6.4 market will replace the CDM that previously operated under the Kyoto Protocol. Therefore, CERs will likely be phased out over time and so CA will need to remain flexible in order to revise eligible carbon offsets.</p> <p>Although not directly within the scope of these reforms, we would welcome more guidance around what CA deems to be high integrity offsets, given the high level of scrutiny that offsets receive and the potential associated reputational damage. Offset integrity is an integral part of instilling confidence and trust in the CA program, and in contributing towards meeting Australia's climate targets.</p>
Proposal 5: Mandate a minimum percentage of renewable electricity and use of the market-based method to set emissions liability.		
5.1	Do you support introducing a requirement for businesses and organisations to source a minimum percentage of renewable electricity under the market-based method? Why/why not?	Mandating a minimum percentage of renewable electricity in order to become CA accredited would support the decarbonisation of the electricity grid. However, consideration should be given to the interaction of the CA program with other programs, such as GreenPower and the Large-scale Renewable Energy Target (LRET), where there are already requirements placed on participants to source a minimum amount of renewable electricity.
5.2	What minimum percentage of renewable electricity should be required (i.e. percent by year)?	<p>AGL has a liability under both the LRET as well as the Small-scale Renewable Energy Scheme (SRES), and also participates in the GreenPower program, whereby it must source a minimum amount of renewable electricity to meet GreenPower certification requirements. It is unclear whether the requirements under these schemes would count towards a proposed minimum percentage of renewable electricity under CA accreditation.</p> <p>While the Consultation Paper refers to businesses and organisations seeking certification being required to source a minimum percentage of renewable electricity, it is not clear whether this requirement also applies at the product level. We request further information and consultation on this point.</p>
5.3	Should all businesses and organisations be required to use the market-based method to calculate their electricity emissions liability? Why/why not?	<p>AGL is supportive of consistent and accurate electricity emissions accounting to promote integrity of sustainability claims made by organisations and businesses.</p> <p>It would be worth considering the impacts on smaller businesses of mandating such requirements, and the associated administrative costs. Additionally, any change to calculation and reporting standards should refer to NGER and its related amendments for consistency.</p>



Proposal 6: In future, abatement from all ACCUs used under Climate Active would count toward meeting Australia’s emissions reduction target under the Paris Agreement.

6.1	Do you support this proposal? Why/why not?	<p>There are concerns around the government relying on voluntary action to meet its Nationally Determined Contribution (NDC). While it makes sense to count all state and local government ACCU surrenders towards the national emissions reduction target under the Paris Agreement, it is less clear whether voluntary action from businesses should be included.</p> <p>Consideration should also be given to the customer’s understanding of what they are purchasing. For example, a customer may purchase an ACCU product thinking that they are pushing government harder on decarbonisation, when really that product is counting towards Australia’s NDC and therefore not actually resulting in the government taking additional action to decarbonise. Transparency will be key to ensuring that consumers understand the products they purchase.</p>
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Proposal 7: Discontinue the term ‘carbon neutral’ to describe the certified claim.

7.1	Do you support discontinuing ‘carbon neutral’ to describe the certified claim? Why/why not?	<p>AGL supports the use of clear and accurate terminology when referring to sustainability and environmental claims to enable consumers to make informed choices. While we are open to the replacement of the term ‘carbon neutral’ with another term if found to be more appropriate, we urge the Australian Government to consider international developments in this space to align terminology and promote consistency.</p>
7.2	If so, what claim should members be able to make once they have achieved certification?	<p>The government will also need to further consider and consult on the timeframe for implementation of a new term, if a suitable alternative is identified, given that ‘carbon neutral’ is currently widely recognised and used globally. AGL requires at least 12 months to adjust to the new terminology and update systems, marketing and billing processes. Sufficient lead time is also required to educate the public, businesses and consumers to ensure that they fully understand the new terminology and what that means for decisions they might make.</p>
7.3	If not, why do you think that the term ‘carbon neutral’ should be retained?	<p>AGL encourages the government to engage the public on their level of understanding around environmental and carbon terminology, and to consider an education campaign, to ensure that the most appropriate term is used to describe CA certification. We look forward to further guidance and consultation on any replacement term.</p>