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Mr Joe Pryor
Director, Safeguard and Industrial Policy
Climate Change Division
Department of the Environment and Energy
Australian Government

Submitted via email: safeguard.mechanism@environment.gov.au

30 March 2018

Dear Mr Pryor,

Emissions Reduction Fund: Safeguard Mechanism Consultation Paper, February 2018

AGL Energy (**AGL**) welcomes the opportunity to provide a submission in response to the Emissions Reduction Fund Safeguard Mechanism Consultation Paper, February 2018 (**Safeguard Mechanism Consultation**).

As one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation, AGL is well placed to provide comment on the issues presented. AGL operates across the supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation, upstream gas production and provides energy solutions to over 3.6 million customers.

The diversity of our portfolio has allowed us to develop a detailed understanding of the risks and opportunities presented by energy and climate policy. AGL economists have published a range of peer reviewed research on impacts associated with energy and climate policy.

AGL in principle supports the proposed changes to the operation of the Safeguard Mechanism outlined in the Safeguard Mechanism Consultation, including:

- Bringing baselines up-to-date by transitioning all facilities to calculated baselines over 2018-19 and 2019-20;
- Simplifying the applications by giving businesses the option to use Government-determined 'production variables' and default emissions-intensity values for calculating baselines; and
- Updating baselines annually for actual production, so they continue to reflect facility circumstances and enable growth.

AGL appreciates that these changes will make reporting against the Safeguard Mechanism fairer and simpler for liable businesses by transitioning baselines towards a more consistent approach that takes into account growing businesses' production forecasts.

Nevertheless, we remain concerned that the proposed changes will do little to facilitate the decarbonisation of the Australian economy, consistent with Australia's commitments made under the Paris Agreement. In the absence of an approach that entails declining baselines across sectors, there remains a serious risk that the emissions trajectory of covered industries will continue to rise.



Whilst we acknowledge the Government's intention to address emissions from the electricity sector through the proposed National Energy Guarantee (**NEG**), we consider that the Safeguard Mechanism may also have an important role to play in Australia's climate and energy policy suite especially in its potential to address the emissions from other sectors of the Australian economy.

Accordingly, we would urge the Government to consider more carefully ways in which the design of the Safeguard Mechanism could be enhanced (including the trajectory of baseline levels) to facilitate the progressive decarbonisation of the Australian economy.

In AGL's view, all sectors of the Australian economy have an important role to play in meeting Australia's emission reduction targets and its long-term commitments under the Paris Agreement.

AGL accepts the Intergovernmental Panel on Climate Change (**IPCC**) conclusion that the risks associated with climate change are reduced substantially if warming is limited to less than 2 degrees Celsius above pre-industrial levels. Achieving this outcome would require complete decarbonisation of the world economy by 2100 and emission reductions of up to 70 percent by 2050.

As our Greenhouse Gas Policy elaborates¹, we have made a strong commitment to a range of measures that will drive the decarbonisation of the energy sector, including the closure of all of our existing coal-fired power stations by 2050 and continued investment in new renewable and near-zero emissions technologies.

AGL supports the use of both regulatory and market-based policy mechanisms to deliver the required emission reductions. Importantly, a range of policies are likely to be needed.

We believe that the costs of decarbonisation should be shared equitably across the Australian economy. Any failure to address emissions from one sector will increase the burden for other sectors, including the energy sector which was already energy sector which has already committed to a significant transition program.

AGL continues to advocate for an effective long-term national carbon policy that will drive the requisite transition of the Australian economy.² We look forward to continuing to engage with government and other stakeholders on this important issue.

Should you have any questions in relation to this submission, please contact Kurt Winter, Manager, Policy and Research, on 03 8633 7204 or myself on 03 8633 6836.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Stephanie Bashir'.

Stephanie Bashir

Senior Director, Public Policy

¹ For further information see https://content.agl.com.au/wp-content/uploads/2017/04/AGL_Greenhouse_Gas_Policy.pdf

² See AGL, Submission to the Energy Security Board on the National Energy Guarantee Consultation Paper, (8 March 2018) Available at <http://aglblog.com.au/2018/03/submission-to-the-energy-security-board-on-the-national-energy-guarantee-consultation-paper/>; See also AGL, submission to the Review of the Carbon Farming Initiative Legislation and the Emissions Reduction Fund (28 September 2017), Available at <http://aglblog.com.au/2017/09/submission-to-the-review-of-the-carbon-farming-initiative-legislation-and-the-emissions-reduction-fund/>.