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The Hon. Lily D'Ambrosio
Minister for Energy, Environment and Climate Change
Department of Environment, Land, Water and Planning
C/o: Mark Rodrigues: mark.rodrigues@delwp.vic.gov.au

Date 12 August 2019

Dear Minister

Consultation on Victorian interim emissions targets

AGL Energy (**AGL**) welcomes the opportunity to respond to the Victorian Government's public consultation on interim emissions targets for Victoria following the release of the Independent Expert Panel's (**Panel**) report, *Interim Emissions Reduction Targets for Victoria (2021-2030)* (the **Report**).

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio, with strong presence in Victoria, includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.5 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia. We are also developing, in close consultation with the community, a proposed LNG import terminal in Victoria to provide new sources of gas supply to south eastern Australia.

In addition, AGL is continually innovating our suite of distributed energy, energy efficiency and demand management services for customers of all sizes. These energy solutions involve new and emerging technologies such as energy storage, electric vehicles, Solar PV systems, digital meters, and home energy management services delivered through digital applications. These complement, continual efforts to improve the efficiency of our generation fleet, and pilot work on potential low-carbon energy technologies such as hydrogen production with CCS.

The emissions reduction imperative

AGL accepts the science on climate change and continues to support action to meet Australia's commitments under the Paris Agreement and contribute as a nation to efforts to keep global temperature rise well below 2 degrees above pre-industrial levels. In keeping with our purpose and Greenhouse Gas Policy, AGL will continue to advocate for action to meet the goals of the Paris Agreement.

Interim targets, as well as an overall emissions budget and a clearly articulated longer-term emissions reduction trajectory, are important components in managing the social and economic impacts of the transition. They assist to provide clarity on the future investment and operational environment, and allow all stakeholders and communities to plan for the future. Decisions on specific emissions reduction pathways depend on complex trade-offs between short- and longer-term costs and benefits that will be felt by the community at large, and the extent to which they contribute to coordinated international action.

Nationally consistent emissions reduction targets and frameworks have clear benefits as compared with State-level approaches by allowing least-cost economy-wide abatement to be realised first and better



protecting against carbon leakage and competitiveness impacts. Similarly, emissions reduction policies will be lowest cost when they draw on efforts from, and are broadly neutral to, sectors, fuels, and both demand and supply side options. In cases where emissions reduction pathways are subject to step changes arising from the closure of large emissions sources, there will also be economic benefits in sensible banking and borrowing arrangements when assessing achievement against desired carbon budgets. Where a consistent national emissions reduction goal is not achievable, policy should seek to replicate as many of the same benefits as possible by achieving emissions reductions from least cost abatement opportunities across sectors and between jurisdictions.

Interim targets and the electricity sector

Nationally consistent approaches are particularly important in the interconnected National Electricity Market (NEM) where reliability, security, affordability and emissions impacts are felt beyond regional boundaries. Actions in Victoria would be felt not only in Victoria but in neighbouring jurisdictions, with potential for offsetting impacts that dampen Victoria's own emissions reduction efforts – a direct form of 'carbon leakage'. System, cost and effectiveness considerations therefore all indicate that a national approach is preferable.

We note that the Panel assesses that approximately two-thirds of emissions reduction opportunities lie in the electricity sector (ref Figure 6.7). Further analysis of sectoral abatement opportunities and implications, with more detailed information and consultation, will be a critical input to the next stage in this process. Electricity sector pledges following the setting of trajectories will require very careful consideration of the impact on and interaction with national energy market frameworks. The broad comments made above about the impact of lumpy retirements of emissions intensive plant apply very specifically to the electricity sector, especially given the current planning horizons for large thermal units. Therefore flexibility in timing of emissions trajectories are particularly pertinent to this sector (within the context of maintaining the integrity of overall carbon budgets).

The Report has highlighted the range of opportunities and challenges to be managed in the transition of the electricity sector through the development of sectoral pledges and we would emphasise the importance of a number of these:

Reliability

It is critical that any electricity sector pledges to achieve emissions reductions are consistent with efforts to maintain the ongoing reliability and stability of the NEM. An electricity system with greater levels of intermittent renewable energy requires complementary levels of flexible 'firming' plant that can be brought on and off reliably and at short notice. Reliability will be enhanced by ensuring access to the widest range of firming capacity options, including gas peaking plant, pumped hydro, batteries and demand response, as well as measures to increase the flexibility of the remaining coal fleet. The retailer reliability obligation that will be triggered where reliability gaps are forecast three years ahead will potentially provide additional investment signals for necessary flexible plant. However, we urge the Victorian Government to work closely with industry, COAG partners and other stakeholders to look at other market reforms to maximise policy coordination and consistency.

Community benefits

The retirement of aging thermal plant will clearly have profound implications for local communities. Laying the foundations for an inclusive and orderly transition has therefore been a key focus for AGL in communities based around its assets in both the La Trobe Valley in Victoria and Hunter Region of New South Wales. Our generation sites, fuel supply and supply chain elements are large economic fixtures that have provided significant employment and economic value to the communities in which they operate. We recognise that decarbonisation of the energy system must be undertaken with full consideration of both direct and indirect social, environmental and economic impacts. We are



committed to ongoing collaboration with the community, government, unions and industry to promote the economic and social wellbeing of local communities through the transition.

Ensuring consumers benefit and opportunities from the transition are shared widely

AGL agrees with the Panel's assessment that although the transition to a low-emissions economy brings significant challenges, with well-designed policies there is potential to promote a more productive, inclusive economy with healthy, connected communities, underpinned by affordable energy. The energy transition will bring enormous opportunities for investment in the next few decades, by some estimates around \$200bn, including \$130bn grid scale and \$70b behind the meter. In energy and sectors adjacent to it, this brings many benefits, such as:

- job opportunities arising from investment and the provision of new services, including in regional Australia.
- the substantial energy efficiency opportunities available in industry and the built environment, which can boost economic productivity and improve the thermal comfort of homes and other buildings;
- the emergence of a more participatory and decentralised energy market where distributed energy resources and other technologies enable the demand side (including households) to play a more substantial and influential role;
- the potential for Victoria (and Australia more broadly) to learn and borrow from international experiences of innovative new approaches to bring on low carbon energy, including through electrification of transport and heating, and development of new sources of energy such as hydrogen;

Through the design of sector pledges, the Victorian Government should be mindful of varying abilities to capitalise on these opportunities and explore complementary policies to ensure they are equitably distributed. In particular, government and industry should work together to ensure energy remains affordable and reliable, with special attention to the needs of vulnerable customers. This would include consideration of approaches to overcome barriers to the take-up of distributed energy resources and energy efficiency opportunities by low-income households. The Victorian Government should also be mindful of the need to ensure the ongoing competitiveness of major energy consuming industries.

AGL's strategic planning and carbon risk management

AGL continues to undertake and publish our own modelling of the resilience of our generation portfolio under a range of emissions reduction and policy scenarios. Updated scenario analysis was released with AGL's annual report on 8 August 2019 to support our continued participation in the Task Force for Climate-Related Financial Disclosures. This builds on our 2016 Carbon Constrained Future Report, our 2017 Rehabilitation Report and our 2018 Powering a Climate Resilient Economy report. This analysis indicates that AGL's portfolio of generation plant is resilient to a range of emissions reductions scenarios.

We appreciate the Victorian Government's open engagement in this significant area of public policy and the opportunity to contribute to the Victorian Government's deliberations on interim emissions reduction targets and in the design of sector pledges. Above all, AGL urges the Victorian Government to continue to work within the COAG framework towards consistent national approaches.



If you have any questions in relation to this submission please contact Eleanor McCracken-Hewson at ehewson@agl.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'B Sterland'.

Barry Sterland
GM Policy & Strategy