

# Investing in the future

How AGL is using innovation  
in financing models to help  
drive investment in new  
energy supply

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# Investing in a sustainable energy future for Australia

**AGL video link – AGL generation development**

[https://www.youtube.com/watch?time\\_continue=32&v=lyqDzq4qkE4](https://www.youtube.com/watch?time_continue=32&v=lyqDzq4qkE4)

Australian Energy Week 2018 | NEXTGEN GENERATION



# Replacing Australia's aging generation fleet is a challenge and an opportunity for the free market



## **The challenge:**

Australia needs to replace its aging fleet with low emission, low cost and reliable generation



## **The question:**

How can the market deliver on this challenge?



## **The solution:**

**Policy certainty**



**Financial innovation**



**Development of new renewable  
and firming generation**

AGL continues to lead the way ... as Australia's largest private generator  
and Australia's largest private developer of renewable energy

# Wind and solar development in Australia

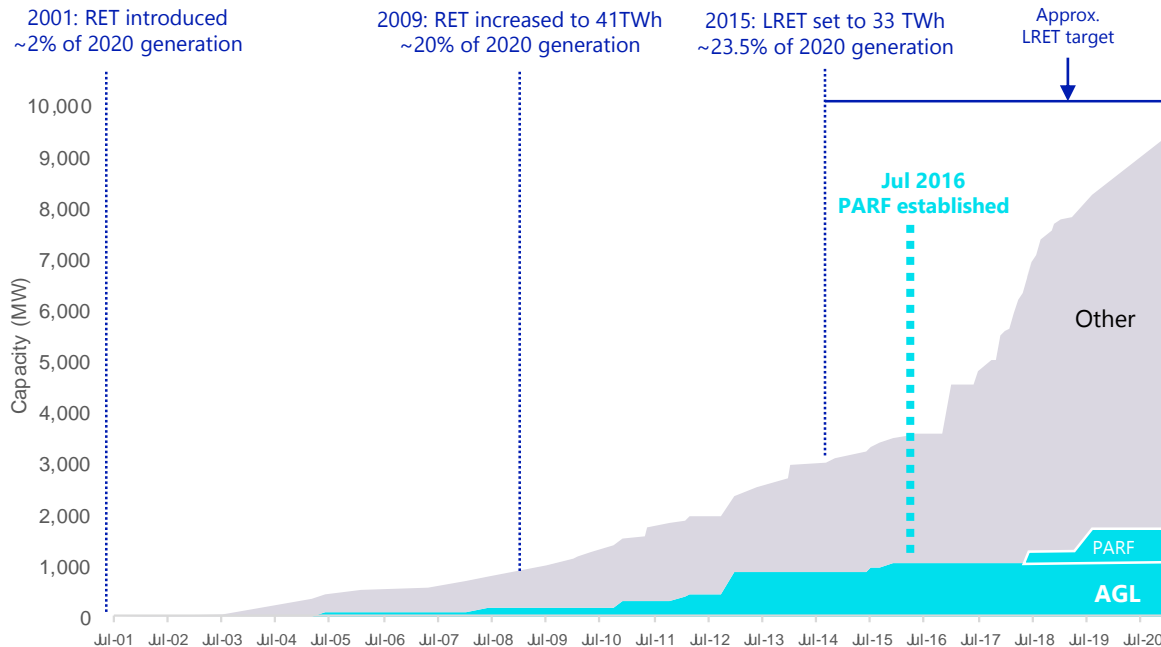
The RET and financial innovation will deliver on the LRET target ... but what comes next?

## Policy certainty

## Financial innovation

The Powering Australia Renewables Fund (PARF) was established July 2016

A partnership between AGL, QIC and its client Future Fund to fund 1,000 MW, now at 810 MW



AGL's 1,700 MW (10 projects) is equivalent to 20% of the market

Source: AGL; company data



# PARF was a game-changer

An innovative funding model that stimulated large-scale renewable development

- PARF was a major catalyst for unlocking renewable developments across the Australian market with a “new deal” to rebalance merchant risk and reward between retailers and funders
- AGL retained 20% equity to keep “skin in the game” while shortening offtake to 5 + 5 years
- PARF increased lender commitment to the long term merchant energy sector
  - With scale and diversified risks, lenders committed resources to study long term merchant energy risks
  - Lenders and their credit departments overcame the financing barriers that previously existed in the market

## PARF commitment

- \$1 billion in renewable energy developments

## PARF investors

- AGL
- QIC and its client Future Fund

## PARF lenders

- Westpac
- NAB
- SMBC
- MUFG
- SocGen
- DBS
- Mizuho
- ABN Amro

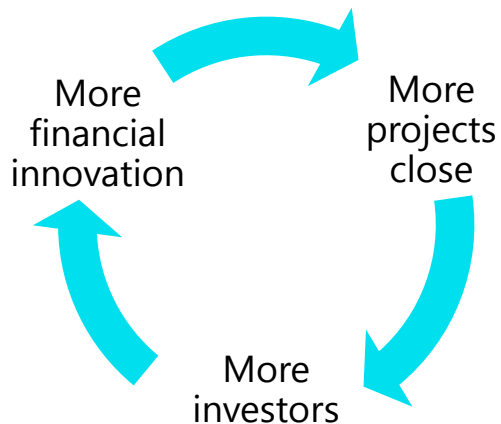


Images provided courtesy of PARF

# Innovation is a catalyst for renewable build-out

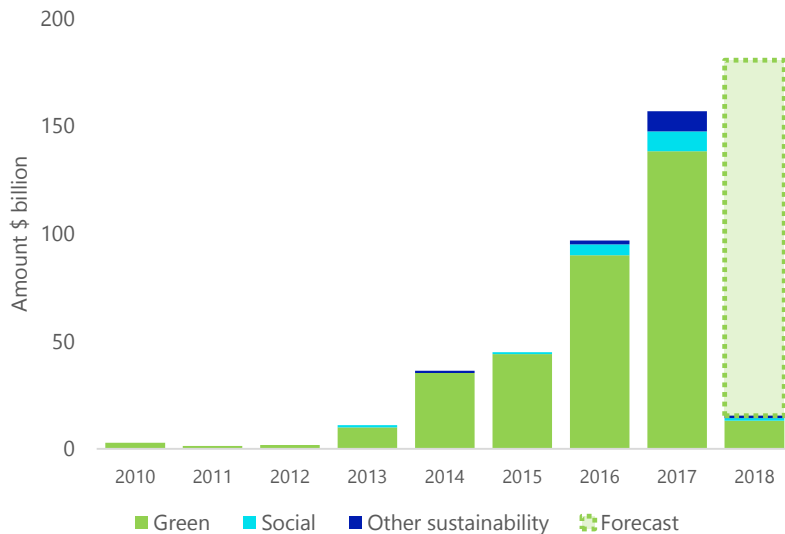
Innovation in financing models has allowed projects to close, attracting more investors to a growing sector

Financial innovation creates a virtuous circle



Growth in green bonds

... a good proxy for rate of growth in investor interest

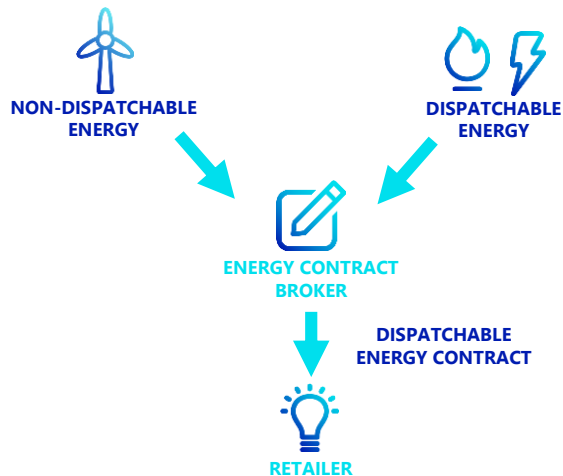


Source: Citigroup

# AGL continues to deliver financial innovation

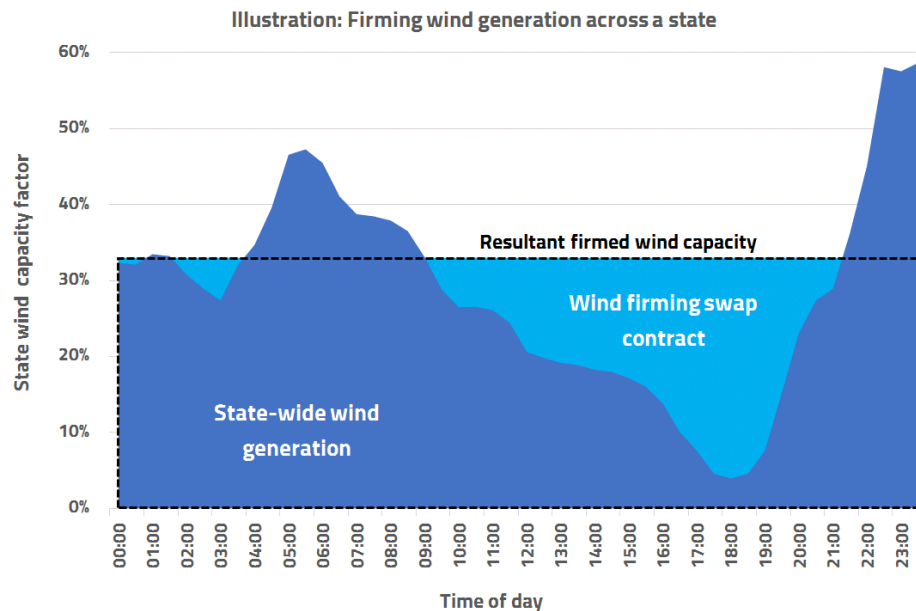
AGL has developed “wind firm” contracts for the contract market - available since April 2018

Bundling non-dispatchable and dispatchable energy



Benefits:

- Creates liquidity in the market
- Assists in transitioning to low emission energy
- Facilitates compliance with the NEG



# The rise of storage needs to be financed

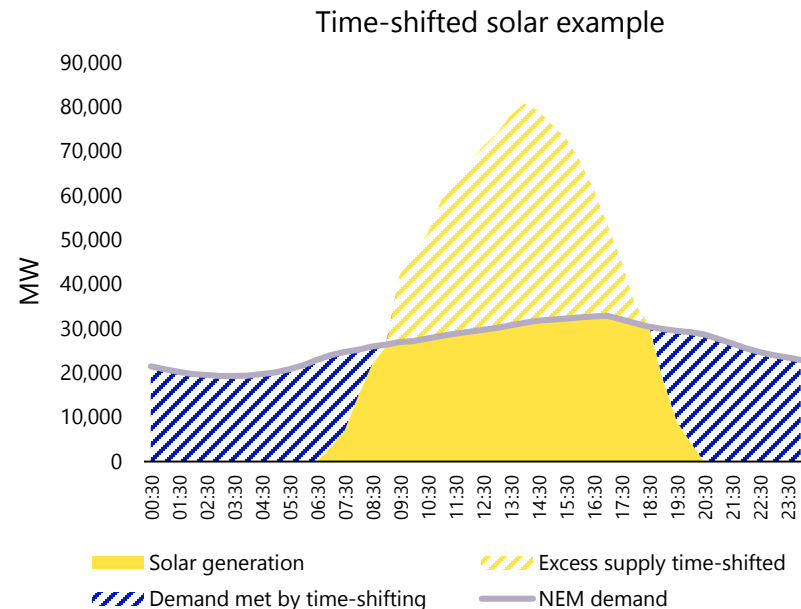
A colossal financing opportunity to support the transition to a low carbon future

Grid-scale storage is required for the full transition to renewables

- Gas/hydro firming for renewables is a medium-term solution
- Storage for time shifting energy will emerge in the long term

The growth in storage will be driven by technology improvements and falling costs

The market can and will deliver the funding solutions



Source: AGL estimates; AEMO



# Policy certainty is essential for investor confidence



The National Energy Guarantee (NEG) has the potential to provide certainty for investment and drive innovation

AGL supports a well designed NEG that helps drive down prices through investment in supply and provides certainty on emissions reductions.

NEG should address the following concerns:

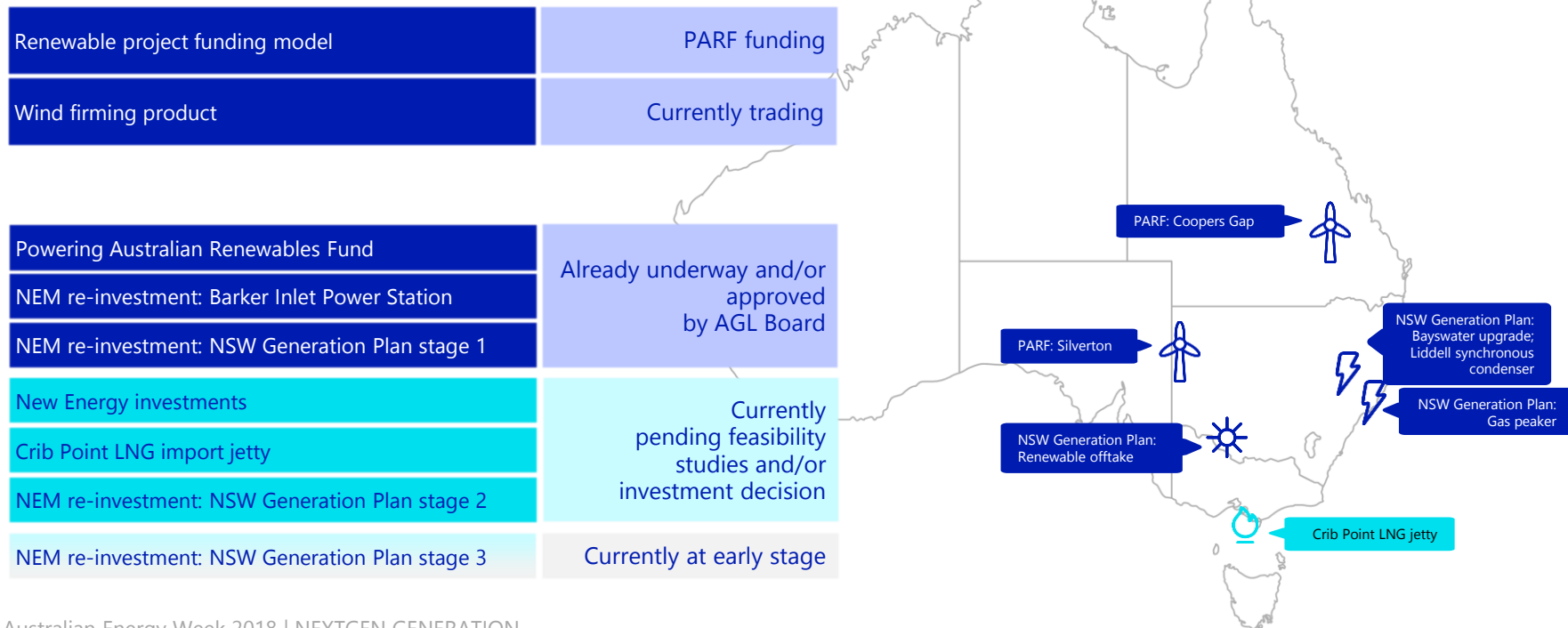
- **Cost** – regulatory efficiency and minimal disruption to existing markets
- **Emissions** – electricity sector to achieve its share of Australia's commitment for emissions reduction
- **Reliability** – maintain reliability of supply as amount of renewable/intermittent generation increases
- **Certainty** – enhance existing market operation
- **Competition** – encourage competitive, transparent, efficient and liquid markets for energy



Council of Australian Governments meeting, 9 February 2018  
Source: [www.coag.gov.au](http://www.coag.gov.au) © Commonwealth of Australia 2012

# AGL continues to lead the way

Innovative financial and market products ... and a diverse, high quality range of potential development options



# About us



AGL is committed to helping shape a sustainable energy future for Australia.

We operate the country's largest electricity generation portfolio, we're its largest ASX-listed investor in renewable energy, and we have more than 3.6 million customer accounts.

Proudly Australian, with more than 180 years of experience, we have a responsibility to provide sustainable, secure and affordable energy for our customers.

Our aim is to prosper in a carbon-constrained world and build customer advocacy as our industry transforms. That's why we have committed to exiting our coal-fired generation by 2050 and why we will continue to develop innovative solutions for our customers.

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Statutory Profit is prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards, which comply with International Financial Reporting Standards.

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Amounts presented as Statutory Profit/(Loss) and Underlying Profit are those amounts attributable to owners of AGL Energy Limited.