AGL Energy Limited FY21 Full-Year Results Webcast
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Ms Travers: Thank you for standing by and welcome to the AGL Energy full year results 2021 investor briefing call. All participants are in a listen only mode. If you would like to ask a question following the presentations, please ensure you've preregistered via the web pass link. I would now like to hand over the conference to our CEO, Mr Graeme Hunt. Go ahead, Graeme.

Mr Hunt: Good morning everybody, Graeme Hunt speaking. Thank you for joining us for the webcast of AGL's full-year results for financial year 2021. I would like to begin by acknowledging the traditional custodians of this land of where I am presenting from today and pay my respects to their Elders past, present and future. I would also like to acknowledge the Traditional Owners of the various lands from which you are all joining from and any people of Aboriginal and Torres Strait Islander origin on the webcast.

Today I'm joined by Damien Nicks, our CFO, Christine Corbett, Chief Customer Officer and Markus Brokhof our Chief Operating Officer. I'll get us started before handing over to the team and we will have time for questions at the end.

Financial year 2021 was one of the toughest energy markets have seen. Wholesale electricity prices were at levels not seen since 2012, while demand was impacted by lockdowns, mild weather and increasing penetration from rooftop solar. In gas, we had older legacy gas supply contracts rolling off and new contracting at more contemporary pricing. These dynamics have all impacted our FY21 financial results.

Underlying EBITDA of $1.66 billion was down 18%, while underlying NPAT of $537 million was down 34%, reflecting the additional impact of higher depreciation expense as forecast. Our statutory result was impacted, largely as already announced, by the charges associated with onerous contracts, rehabilitation provision increase, Crib Point cessation, impairments and integration and separation costs.

The total dividend for the 2021 year was $0.75. This comprised $0.65 of ordinary dividend and $0.10 of a special dividend in the first half. The Special Dividend Program has now been terminated. However, AGL Energy expects to continue to pay dividends equal to 75% of underlying net profit after tax, unfranked and 100% underwritten for the final 2021 and interim 2022 dividends.

While conditions have been challenging, AGL Energy has continued to deliver on its strategy. Customer service growth remained strong. We added 254,000 new services over the year though the Click acquisition and solid organic growth, maintaining our status as Australia's largest energy-led multi product retailer. It is still very early days for the AGL Energy telecommunications products, but we are seeing steady growth and the anticipated benefits to customer loyalty, multi product growth and tenure are coming to fruition.

During the year, we completed a number of important acquisitions. Christine will cover the Click acquisition in more detail. Solgen and Epho have both boosted our presence in the commercial solar market and have continued to perform well, winning new material installation contracts. The Tilt acquisition, via PowAR, completed last week, will further support our orderly transition away from coal-fired power. Lastly, our OVO transaction is a strategic JV, providing a future option to leverage the expected demand for EVs, residential batteries and demand management, while allowing customers to be active participants in the energy transition and reducing their own emissions.

We remain on track to deliver on our plans for at least 850 megawatts of grid scale batteries, with FID reached on the Torrens Island battery and further progress on the Liddell and Loy Yang batteries. In recognition of the important role AGL will play in the energy transition, we have proactively supported the Say on Climate movement by committing to provide shareholders with an opportunity to vote on our climate reporting at the AGMs relating to the 2022 financial year.

Our guidance for the financial year 2022 for underlying EBITDA is $1.2 billion to $1.4 billion and for underlying net profit after tax, $220 million to $340 million. These ranges reflect a further material step down in wholesale electricity earnings as hedging positions, established when wholesale prices were materially higher progressively roll off and the non-recurrence of Loy Yang insurance proceeds. That said, the outlook for FY22 and beyond will be impacted by wholesale electricity markets and I'll talk more about what we are seeing there shortly.

On 30 June we announced our proposal for AGL Energy to become Accel Energy and the demerger of AGL Australia. This is a complex transaction towards which we have made good progress and subject to shareholder and relevant approvals, we remain committed to final completion in the fourth quarter of FY22. The related debt financing process is progressing well and today we have announced further management team appointments, with more to come in due course. We are confident that this proposed demerger will create two new entities with clarity of purpose and strong foundations, positioning them well to lead the energy transition, while protecting and delivering value to shareholders.

Moving now to our three core operational areas: safety, customer experience and employee engagement. The total injury frequency rate per million manhours worked decreased markedly to 2.3 for employees and contractors combined for the year. That's a material improvement on FY19 and 2020, reflecting our strong focus on safety culture from the top down. We will continue to do more to keep improving our safety culture and practices, while running our plants responsibly.

We added 254,000 customer services over the year, which includes 198,000 Click customers. In addition, we have delivered a further improvement in the Net Promoter Score, demonstrating customer loyalty and the improvement in our customer experience. Our employee engagement measure unfortunately has fallen 11 percentage points from FY20. This result was understandable given the challenges in energy markets currently and the uncertainty arising from the planned demerger. We are working to address employee engagement through strong internal communication and the establishment of the new organisation structures as soon as possible.

This slide shows a further summary of our financial results, which Damien will cover in more detail. Whilst these results are very disappointing, they are not inconsistent with the circumstances and challenges the business has been facing. That said, we have an accountability to focus on positioning the business to be more robust in the face of such challenges going forward.

Now let's take a more detailed look at electricity market conditions. On the left you can see the challenging forward prices seen at the beginning of the year due to a lack of summer volatility reducing forward price expectations. In April, wholesale electricity prices improved and this became more pronounced in late May and June due to the Callide and Yallourn incidents. This price improvement has been driven not only by the unplanned outages, but also through increased demand, higher international commodity prices and an increase in the number of planned outages, which were previously deferred due to COVID-19. Pleasingly, the dotted line indicates that markets expect the recovery to be sustained into FY23.

On the demand side, we have seen a small recovery through May and June due to an early cold winter and a brief period of limited COVID-19 restrictions across Australia, bringing with it a return in business and industrial demand. Looking ahead, we expect demand to bounce around with intermittent lockdowns and the milder spring months. Over the short term, as Markus will cover in more detail, our hedged position will limit potential upside from recovery in wholesale prices. Longer term, however, our low-cost generation position gives us a relative strength amongst existing market generators, making AGL well positioned to benefit from any sustained recovery in wholesale electricity prices.

Today I am pleased to announce two further executives identified for the new entities, Markus Brokhof for Accel Energy as Deputy Chief Executive Officer and Chief Operating Officer and Damien Nicks for AGL Australia as Chief Financial Officer. Markus and Damien both have extensive industry experience and proven leadership and strategic execution skills which will be invaluable within both organisations. While the new demerger entities will be smaller organisations, these executives will have broader remits and responsibilities. These appointments will take effect upon the proposed demerger.

Since our 30 June demerger proposal announcement, we have made good progress. We have commenced with the internal separation of our IT systems and some corporate and operational divisions. The transitional services agreement is coming together, which will provide a governance framework for work conducted between the entities. As we make progress on the corporate structures for the new entities, we will have greater clarity on the expected cost bases and I can confirm that on top of fully offsetting the cost duplication created by the demerger, both Accel and AGL Australia are working to identify further cost efficiencies.

We continue to progress the finalisation of the capital structures and funding for both new entities and we expect to provide the next update on our demerger progress at our AGM next month. I'll now hand to Christine to take you through our customer markets result in more detail.

Ms Corbett: Thank you, Graeme and good morning everyone. As Graeme has discussed, market conditions in FY21 have continued to be challenging, however our strong customer focus has been unwavering and this is reflected in our continued positive customer advocacy and good customer growth. At the same time, we have improved the fundamentals of our business, significantly lowered operating costs, improved the customer experience and extended our product offering.

Our performance in FY21 has been underscored by continued customer growth, the execution of our energy-led multi product retailing strategy and a focus on underlying cost efficiencies. I'm pleased to report that underlying EBITDA was $337 million, up 16%, reflective of higher gross margin and lower operating costs. Our investment in digital transformation in prior years, together with a continued focus on efficiencies, helped absorb the increased operating costs associated with acquisitions and new products. The increase in gross margin was driven primarily by higher consumer gas gross margin and solid gross margin contribution from Click Energy. This was partially offset by a decrease in consumer electricity gross margin due to customers switching to lower-priced products.

Capital expenditure increased as a result of investments to support the launch of AGL Telecommunications, offset by a decrease in software-as-a-service development costs. As I mentioned at our half year results, regulatory intervention, customer behaviour and high levels of competition have resulted in electricity margin compression in recent years, most prominently in Victoria. However, we expect to see retail energy margins settle to more sustainable levels in the short to medium term.

In FY22, we will continue to focus on organic growth and scaling our AGL telecommunications offerings to our energy customers. We will further improve the customer experience, while at the same time drive greater reductions in our cost base as the business is further digitalised. In the commercial and industrial segment, we will continue to expand our position as a leading provider of commercial energy solutions.

Our customer book continues to grow in size and strength. Our strategic Net Promoter Score again reached new highs in FY21. AGL now provides over 4.2 million services to customers and 4.5 million if you include the ActewAGL services. This number has increased by 0.5 million services over the past three years, driven by a combination of strong organic growth and key strategic acquisitions. Offering our customers more targeted services has been a key priority in our multi-product strategy. As customers become increasingly connected, we want to be at the forefront of that transition and as such have expanded our services in telecommunications, which has seen robust uptake in the first few months.

During the period we also launched our carbon neutral offering across all AGL products. We have seen solid take up of carbon neutral energy with good growth occurring in the second half of FY21 and we are now providing carbon neutral to all new and existing telecommunications services at no extra cost. Pleasingly, against the backdrop of a highly competitive market, we have maintained low levels of churn, with a slight improvement in our spread to the rest of market.

Finally, our underlying net operating costs per customer service continue to fall, driven by our investment in systems and our ongoing focus on simplification and digitisation. This is a result of a significant reduction in manual back-office operations and call centre volumes, which are 36% lower than in FY18. At the same time, we have driven a 48% reduction in ombudsman complaints and realised significant cost efficiencies in our campaigns and advertising costs.

Our four key acquisitions has built strength and capability as we drive our multi-product retailer ambitions. The acquisition of Southern Phone Company in December 2019 has provided a launchpad for our AGL telecommunication offerings which we launched earlier this year. Initial take up of the offerings has been strong and pleasingly, more than 98% of AGL telecommunications sales to date have been part of an energy-telco bundle.

We also acquired Click Energy, building on our strong energy customer services growth in FY20 and have successfully migrated more than 200,000 customers to AGL systems in the last six months. Our retention rate of these customers was greater than expected, and we are now realising cost-to-serve savings as a result of systems and operational synergies. We have integrated On The Move with our existing moving services business, ConnectNow, giving us an even stronger competitive position in the movers market.

The acquisitions of Epho and Solgen complement and bolster our existing solar capabilities, enabling AGL Energy to deliver more tailored and innovative energy solutions for businesses. Since acquisition, both businesses have continued to win key projects with the addition of more than 38 megawatts of new commercial solar sales. We are now Australia's largest supplier of commercial solar with the systems and technologies in place to deliver more than 70 megawatts of commercial solar each year.

As we integrate these new acquisitions, we continue to focus on maintaining our leading technology position. Our phased investment approach will keep driving value today while providing real options for tomorrow. The short-term horizon will use proven technology to help scale our multi-product proposition while delivering further cost efficiencies over coming years. It will focus on updating the middle layer of our technology stack, such as our customer relationship management systems, making it easier for our agents to find solutions for our customers.

The next horizon is centred on bringing world-class technology and innovation to Australia through our partnership with Ovo Energy, one of the UK's leading independent energy retailers. Ovo's customer platform, Kaluza, provides strong optionality on future deployment on an intelligent, low cost-to-serve core platform and presents an exciting opportunity to engage with customers more effectively in a multi-product environment. Now over to Markus.

Mr Brokhof: Thanks Christine and good morning everyone. I will provide an overview of our integrated energy results, which covers our trading, origination, and operations business areas. As you can see, this year has been an exceptionally challenging year. Gross margin and EBITDA have both fallen and capital and operating expenditure have both risen. There are a few reasons for this.

Overall, the market has been challenged as wholesale electricity prices have fallen. As prices rose in the final quarter, a confluence of outages in the AGL portfolio left us in a challenging position. This price rise may not be sustained. We have seen some margin compression with legacy gas supply contracts rolling off. While we have been successful in recontracting in the short to mid-term, recent contract prices are higher than AGL's legacy contracts.

COVID-19 has continued to have an impact, both indirectly through suppressed industrial demand, and directly through costs associated with ensuring that COVID-19 is appropriately managed on site. Year-on-year, the impact of COVID-19 on opex has slightly reduced, $18 million in FY20, $15 million in FY21. In addition, a change relative to last year is that due to the remaining term of Liddell, you will see $17 million of costs associated with Liddell flowing through opex rather than capex.

As I look to the year ahead, it is clear that capital and operational expenditure must be a focus for us. The environment requires disciplined and prudent spend. We have initiatives identified and are already underway in delivering against the FY22 reduction of $60 million of opex and $100 million of capex in integrated energy. Our opex reduction initiatives are targeting procurement and service contracts, insourcing, maintenance savings, reprioritising work to reduce overtime and gaining operational efficiency.

Growth capital has been reviewed and minimised on the back of lower wholesale electricity prices, with the mid-life refit of Bayswater and Torrens Battery comprising the major items remaining in the FY22 budget. In addition, with our outages, we have challenged scope of work, timing and contractor cost in order to reduce sustaining capital. This spend reduction will not be at the cost of a focus on health, safety and environment. We will be promoting continuous improvement in this space and taking on the learnings from our December incident at Liddell.

I am proud of our reduction in the total injury frequency rate and we need to progress this even further with a focus on making a difference in the reduction of incidents that could result in serious injuries. Another key pillar for the trading team is managing price volatility. We must match our hedging ratio to an appropriate level given our fleet availability and reliability. I will talk more on this in a minute.

AGL has made good progress this year in developing and advancing its asset development pipeline. This page illustrates how we are adding more flexible capacity into our portfolio and exploring opportunities to add new low-carbon developments to transition our thermal sites, such as transforming Liddell to an integrated industrial energy hub. As we have previously disclosed, the hub at Liddell is expected to include projects such as a waste to energy site, a grid-scale battery, electrothermal solar storage with PV, pumped hydro and a wind farm as a first set of developments.

The integrated industrial energy hub is a key element in the transition for AGL, with or without the proposed demerger. The hubs will use our existing land, connection and skilled labour advantages to create a sustainable future for the regions in which we operate. A broad partnering scheme will mean that this is not a capital-intensive strategy for AGL.

Two more mature projects, the Silverton and Coopers Gap Wind Farms, have made substantial progress, with Silverton achieving practical completion, while Coopers Gap is in the final stage of testing to enable full capacity generation by end of the calendar year. As some of Australia's largest wind farms, we are proud to have these in our portfolio via our shareholding in PowAR. Coopers Gap also played an important role in the portfolio during recent volatility in Queensland after the incident at Callide.

As we announced earlier in the year, we have taken an investment decision on a 250-megawatt grid-scale battery at Torrens Island. In addition, with our proposed battery developments at Loy Yang, Broken Hill and Liddell progressing through approval stages, there has been good progress in moving to our goal and manage 850 megawatts of grid-scale batteries by FY24.

As you can see on this slide, the increasing penetration of new renewable generation in the NEM, as well as incidents associated with an aging thermal generation fleet, are having a profound effect on the volatility in the market.
While providing generation near zero marginal costs, the intermittent nature of renewables can contribute to some of the spikes of price volatility you see highlighted

in the chart. This increasing penetration of renewables will no doubt change the nature and requirements of our grid. On the one hand, renewables entering the grid enable decarbonisation and decentralisation. On the other hand, until long duration storage capacity is available at an appropriate scale and cost, the market volatility affirms the need for sustained investment in an ageing thermal fleet to ensure stability of the networks.

The rapid removal of a thermal unit is one of the drivers in recent market volatility you can see in the chart, following the Callide incident in May and Liddell incident in December. Complementary to the thermal fleet, investment and growth in new forms of storage can provide stability. Batteries are the most well-established example of this and one that AGL is committed to growing and introducing into its portfolio. While this volatility remains in market, sophisticated risk management and trading excellence are key, and I will talk about our hedging approach in more detail shortly.

As I highlighted on the previous page, sustained investment in the ageing thermal fleet is important for the ongoing supply security of the NEM. That said, the market has shifted, the role of thermal assets is changing and our spend must be focused and prudent. There is no longer the demand for these plants to operate as baseload with high technical availability throughout the entire term. The market needs thermal plants to provide stability and flexible services to manage the intermittency of other forms of generation.

To meet this need, AGL is focusing its investment on ensuring safe, reliable operations that maximise commercial availability. Commercial Availability Factor measures whether the plants are available to run when pricing is higher than their short run marginal cost. This means the plants don't need to be available all the time and we can optimise maintenance schedules and costs. The second half of the year in particular has demonstrated the aforesaid. Third quarter prices of FY21 have been subdued due to lower temperature and high availability of baseload generation. In contrast, in the fourth quarter, lower availability of baseload generation, including our units at Bayswater and Liddell, combined with some cold spells, have caused higher prices in May and June.

Success in this strategy will see the Commercial Availability Factor line and the corresponding Regional Reference Price (RRP) bar follow similar trajectories. Put simply, higher availability and reliability when demand is elevated and more generation is required in the system and conversely, the ability to lower output and conduct maintenance when the generation is not required. There are a few ways to achieve this that we have already put into action. As some examples, we have lowered the minimum generation levels at Bayswater to reduce out of the money run periods. We are also developing digital twins at both Bayswater and Loy Yang to optimise operations. We continue to assess options to further advance our commercial availability and will be implementing this throughout FY22.

Noting the volatility in the market and pricing impacts of increasing renewables penetration, hedging and prudent risk management is vitally important. AGL's hedging strategy has mitigated downside throughout the years, by capturing prices when the curve was higher than it is today. Nevertheless, hedging levels have come down in a falling market, which has been reflected in our results. Hedging must adapt to the ageing fleet and manage the reliability and availability risk that comes with the older plant, particularly in periods of low wholesale market prices. AGL is adapting its hedging ratio to match this. In FY21, AGL was slightly oversold in its position, due to a confluence of planned and unplanned outages, resulting in buying from the pool, particularly in the fourth quarter of the year.

The gas book is also an important source of value for AGL. Our proposed Crib Point gas import project not receiving approval was disappointing, especially given the recent events have demonstrated the value that projects like Crib Point would have had for the Victorian gas market. Nevertheless, our gas strategy was never reliant only on Crib Point as a supply source. Our gas book is well positioned and we are still able to contract at the right volume and tenor to secure supply for our customers, which you can see in the chart, with new supply contracted in FY21 and FY22. Our strategy is to partner and take asset-like positions to derive value through our participation in the value chain.

The gas book is important for AGL into the future, and for AGL Australia in particular through our demerger plans. It enables the flexible gas-powered generation position to firm renewables and also supports our dual fuel offering for commercial and industrial customers. Our team will continue to source competitively priced supplies to support our ambition in the gas space. I'll now hand over to Damien.

Mr Nicks: Thanks Markus, and good morning everyone. I'll start by taking you through Group underlying profit in more detail. The $271 million reduction in underlying NPAT in FY21 was consistent with the material headwinds we have continually flagged over the past year. Looking at the chart from left to right, customer markets margin was up, largely driven by higher revenue rates in the consumer gas segment, strong margin contribution from the recently acquired Click Energy and cost efficiencies. This was partially offset by a decrease in consumer electricity margin due to customers switching to lower-priced products.

In integrated energy, as Markus discussed, both electricity and gas margins were very heavily impacted as forecast, partially offset by the Loy Yang Unit 2 insurance proceeds. The positive movement in centrally managed expenses was largely driven by decreased labour and recruitment costs following internal restructuring, reduced activity due to COVID-19, resulting in lower discretionary spend on travel and consultancy and reduced spend in digital transformation initiatives relative to the prior year. In addition, the reduction includes $24 million of insurance transferred to integrated energy. The favourable movement in depreciation was driven by the asset impairments recorded during the year. Higher net finance costs were largely attributable to the embedded interest cost unwinding from the onerous contracts and rehabilitation provisions recognised at 31st of December 2020. And finally, the reduction in tax expense largely reflected the fall in profits.

As part of our FY20 result, we committed to keeping FY21 opex flat, excluding COVID-19 impacts and acquisitions. I'm pleased to say that we've tracked better than expected, bringing forward a good portion of the $150 million of cost reductions identified for FY22. These savings were driven by benefits from prior years' investment in digitisation and cost-out initiatives. The cost-out initiatives involved a significant reduction in discretionary spend, especially with regards to travel, consultancy and corporate functions and labour reductions across the business. These reductions were partially offset by Enterprise Agreement wage increases and COVID-19 costs.

Looking to FY22, we are confident of achieving our targeted savings through asset optimisation, labour reductions, digitisation, lower net bad debt expense, as well as lower professional and consultancy fees. These savings have been budgeted across the business units and our leaders understand their KPI's.

We are on track to deliver our $100 million target of sustaining capex reductions by FY23. The majority of these reductions will be achieved through the optimisation of our thermal fleet, which Markus touched on earlier, in addition to our decision to mothball one unit at Torrens B. Looking forward, growth capex spend in FY22 and FY23 will primarily focus on the construction of the Torrens Island battery.

I want to touch on net bad debts in more detail. I'm pleased to report that our experience in FY21 was better that we expected. Our COVID-19 related net bad debt expense was $29 million, $11 million less than what we anticipated at the beginning of the year. This has been driven by improved collection performance, ongoing government stimulus and better-than-forecast economic conditions. We recognise however, that there is still uncertainty around COVID-19, especially given the ongoing lockdowns and we continue to manage this risk very closely. That said, our days sales outstanding are at the lowest level we have seen in two years, after peaking in October last year. Lastly, the Click Energy integration has been very successful, with collections performing better than expected.

I'll now cover cash and debt in more detail. Net cash from operating activities was down 41% in FY21, driven by the reduction in underlying EBITDA and a small outflow from margin calls compared with a large inflow in FY20. Lower cash tax paid in FY21 was consistent with the reduction in earnings and utilisation of prior year tax losses. Investing cash flow was about $100 million higher, reflecting the acquisitions of Click Energy, Solgen and Epho. Financing cash outflows were significantly lower than the previous year, as FY20 included higher dividend payments and the share buy-back program. Pleasingly, our cash conversation rate remains very strong at 97%.

Turning to debt and funding, despite a very challenging year, we still retain sufficient headroom under our Baa2 credit rating and our debt covenants and have approximately $600 million of cash and undrawn debt facilities available as at 30 June. In May, AGL redeemed $600 million of medium-term notes, six months prior to maturity. This early redemption will reduce the average cost of debt in FY22.

On this slide, you can see the indicative financial split for both Accel Energy and AGL Australia based on the FY21 result before pro-forma adjustments. The unallocated segment on the right-hand side is predominantly comprised of corporate costs. Roughly speaking, you can expect this to be split between AGL Australia and Accel Energy in the ratio of 60:40 respectively. However, this will ultimately be a function of the final organisational design. As we've previously discussed, greater detail relating the financial profiles of both entities will be communicated in the demerger scheme documents. I'll now hand back to Graeme.

Mr Hunt: Thanks Damien. I'll finish our formal presentation with our guidance and outlook. Our guidance for underlying EBITDA and underlying net profit after tax, continues to reflect significant operating headwinds in FY22. We expect our underlying FY22 EBITDA and underlying net profit after tax to be impacted by a material step down in wholesale electricity earnings as hedging positions, when wholesale prices were higher, progressively roll off and a small impact to wholesale gas gross margin from the roll off of legacy low-cost gas supply contracts. In addition, the Loy Yang Unit 2 insurance proceeds received in FY21 will not reoccur. These impacts are expected to be partially offset by operating cost initiatives.

We anticipate depreciation and amortisation to be broadly flat in line with our investment profile and interest expense to increase marginally. Our COVID-19 expected credit losses have been lower than initially forecast, however this will be subject to ongoing lockdowns and potential economic slowdown. There is no impact to guidance as a result of the closure of Liddell Unit 3 in April 2022. The loss of generation from that unit will be largely offset by opex savings. The remaining three units at Liddell will continue operations until April 2023 when the plant will close completely. Operations of Liddell after 2023 are uneconomic due to the large capital investment required, whilst also not in keeping with our critical transition commitments.

We have made good progress on our commitments to deliver $150 million of opex savings in FY22 and $100 million of sustaining capex savings in FY23. We will continue to work hard to deliver savings as we rebase our cost base to reflect the challenges in energy markets currently.

As we look forward, we are cautiously optimistic on the improvement in the wholesale prices of our key commodities and note that AGL produces some of the lowest cost generation in the NEM. As a result, AGL Energy is well positioned to benefit from any sustained recovery in wholesale electricity prices. As we see the pace of change continue to accelerate, we are further assured and committed to our proposed demerger strategy. Subject to approval, the proposed demerger will create two new entities with clarity of purpose and strong foundations, which will position them well to lead the energy transition, while protecting and delivering value to shareholders. All our guidance is subject to ongoing uncertainty in relation to the economic impacts of the COVID-19 pandemic as well as normal variability in trading conditions.

Thank you for your time today and we will now open to any questions.

Ms Travers: Thank you, Graeme. To ask a question, please press the star key followed by the number one. We will take one question at a time. If time permits, we will circle back for any further questions. The first question today comes from the line of Tom Allen. Go ahead, Tom.

Mr Allen: Thanks, Chantal and good morning Graeme, Christine, Damien and Markus. Just on your growth opportunities, you've previously targeted returns on growth projects providing a 300-basis-point spread to your cost of capital. At the 30 June update, you told us that you couldn't commit to those prior targeted return hurdles under the demerger. Can you provide any more clarity today on your new return hurdles for growth investments? That would help us understand the incremental EBITDA that you might be able to extract from all these battery investments that you're proposing to make and the like.

Mr Hunt: Tom, just to clarify, you're looking to understand what those hurdles might be for the new entities or for AGL Australia between now and demerger?

Mr Allen: Both please, Graeme.

Mr Hunt: I think we will be giving more information about the latter, the post-demerger strategies and details as we move forward. But between now and then, we really are focusing on just delivering the capital growth investments that we've already announced, as opposed to making further commitments. But I might hand to Damien to see whether he wants to add anything to that answer.

Mr Nicks: Yes, thank you Graeme and morning, Tom. Look, our current position has not changed for AGL Energy. I think the points you make is what we didn't do at 30 June is commit the new Boards, which don't exist today, to committing to what those returns would be in the future. Our returns today exist as 300 basis points over our weighted average cost to capital; that has not changed. It was more about saying when the new Boards come together, they will ultimately make those decisions. But what I can say today, any decisions we're doing today is certainly on that basis.

Mr Allen: Okay, so that applies to the battery at Torrens, that we'll expect that to be 300 basis points maybe cost to capital, but going forward, for growth projects under the demerger, no clarity yet on those returns?

Mr Nicks: Yes, exactly right. So for the TIPS battery, that's exactly right, but I think you could safely assume that looking forward, those Boards will set the appropriate rates of return for those new entities.

Mr Allen: Sure. Just on the same theme, Markus, when you discussed the gas portfolio on slide 18, you mentioned that your strategy is to partner and take asset-like positions to derive value through your participation in the value chain. Can you just please clarify what you meant by this and whether or not you're suggesting AGL's looking to make new upstream equity investments?

Mr Brokhof: No, I think that was not the message I wanted to give on this slide. It was mainly that we are very close to where we produce that and that with our contracting strategy, most probably we have a chance then to get more asset-like contracts. That doesn't mean that we are investing in assets.

Mr Allen: Okay, thanks for clarifying. Thanks a lot.

Ms Travers: Thanks Tom. The next question comes from the line of Rob Koh. Go ahead Rob.

Mr Koh: Thanks Chantal. Good morning everybody. Just a quick one, can you remind us how important to the post-demerger capital structure are the asset sales? I think there's just one tiny comment in the presentation that you've received some nonbinding indicative offers for those and are they kind of in the $400 million type range that you previously targeted?

Mr Nicks: I'll take that one, Graeme. Thank you, Rob. So when we came out back at March, we talked about the $400 million. That included both the NGSF, Silver Springs and we also talked about some of our holdings in overseas investments the funds we own. We have kicked off the NGSF process and as you said through the results, that process is ongoing and we continue to target that range of sales through those processes.

Mr Koh: Okay, good luck with it. I'll get back in line.

Ms Travers: Thanks Rob. The next question comes from Pete Wilson. Go ahead Pete.

Mr Wilson: Thanks Chantal. I might just ask one on customer growth if I can and the FY24 target of 4.5 million services. This is probably to Christine, the rate of growth was characterised as good customer growth, but just looking at the 250,000 growth in customers this year, if you exclude Amaysim, it was about at 0.5% rate of growth for the full year, which doesn't, to me, look like it's on track for FY24 and energy customers actually fell in the second half. So just a comment on, I guess, why you would characterise it as good and I guess what you expect to change if you're going to hit those FY24 targets.

Ms Corbett: Thanks very much Peter. Look I think overall we are pleased with our customer growth story. I think if you look at the OFR, excluding the Click integration, we delivered organic growth in the order of 27,000 consumer energy services for the full year, 9000 of which was delivered in that particularly competitive second half. So our strong focus, in particular in the second half, has been on retention reduction and that's been a really significant factor that we were really pleased with in the result. When we purchased Click Energy, we expected the Click churn to impact our numbers and whilst the churn rate of Click Energy customers is higher than obviously the broader the AGL book, it is performing better than we expected.

So that was actually a deliberate change in focus for us in H2, was to focus on retention of the Click Energy customers, as well as a focus for us in H2 was focusing on our growth in terms of the telco products that we had launched. Again, pleasingly you would have seen that of the telco growth both in terms of international mobile, it supports our business case presumption that we wanted to make sure that we offered customers a bundled offer and of those sales, as I said, 98% of them were being delivered as part of an energy bundle. So those things combined, which actually showed that the focus on Click retention, the launch of our telco offer, still getting organic growth in the energy book and also the strong margin management. So overall, very pleased with the customer growth story.

Mr Wilson: Okay, that all sounds perfectly reasonable. The path to FY24 from here?

Ms Corbett: So again, what we'll still look at is again the competitive environment. Even if you look at what's happened actually since DMO, we expect it to continue to be competitive. We will actually, the path forward, we're still confident with our 4.5 million customer services that we're targeting by FY24. That is going to be across both our energy and telco services, so again, continued focus on strong organic growth, really delivering that simplicity and bundled offer to our customer base. So it's on track.

Mr Wilson: Okay, great. Thank you.

Ms Travers: Thanks Pete. The next question comes from the line of Dale from Barrenjoey. Go ahead, Dale.

Mr Koenders: Good morning Graeme and team. Just a quick question on your hedging volumes in FY22 and FY23 relative to 2021, specifically should we expect to see a similar oversell position possibly providing earnings risk in a rising wholesale market? When you say potential to reduce hedging ratio with the ageing fleet, can you quantify a bit what this is? Is this oversell position in 2021 a fair indication for maybe reductions in 2023?

Mr Hunt: Markus, do you want to speak to that?

Mr Brokhof: Yes, I think it's a bit the opposite. I think, when you look at our ageing fleet, I think we have to be cautious that we are not falling into the oversell position, so we are not oversold, so we have less hedge compared to financial year 2021 and that is most probably the message which I would like to give. So we are reflecting somehow the ageing fleet, but equally Liddell and the reliability of Liddell in our hedging ratio and that is leading to less hedging.

Mr Koenders: Okay, so we should assume like a similar price exposure on a go-forward basis relative to the forward curve that's occurred historically?

Mr Brokhof: Yes.

Mr Koenders: Okay, thank you.

Ms Travers: Thanks Dale. The next question comes from the line of Max Vickerson. Go ahead, Max.

Mr Vickerson: Hi everyone. Just wanted to ask, there's obviously been a bit of speculation around capacity markets in the press with the ESB releasing some recommendations and Graeme, I know you mentioned that represents an opportunity for AGL. I just wanted to also put the question to you around carbon pricing and I know it's a little bit of a medium-term issue potentially, rather than short term, but just trying to understand if there is a change in market structure or by capacity pricing and carbon pricing, who is going to wear the risk on that in the ongoing arrangements between Accel and AGL?

Mr Hunt: Look I think the starting comment would be, yeah, it's clear that the market is going to continue to develop with various considerations and mechanisms to support a decarbonisation pathway. At the moment, though, the detail of that and the timeframe, as you said, is not overly clear. So if you step back from that, I think we'd still be in a position that we think that the right thing to do is to go through with the demerger, because that really allows the two entities to better develop and execute their strategies in whatever the world we face around the carbon transition.

For Accel, we will be continuing to focus those coal-fired assets on transition towards low carbon energy hubs. The ultimate closure dates of those facilities will be driven by whatever the overall framework and hopefully some degree of coordinated plan for coal asset retirement across the country, given that 70% of electricity comes from coal-fired generation currently. And on the AGL Australia side, obviously that business will be best placed to continue to invest directly in more renewables or to underwrite investments of others by having off-take arrangements.

So when we get to the scheme booklet, obviously what you're asking about is a risk to both organisations that we'll have to spell out in terms of the best news about what future scenarios might be in taking account what that might do to the value of each entity.

Mr Vickerson: Thanks Graeme, I'll jump back in the queue.

Ms Travers: Thanks Max. The next question comes from the line of Mark Samter. Go ahead, Mike.

Mr Samter: Yes, morning everyone. I have a question around the amelioration that was announced this morning for both new CEO roles. I guess unfortunately it's probably not done much to improve gender pay diversity in corporate Australia, but I'm more interested in the fact that your traditionally higher salaries have a correlation to higher market cap and obviously the Accel CEO is being paid 30% more than the AGL Australia CEO. Shall we take that as an inference that you believe that Accel is going to have a higher market cap value than AGL Australia? Because I guess that would be against what most people in the market would think.

Mr Hunt: Thanks for your questions, Mark. It's probably a question best directed to the Chairman. But in any case, I'll have a go at it. I think, Mark, yes market cap or company size is often a significant determinator of what the salary lines should be in organisations, but there are other factors as well, including the experience base of the executives and there is never a single point salary, it's always within a range. The consideration of where within a range it falls involves a lot of factors, including experiences and the types of industry that they're in and what they'd bring to the challenges facing the businesses. So it's not as simple as saying that it's directly related to market cap, but I can assure you that the company took external advice in terms of job sizing in putting together the arrangements that have been announced today.

Mr Samter: Okay, thanks Graeme. I'll hop back in the queue.

Ms Travers: Thanks Mark. Next question comes from the line of David Leitch. Go ahead, David.

Mr Leitch: Hi, my question is to Markus about – and thanks for taking it – about the availability factor, particularly as it applies to Bayswater and the coal price, the 63 kcal coal price is spot, is over AU$220 a tonne at the moment and I'm just wondering if you can give a sense of how much less energy might result from the switch to an available capacity factor and price focus and whether the coal price is going to drive the result or costs at all.

Mr Brokhof: David, that's a good question, but I would say AGL is not exposed to spot prices. We have long-term contracts which are associated with coal suppliers to Liddell and Bayswater, so I don't know why somebody believes that we are exposed to spot prices, we are not, that I can say. So they do not drive the profitability going forward. It will still emphasise that Bayswater is not probably a very profitable generator in the NEM going forward. That is what I would like to convey, there is no exposure to spot prices, it is all underpinned with long-term suppliers.

Mr Leitch: Are you in a position to give a sense of how much less energy might result from this change in approach looking forward to what the thermal generators might have produced in the past?

Mr Brokhof: That's a difficult one because at the end of the day, the market prices during the year will define how we run our fleet, particularly now we are speaking, the prices are in the one-digit area. They are below AU$10 per megawatt hour, so we now go down with our generation in Bayswater and so onto the minimum level, so that's exactly how we now run, because at the end of the day, if the prices in the market are not any more reflecting also margin costs, so open position, we will not run and most probably a lot of generators do this. So it's hard to say what is the impact on the overall fleet.

Mr Leitch: Thank you.

Ms Travers: Thanks David. Next question comes from the line of Baden Moore. Go ahead Baden.

Mr Moore: Morning. Just as I think about your earnings for FY21 and then the step to 2020 and looking at the oversold position that you've flagged, is there any volume you can talk about and the – I assume that essentially led you to be buying energy at relatively higher prices to match that position, so is there a financial impact you can guide to on the impact of that in the FY21 year? Will it carry into the impact at all on an accounting basis in 2022? I think there was some volatility within the gas market as well for the same period. I was wondering if that contributed to your loss in your gas book as well and if you could split that out at all, that'd be helpful.

Mr Brokhof: Maybe I start and then Damien pops in. The volume that we were oversold was 600 gigawatt hour, so 0.6 terawatt hour and the impact was clearly not healthy, particularly in the month of May and June, so that was the impact. I think on the gas side, we were not exposed. You are right, there was quite some volatility in regards the gas market; prices jumped up to AU$56 per gigajoule. We were not affected by this because I think our gas portfolio is quite resilient; we have a sizeable storage position in the Yallourn storage. We also use our Newcastle gas storage facility and in addition, we have our own equity gas in Silver Springs. All these supply sources have contributed to the fact that we were not exposed on this particular volatility period.

I think when you speak about the decreasing gas margin, the various factors, I think we had still to cover quite a sizeable haulage position which had increased because also our position in Yallourn had slightly increased which we had to cover. Then most probably 40% of this entire 160 million is then allocated to the elapsing of our legacy gas contracts and then the rest is really associated with less gas demand on the industrial side.

Mr Nicks: Thank you, Markus. I might just jump on the back of that one, just to round that one out a little bit. So as you see through our numbers, we've taken the majority of the gas, if you like, downside this year, we'll see a very small downside into next year. But I think what Markus is really trying to portray there is in the months of May and June, when we certainly saw that volatility as a result of having some both planned and unplanned outages, it made it probably tougher than it otherwise would have been for those last couple of months. That's really what the call out was there.

I think your further question then is, how does that then play through into 2022 and 2023. I note a number of questions around what does it mean for 2023. We're clearly not guiding to 2023 for obvious reasons, but what I would say is if there are sustained increases in energy prices into 2023, AGL is well positioned for those energy prices, but it is still a long way away, given the volatility. We're obviously very careful in the words we use there, because just the sheer amount of time between now and 2023.

Mr Moore: Do you have an estimate of the cost of that volatility to the 2021 year?

Mr Nicks: Look what I would say there, so yes we do, I mean we don't break out that, but we had some wins and some losses in those last couple of months of the year, but look, I'm not going to provide individual blow by blow of what we did there. But it certainly made the run home a bit tougher for us, that's for sure.

Ms Travers: Thanks Baden. The next question comes from the line of Gordan Ramsay. Go ahead, Gordon.

Mr Ramsay: Thank you very much. I just want to stay on this gas market theme for a second. Again, just looking at the statement in your results saying your strategy is to partner and take asset-like positions to derive value, can you just explain in detail what that means?

Mr Brokhof: Yes, for sure. I think as well as somehow contract longer term, all these kinds of contracts have somehow an asset-like character because we are most probably than not buying at market prices, so we are buying them at production costs plus and that has meant, it's the same as our coal contracts which we have in our book, which are supplying our old legacy contracts, have a different pricing structure and that has meant the asset-like contract.

Mr Ramsay: Thank you.

Ms Travers: The next question comes from the line of Ian Myles. Go ahead, Ian.

Mr Myles: Hey, good morning guys. Just a question on the retail, you talk about the margin fill, the gross margin cycle, are we reaching the bottom in 2H 2021 of that margin cycle going down or is there still further to come in the future years?

Ms Corbett: Thanks Ian. I would sort of say, look we are nearing the bottom. I wouldn't say we are at the bottom, but we're certainly, I think, getting close to it where we start to look out the customers who have been on legacy market contracts, the level of switching to newer market offers and lower-priced offers that are out there. So as I flagged at the half year, we would think that across the next 12 to 18 months, that is getting close to level and bottoming out. So almost there, but not quite yet.

Mr Myles: Okay and does gas have the same pressures?

Ms Corbett: Gas is different. So again, you'll actually look at, in terms of our margin from our customer markets perspective, we were able to improve the gas margin there. So different forces at play there, so less pressure in gas.

Mr Myles: Okay, that's great.

Ms Travers: Thanks Ian. Next question comes from Daniel Butcher. Go ahead Daniel. Are you there, Dan?

Mr Hunt: Might have to move on, Chantal.

Ms Travers: Okay, we'll skip Dan. The next question comes from the line of Mark Busuttil. Go ahead, Mark.

Mr Busuttil: Hi everyone. I'm just trying to get a better understanding of the fiscal 2022 guidance, particularly so far as what you're guiding to on an EBITDA basis is the lowest level in about seven or eight years. If we rewind a couple of weeks when Origin came out with their own EBITDA guidance for energy markets, they talked about higher fuel costs. I think Markus partially addressed this, but I guess firstly can you confirm that you're not seeing headwinds from higher fuel costs insofar as you've got most of that locked in six-month contracts?

Secondly, when we started seeing the wholesale forward prices rise the beginning to the middle of May, had you already locked in all of your forward sales into fiscal 2022 by that point and therefore you hadn't seen the benefit of those higher prices come through in your 2022 guidance?

Mr Nicks: Let me, thank you, Mark, I'll take the start of that question, then I might hand over to Markus on the hedging side of things. From an input cost perspective, I think as Markus said, we are largely hedged on that position, so we don't see a lot of exposure there. What we've said in the guidance is we'll see some small roll through of the legacy gas contracts, just the year-on-year type of movement, but not exposed, if you like, from a coal perspective. So that's probably the difference you're talking to there.

Then from a hedging perspective, we're constantly hedging throughout the period. It's not a one-off point in time. But what I would say is largely the result, by the time you get to May/June is hedge whereby customer pricing is locked in for the consumer book and any then C&I that's rolling through the book is happening on an ongoing basis. So I think the way to think about this, any changes to pricing will be felt more heavily into the 2023 year than it would be in 2022. Markus, I don't know if you want to just add to that.

Mr Brokhof: No, I think that's true. But on the other hand, we are also doing dynamic hedging, so if we believe we can reserve some hedges and then getting better prices, then again in the market I think we are doing also this kind of activity. So it's not all static. So we still have, for example, you can buy some positions and bank in the market, which we are doing actively, then prices are coming down, so this kind of hedging activities we are doing still in order to optimise our hedging position.

Mr Busuttil: Great, thank you.

Ms Travers: Next question comes from the line of Rob Koh. Go ahead, Rob.

Mr Koh: Thanks Chantal. Can I ask a question about the remuneration report? If I read the FY22 long-term incentives correctly, there's no more ROE target at all and 25% is linked to carbon intensity and green sales as a percentage. So just in relation to the carbon intensity targets, does that take account of things like unplanned outages and for the green sales percentage, does that take account of the cost of the alternatives out there?

Mr Nicks: Graeme, let me grab that one and then I'll just talk to some of the detail there, Rob, you asked. But yes, you're right in your read of that, ROE has been dropped from the targets, so it's now split 75% TSR, 25% on the climate measures. They were the measures we put in place last year. We've rolled them out obviously a further year for the next LTI. In terms of your question on,

I think, emissions to begin with, you're right. If we had outages, then there would be, if you like, a change to the emissions and I'll give you an example this year alone, whereby we had outages at Macquarie at a time where we're running Liddell – sorry, not Liddell, Loy Yang more, so we actually had emissions up for the year because brown coal has obviously got more emissions than black. So the way we're looking at this, it's over a period of a number of years, it's not just points in time. I mean it will be measured at a point in time, but you're right, any outages will have an impact on that. But what we've assumed through those measures is obviously Liddell coming out of the portfolio, they're already included in those measures.

And I think your last question was on the third of those measures, is that right, Rob, on the green revenue?

Mr Koh: Yes, thanks for those answers, Damien, that makes sense. Yes, the question on the percentage of green revenue, I mean if you just kind of increased the prices of the black products, or dropped the prices of your black products, does that then help you get the price of your – the percentage of your green product up?

Mr Nicks: Look again, if you took that to the extreme, yes it would. Again, it's over a four-year period whereby it's over total revenue and the green revenue, obviously to move the dial in that, it has to move a lot, so it's all about what are we doing selling, you know, those green products and those carbon-neutral products that we have out in the market, how effectively we are moving those. Just to give you, I suppose, a perspective on what that would require, every I think about $100 million of carbon-neutral revenue would move that percentage by about 1%. So they are very stretching targets and there's a lot we need to do to deliver those, just to give you a bit of context on the size of those movements.

Mr Hunt: Maybe just to add-----

Mr Koh: Thank you, that's very helpful. Sorry Graeme, go ahead.

Mr Hunt: Yes, just to add a couple of higher-level comments on the LTI arrangements, clearly the move to relative TSR as opposed to having an ROE target was something that was taken up by the Board after significant interaction with the market after last year's rem strike. So it was driven by that, as was really there was strong support for a decarbonisation element of long-term incentive. The difficulty I think that everyone sees is you need something that drives you along the journey, not just an opening position or closing position four years down the track. So these kind of metrics are the best, I think, that we can work to. But to your concern, I guess or potential concern that you could try to gain these things, it's clear that they've been designed in such a way and the Board will have appropriate overall discretion to make sure that it's in the shareholders' best interest in an overall sense, as well as hitting these targets.

Mr Nicks: Maybe, Graeme, just if I add to that one as well, the reason we've picked those three, too Rob, is exactly to that point. So they're all doing directionally the same thing, but in very different ways, so that's why we've got the controlled emissions intensity, we've got the renewable capacity, obviously that's driving us to get more flexible capacity into the market and then the third one is driving some of those carbon-neutral products as well. So a lot of thought went into those 12, 18 months ago and I do think they absolutely drive the right direction for the market.

Mr Koh: Cool, yes, I've no doubt a lot of thought went into it, a lot of work I know happened, so yes, all the best with achieving them, cheers.

Ms Travers: Thanks Rob. Next question comes from the line of Dan Butcher. Go ahead, Dan.

Mr Butcher: Yes, thanks and apologies if I ask a question that's already been asked, my NBN dropped out, not provided by AGL by the way. Just curious, Christine, maybe could I ask you about OVO and Kaluza partnership in a little bit more detail, just curious how maybe that compares to Origin's Octopus platform and would it completely replace your existing retail platform over time? I'm just curious how to think about that one.

Ms Corbett: Yes, so look, early days for us. But if I look at the key objective for us, it really is, when we look at and we went around globally looking at different opportunities and options that may be available and when we landed on the Kaluza platform, what we really liked about it was actually the fact that it certainly accelerated the digitisation element that aligned to sort of our strategy, but importantly, it was really built around this decarbonised, decentralised future.

So when we look at it, it's very much a future of energy platform that they've built. It's built around this common data spine and it really allows customers into the future to engage in that energy market transition. So it's sort of aligned to the future of where we see energy going. Part of that, it obviously then has like a real-time billing engine and platform and that's what's they're looking at and using over in the UK at the moment. You look at what they're doing at scale, it's the migration of the SSE, the customer base, to that Kaluza platform.

You come now here into Australia and the option it gives us is to work with OVO Energy Australia to localise that Kaluza platform for the Australian market conditions. That's really going to be the focus over the next couple of months – couple of years, I should say. Should that then be successful, what that then does is, for AGL Australia, it then gives us the option to say that could be the new energy platform that we may want to go with. So it gives us an option. It allows us to not bet the farm on that now, but to be able to test the platform, localise the platform, see how customers engage with the platform and that then shores us up and allows us to manage the risk of any migration of such a large customer base into the future.

In the nearer term, what we're then looking to do is to realise and if you look at, from what I read and I only know what I read in the press re Kraken, Kraken is probably, from what I understand, is based around both a cultural play in terms of the ways of working as well as the cost to serve efficiency claim and we're certainly looking at those in the more immediate terms and you'll see that come out with both some of the underlying operating costs per service that we're already getting out and that we will be certainly realising over the next couple of years.

But also starting to look at how do we actually make sure that we make it easier and simpler for our agents, particularly around things like a more simplified and centralised product catalogue to support our multi-product retail ambitions and CRN systems, to be able to make sure that what our customers see, use and want is replicated by our agents. So they're the two nearer-term goals, but certainly we believe the Kaluza platform is a really exciting opportunity in terms of where energy will head, where energy transition will head and bringing our customers along on that journey.

Mr Butcher: That's great, thanks. Can I ask a quick one of Markus actually, if that's okay? Just on your coal book, you mentioned you're not really exposed to coal prices, but I noticed you dropped the slide you usually have on the coal book and at the half year results, you had two or three million tonnes of coal contracted, which could be drawn down from stockpiles. I'm just curious how to think about that in the comments about spot coal.

Mr Brokhof: I think we are optimising our coal supplies, effectively we are 3.1 million or 3.3 million at the moment in stockpile at Bayswater. So this is kind of stockpile, we have the possibility to flex supplies and we have also the possibility to optimise in our offtake. I think effective that is how we optimise our coal stakes and that means also that we are more resilient to any price peaks in the market. So we are not exposed to lower generation or particularly short-run margin of costs to coal prices.

Mr Butcher: Okay, so just be completely clear, there's no real coal impact on the FY22 guidance being done.

Mr Brokhof: Yes.

Mr Butcher: Thank you.

Ms Travers: Thanks Dan. Next question comes from Tom Allen. Go ahead, Tom.

Mr Allen: Thanks, Markus, the press recently reported that the Energy Security Board are recommending some market design changes towards a decentralised capacity market and so that will be built around a physical retail reliability obligation and that central strategic reserve. So if those recommendations were applied, can you describe how this might change the way that you use your thermal generation assets and what upside, if any, it might provide to earnings?

Mr Hunt: I think, Tom, that we understand the principle of where that might go, but I think we really need to understand how it would work in detail before we could give the market any guidance as to what, when and how it might impact, both from the perspective of what would happen at the retail end versus what would happen at the generation end. I think what's clear and where that work is heading is that there is a recognition of the fact that to get the smooth transition, there has to be appropriate commercial support for the value that generators bring, particularly coal-fired generators bring to the stability in the network.

So I think the devil's in the detail and I think we would need to understand that in more detail before we could kind of give the market any sense of the degree of positive or negative impact. But happy for Markus to talk broadly about it if he wanted to add anything to that.

Mr Brokhof: No, I think in general, I think when we think about this kind of capacity payment structure, I think that would still mean that, for example, a typical example, we took the decision to mothball Torrens B1 Unit. If this kind of structure would have been in place, most probably our decision would have been different, so most probably that one, I would say, very concrete example where this would play in, otherwise, as Graeme said, I think we are looking very much forward to understand the business structure, how this payment is applied to which generation. Because, at the end of the day, most probably also an existing renewable generation should then benefit from this, but all these kinds of terms are not clear, so yeah, let's wait how the structure and how the concept will then further mature.

Mr Allen: Okay, thanks.

Ms Travers: Thanks Tom. Next question comes from Rob Koh. Go ahead, Rob.

Mr Koh: Thanks Chantal. Okay, a question for Ms Corbett if I may. You've given us lots of details about the customer business and congrats on that result. The new AGL will also have the shareholding in PowAR, so I'm just wondering if you could give us your thoughts on the future opportunities and plans for that part of your business please.

Ms Corbett: Yes, certainly and I'll also get Damien to feed in. But if we look at in terms of PowAR, the exciting opportunity for AGL Australia is obviously their development pipeline. Also, when you sort of look at the recent completion of Tilt under PowAR and obviously our 20% ownership in that, we think is a fantastic asset for AGL Australia to really look at whether it be how we partner in terms of development opportunities or probably more so start to look at how do we underwrite renewable generation through various offtake agreements. So the pinnacle and the key pillar for us under AGL Australia will really sort of be what is that pathway towards carbon neutrality.

We know on demerging will be Scope 1 and 2 and that's obviously important for our investor base, but increasingly it will be what is the pathway to really then understand how we can work with, following demerger, offsetting emissions that our customers, especially in terms of electricity supply and I think having access to a very robust, strong development pipeline is the best way for us to do that, so very important pillar.

With regards to the particulars of PowAR, let me just had to Damien, because he's been integral both with PowAR and also the Tilt acquisition.

Mr Nicks: Yes, thanks Christine. I actually think you've covered basically everything I was going to talk to there. I think it is the access to the PowAR platform, but also importantly, as you said, it's what else that business can do with AGL Australia in terms of firming up renewable supply from a contracting sense and that's certainly where the customer base is going as well. Look, it's a great business, it's had some great development over the years and we're really confident in the development for the future. So great acquisition and I think a really good addition, if you like, into AGL Australia, into their book. So I won't add any more on that one. I think we're almost out of time as well.

Mr Koh: Yes, cool. Thank you very much.

Ms Travers: Thanks Rob. Next question is going to be our last question. It comes from the line of Dale. Go ahead, Dale.

Mr Koenders: Thank you. Hopefully a quick one. I note your debt covenants have significant room, but there was a recent news article hypothesising with credit rating placed on negative outlook at the end of June, which was prior to today's step down in earnings guidance for FY22, potential for Accel to have limited life generation assets and transformation capex, potentially unable to carry as much debt. Is there a scenario where the demerger might need more equity? Is that a risk you can put a pin in today or are you still working through this issue and subject to earnings recovery in 2023?

Mr Nicks: Let me-----

Mr Hunt: Look I think – sorry, why don't I start and you can just add some more to that. I think what we said at the 30 June update, that we'd made significant progress with the banks on debt structures for both new organisations and we're working through the detail of those at the moment. So we'll obviously give more detail around all of the capital structures relating to both entities down the track, but I think it's a little bit overcooked at the moment. People are kind of continuing to speculate about concern in those areas. But Damien, is there anything else you want to add?

Mr Nicks: Just really briefly, we are still confident in achieving investment credit grade ratings for both of those entities, so I think that hasn't changed clearly since we were at 30 June. As Graeme said, we're obviously working with the banks and the USPP holders as we work our way through this. Clearly today we've also announced the underwrite of the dividend, so the underwrite of the dividend, as we said, was to effectively help fund both the Tilt acquisition but also the TIPS battery project, which will occur over the next two years.

Mr Koenders: Okay, great, thanks guys.

Mr Hunt: Okay, well then thanks everybody for joining us today, appreciate your interest and hopefully we've been able to deal with all of the questions that we were able to take. Over the balance of the roadshow, we'll obviously touch base with many of you going forward, so look forward to that and if there are any questions that you'd like us to consider, please reach out to Chantal and the investor relations staff in the meantime. So thanks very much, look forward to catching up again soon.

Ms Travers: That does conclude our conference for today. Thank you for participating, you may now disconnect.

END OF RECORDING (89:45)