AGL Energy Limited FY24 Half-Year Results Webcast Q&A
Thursday 8 February 2024

Mr Thompson: We will now open for questions. To ask a question, press the * key followed by the number 1. Can I please ask you to mute any other devices before asking questions over the conference line. We will take one question at a time and, if time permits, we will circle back for any further questions. The first question comes from Dale Koenders from Barrenjoey. Please go ahead, Dale.

Mr Koenders: Good morning and thanks for taking the question. Just regarding slide 30 where you've gone to the effort of pointing out the weighted average price versus traded forward curve, should we be implying that the differential before – between the volume weighted average price is more indicative of the impact to FY25 earnings for yourself? And then just on that, should we also be inferring anything in terms of the exposure between New South Wales and Victoria as you've shut Liddell and also starting to implement these battery programs? Thank you.

Mr Nicks: Morning, Dale. Thanks for the question. Look, we are absolutely focused on delivering FY24. '24, it's been a really strong half of the year, we are focused on delivering the second half. At this point in time, we won't be providing guidance into FY25 until we get round till the next August results. What those curves are doing is showing exactly what you can see in the marketplace today. There's been a slight softening in the wholesale price, we'll continue to assess that softening as we work our way through summer, but been really pleased with performance of our plant, performance of the assets and, importantly, the flexibility we've been able to drive over this period of time.

Mr Thompson: Thank you, Dale. Next question comes from Mark Busuttil from J.P. Morgan.

Mr Busuttil: Hi everyone. One number I was particularly interested in was your realised prices to wholesale customers. I think you realised $84 and a half. The last half was 90, but historically it's sort of been around that 70 to $75. You did allude in the presentation to the fact that you are resetting some of those wholesale contracts higher, but can you tell me how far through your suite of contracts, I guess, you are at resetting those prices, if there's more to come and if we can expect that price to go up as you continue to reset prices?

Mr Nicks: Look, I think the way to think about it, Mark, is we're constantly resetting our book and prices through the customer base, certainly in the CNI level. Over the course of the last year, we've had some good re-contracting of our customer base in both the elec and the gas space after what – you know, the prior year was a much tougher year. We'll continue to contract, depending where the price is and depending where the customer is. I think what we're seeing through the customer base is a difference in customers, what they're wanting to contract to, in terms of length of tenure, whether it's firmed or unfirmed, so that's – without giving you a direct answer, what we're seeing is, we'll continue to contract our book as we move forward and that will move as the wholesale price moves as well.

Mr Busuttil: Okay. If I may squeeze in just one more, I was interested in your gas procurement costs as well, they still seem relatively low compared to prevailing rates. Can you just maybe touch on your gas procurement book and where that's at?

Mr Nicks: Yes. Look, last June, I think, we announced about a hundred PJs of gas that we procured, and that provides us sufficient gas out to, roughly, '27. That means that we're continuing to source gas, we continue to source through a number of players domestically, and you still have some of the lower cost gas in our book as well today, which also rolls out '27, but Markus, do you want to just add to that comment?

Mr Brokhof: Yes, I think that's true, and then I think we are also – and that is most probably what you are pointing out – I think our gas volumes are quite down compared to previous periods, but it is fair to say that we use the flexibility in our long term contracts and plus, also, our flexibility in the overall portfolio, and I think the trading team has done an excellent risk management and optimisation, so that has led to this lower procurement cost.

Mr Busuttil: Fabulous. Thanks, team. Appreciate it.

Mr Nicks: Thank you, Mark.

Mr Thompson: Thank you, Mark. Next up we have Ian Myles from Macquarie.

Mr Myles: Hey guys. Do you know just on the book which you've got coming forward, can you tell me how much of your gigawatts you've got in this development book which have actually got EIS approval?

Mr Nicks: Just so I'm clear on your question, Ian, of the 5.8 gigawatts, are you asking how much we have development approved?

Mr Myles: Yes, how much actually has got genuine approval that you could go make an FID decision versus you're still going through EIS approval processes?

Mr Nicks: The majority of those are still going through development processes. And what's really important, I think, Ian, is we'll continue to build out that pipeline, we'll work through both the planning and the connection process, and some will go faster, some will go slower, so it's about having that optionality to be able to execute quickly once you get the approval, and, of course, the economics makes sense on each of the transactions. Obviously, the Liddell battery, we clearly have planning for, and I saw your note a couple of nights ago on Bowman's as well, so they're the things we'll continue to work through, but the short answer is, and Markus might just add to it, the planning processes continue to proceed and as we execute on those plannings and work with the communities, then we move forward to FID if it makes sense commercially. But Markus?

Mr Brokhof: And maybe, I think the FID target dates which we have put in should be reflective where we are standing on our permitting, I think, and approval stages, and we believe the next battery where we take FID will be in Queensland, a specific battery which is at the mature approval stage. And then, as you have seen also, I think Bowman's Creek have received for phase 1 approvals of 58 turbines and we are now going for another approval stage of another 21 in order to enlarge the footprint of the wind farm.

Mr Nicks: And I think, Ian, the way to think about this table, it's to provide the market an update, and every six months we'll be providing an update as that continues to evolve, new assets will be coming on, and also just an update of where we see both planning and FID processes at.

Mr Myles: That's great. Can I just extend to that, you talked about the battery and you gave us some indication of what the Torrens Island battery earnt, $7 million – I think that's post tax, so (46:02) and pre-tax, is that consistent with what you would expect, given I think you sort of talked about 11 to 13 per cent returns on these style of projects or has it got a bias, and I guess why will it have a bias?

Mr Nicks: So, Ian, that was the first three months of operation, really pleased in terms of what it delivered in terms of the investment thesis, and it's probably at the top end of where we thought it would be for those three months, but again, it is three months in, so we wanted to make sure, really clear that the asset was performing. It goes to, obviously, making a decision on the Liddell battery, but yes, absolutely delivering what we expected it to do on both FCAS, arbitrage and also capacity, being the largest part.

Mr Myles: Thanks, guys.

Mr Thompson: Thanks, Ian. Next up we have Gordon Ramsay from RBC.

Mr Ramsay: Thank you very much. I would just like to focus on cost, and just referring to your slide on CapEx cost where you've given a forecast for sustaining CapEx in FY24, it seems to be lower than your guidance of 400 to 500 million per annum. Does that imply that the standing CapEx will be higher in future years, FY25 and onwards?

Mr Brown: Yes. So, what we've done there is, firstly, we've put in what the forecast is there for '24, and you can see how that plays through and, yes, that is, it's sort of at the lower end, but the four to 500 million that we talk about is really projecting going forward. We think, depending on the schedule of majors and minors in terms of some of the work that's going on in the major plants, it will move between within that band and we're trying to say going forward, you should expect it will be in that four to 500 range, but it will be really dependent on the activity in that particular year.

Mr Nicks: And just to add to that, it's when those major outages take place is when you see, if there's more than one then it will be at the upper end. If it's one, it will be at the lower end.

Mr Ramsay: Then your operating cost report you present year on year, is there anything we should be looking at going forward that is an area of risk through higher costs FY25 onwards on the operating side?

Mr Brown: Yes, look, I think the way to look at that is, and we sort of step it out in the graph there, we break it up into three buckets. The first is there's been quite a lot of market activity this year, particularly in terms of high levels of churn within the industry, and we're pleased to say that we maintained that 5 per cent buffer to the rest of the market but, of course, there's a lot of retention activity and those sorts of costs that come through channel and marketing, etc. But also, as we continue to support our customers through the customer support package that we've talked about, it's roughly $70 million, of which 35 of that was delivered in the first half. So, we do expect that some of that cost will come out of our cost base going forward.

The next bucket's around the business transformation, and there's a couple of areas there, the first is within Integrated Energy where we're continuing to invest back into our development teams as we continue to push the pipeline going forward, and in addition to that we continue to invest in our technology stack within our retail business, so we think they are all good spends that we'd look to continue going forward. And then, of course, we're not immune to the impacts of inflation as well, so we do what we can to manage those costs as well, and we do think that probably we're at the peak of inflation and we do expect there might be some downward pressure on that over time as well.

Mr Ramsay: Okay. Thank you.

Mr Thompson: Thanks Gordon. Next up, we have Reinhardt van der Walt with Bank of America.

Mr van der Walt: Good morning, folks. Thanks for taking my question. I've just got a question about the retail that have set up going into 2025, both for electricity and gas. I mean, the churn is up so far in the first half, normally we see a bit more churn in the second half. Do you think we're at a stage now where barriers to entering may become down a little bit, especially because that forward curve is starting to slide back down again?

Ms Egan: Thanks for the question there. Look, we're really pleased with the overall result of the customer business. As you noted, we did see really high churn, but that was really in the first quarter, it was across the industry, and as Gary mentioned, we were really happy to maintain a good spread to that churn. Off the back of some significant price increases, we did anticipate that kind of activity. We've absolutely been investing in customer retention and in the second quarter we've seen that completely normalise, so I'm confident that that has stabilised now. And I think if you look at our broader results on NPS, digitisation and broader growth, we're seeing our customers be really happy with our service.

Mr van der Walt: Got it, thanks. And if you could just maybe give us a bit more colour just on the gas pipe specifically? I think you've previously guided to gas retailing margins probably normalising back down again to something that maybe looks like an FY22 kind of figure. I appreciate that you've managed to use flexibility to your advantage on the wholesale cost side, but I mean, is the gas retailing industry just sort of structurally right, sort of low competition at this stage?

Ms Egan: I think, broadly, we're seeing competition normalise. Obviously last year we had some unusual events with the market suspension and then, as I noted, really high competition off the back of those price increases, but what we're seeing in market now is just more normal consistent levels.

Mr Nicks: And I think just adding to that, it's going to be going into the future around access to gas into this market going forward. We've obviously contracted our gas book out to '27, it will continue to look to contract that out in the future. I mean, customer electrification will happen, but it will happen over a long period of time, so we'll look to continue to supply and source gas for our customers at both the C&I level and the residential level as well.

Mr van der Walt: Got it. Thanks.

Mr Thompson: Thanks, Reinhardt. Next up, we have Rob Koh from Morgan Stanley.

Mr Koh: Good morning. Congratulations on the result, and in particular the employee engagement score. I'm sure you must have worked really hard on that and you'd be particularly pleased with that one. May I ask a question, a two-part question, on slide 16, which is the Torrens Island battery, with the chart there of the revenue makeup, and you've drawn a distinction between this battery and a merchant battery. Within the capacity revenue you've got a firmness factor, and I'm just back of the envelope working that out to be about, I don't know, 50 per cent or so. Can you just maybe let me know if I'm on track on that front? And then, I guess, the second part of this question is, is given that this is very different to a merchant battery, does this increase the likelihood that you could look at capital recycling for it?

Mr Nicks: So I might get Markus to take the question on the firmness side of it, and then capital recycling, I'll get Gary to take that one.

Mr Brokhof: I think the firmness factor, Rob, is exactly what you are saying, it's around the 50 per cent.

Mr Nicks: And I think, Rob, what you're going to see in this market, the market will continue to evolve. I think through both our automation and our technology around battery trading, we continue to evolve that space to maximise the making of the decision of when you charge versus when you discharge, that's also important from a technology perspective. I think in terms of your question, would we look to capital recycle batteries, we see batteries and firming assets like that on our balance sheet. I think if that's your question, I would see them on a balance sheet, not recycling those sort of assets. They're our trading assets, they're proprietary assets for us, I think they'll go a long way for building in our profitability into the future.

Mr Koh: Yes, okay. Thank you very much, I appreciate that. May I ask a subsidiary question, which is more on the modelling front? Looking at the contribution from Tilt, within the earnings it's like a 46 mill contribution from associates, but then at the EBIT line it's a minus 6. I'm just, given that development of renewables is a big part of the go forward upside, I just wonder if you could clarify how that accounting works for me?

Mr Brown: Yes, so, hey, Rob. So there is a gain within a derivate there within the Tilt, so when we actually get to the P&L, we effectively normalise it out of that position.

Mr Koh: Yes, righto. Thanks very much.

Mr Thompson: Thanks, Rob. Next up, we have another question from Dale Koenders from Barrenjoey.

Mr Koenders: Hi guys, thanks for the question. I'm just wondering, when we look at quite a strong performance in the first half from gas trading and origination margins and consumer electricity margins, you've called out the shifting tariffs and cost recovery, do you think that the number you've reported in the first half of those two margins is indicative of a forward level on a mid-cycle basis or are there any sort of one-offs or further cost recovery we should be anticipating in the next couple of years?

Mr Nicks: Sorry, I'm just trying to pick apart your question there. So, are you asking the question in terms of margins into the second half or into '25? Just so I'm clear on the question.

Mr Koenders: Well, as we go into the second half and '25, I'm just wondering should we anticipate the strong level of performance from those consumer margins repeating or were they one offs, or is there more cost recovery to come? How do you think about the outlook?

Mr Nicks: Look, I think if you look at our updated guidance, so that would guide to a slightly lower second half than first half, so there'll be a little bit coming back out, but not a lot, I think you can assume that the second half is broadly similar. It might come up a little bit through a little bit of churn and so forth that we saw in the first.

Mr Koenders: But then – and that was really the second part of the question, when we look at the pull back from full year guidance implied in the second half, is that just a cost inflation and a bit of margin coming off, plus electricity prices, or are there other headwinds or moving pieces in the earnings of the business we should be thinking about?

Mr Nicks: No, I think that's largely it. I mean, there's not a lot of difference between the halves, really. Ultimately summer will determine how the second half plays out. I think we've had a really strong first half, we're driving the business really hard for a good strong second half as well. I think if you ask me that question in a few months' time post-summer I'd be able to give you a different answer, but we've still got a few months to play out. Asset availability has been really strong, reliability of the fleet's been great, so for me that will ultimately go to a strong second half.

Mr Koenders: Okay, thanks.

Mr Thompson: Thanks, Dale. Next up, we have another question from Mark from J.P. Morgan.

Mr Busuttil: Hi everyone. Can you talk about what specific initiatives in the maintenance program have been implemented to increase availability of the thermal fleet? What have you changed to improve availability of your assets?

Mr Nicks: Markus?

Mr Brokhof: I think we have started, and I think we elaborated on this, I think there was more maintenance on our precipitators. We have enhanced our mill program and invested in this, so that has also contributed to less dear rates. We had also a critical spare part program in order to shorten the outages, and then we have put right CapEx also during major outages in parts which were failing ID fans and so on. There were specific programs where we have invested more and where we maybe have also lacked some investment in the past, so there's a clear – and this is paying off.

Mr Nicks: Yes, and I think that spend has been, Mark – I think it's Mark - over the last 12 to 18 months at least, maybe even two years, very directed spend. I think we spent a bit of time talking about that at either Investor Day or August, and so I think the direction of the spend has been right, but also, importantly, it's about, at the same time, putting spend into the flexibility of those assets. Those assets are flexed now that we're getting Bayswater up to 70 per cent, Loy Yang 40 per cent, and we're working to get more flex out of those assets. So that's the next phase over the next 12 months as well because being able to bring those assets up and down with the same maintenance and managing that maintenance on the way through is going to be really important as well.

Mr Busuttil: Okay. Just on the flexibility side, like clearly black and brown coal-fired power plants aren't meant to be turned on and off during the course of the day. I mean, is there any potential impact on reliability on asset lines or anything like that with adjustments to flexibility?

Mr Brokhof: I think, you know, that is a good question and we ask this ourselves as well. I think we have Hughes and uniper as well, and I think there is also a specific power plant which our engineers have visited, Ratcliffe, the power plant which is also most probably more of the age there, but they are running it very flexible, and we had a very intense dialogue with them, what is the increased wear and tear and at the moment, to be honest with you, we don't see any severe wear and tear. For sure, you know, when we have minor outages and major outages, we look at critical parts and look more carefully where we would discover wear and tear, but at the moment that has not increased our OpEx.

Mr Nicks: But also, just to be clear too, it is within the design parameters of these units, so it's not outside of design parameters, and we'll continue to work to make sure – and I think, Mark, you used the question "turn off," we don't – we certainly do not turn them off, we're certainly just flexing them down over the middle of the day, then bringing them back up. And you can see that, we've been doing that quite successfully now over six months, you can watch it through the NEM as it's happening, and we can make decisions on those units where we see both the weather going on the day, demand of the day, and solar.

Just as a note, it was quite an interesting period over August, September, October where we saw, from a weather perspective, much higher levels of radiation, which therefore much bluer skies, we saw much higher solar, and then that has swapped around as well. So, weather also has an impact on how solar performs in the market, so we use all those factors from a trading and an operational perspective to determine what we're doing.

Mr Busuttil: Great. Thank you so much, appreciate it.

Mr Thompson: Thanks, Mark. Next up, we have another question from Reinhardt from Bank of America.

Mr van der Walt: Thanks, James. I've just got a follow-up question on Loy Yang. I can obviously see that you did run that pretty flexibly going into Christmas, but it looks like you would have still been caught out during some of those low midday price periods. Sort of the net derivate position in the first half didn't look all that bad. Can you comment on whether that state government support arrangement that you had actually kicked in? I mean, that sort of 30 bucks per megawatt hour, that's pretty low, I would have thought that the floor probably kicks in?

Mr Brokhof: No. That's definitely not the case. Our structure transition agreement has nothing to do – at the moment hasn't kicked in for this. It's an economical insurance. The closer details of this agreement, that's clear, but this performance of our Loy Yang Power Station has nothing to do with any of this mechanism which we have agreed with the Victorian government. It is really - what we have hatched forward we were long. Our portfolio setup, we always said Victoria is long, so we have had quite some energy there, so that has led – and how we set up the portfolio in Victoria has led to that we have not suffered when prices were relatively negative during the day, so we still were not losing money, but as you said, we have flexed down Loy Yang quite successfully and I think we are now, and we indicated this or Damien indicated this in this slide, we will further invest in flexing it down by going down even to 230 megawatts per unit in order to cope with this flexibility. But Damien?

Mr Nicks: Yes, and just to add to that, I mean, if you're watching the market that carefully, we did have, over the New Year period, a tube leak in one of the units, prices were negative, we didn't need the unit in the market, you take it out then and you bring it back within three or four days. So, again, the ability to make those decisions and having all the assets around you is incredibly important and valuable as well.

Mr van der Walt: Yes, got it. Thanks.

Mr Thompson: Thanks, Reinhardt. Next up, we have Rob Koh again from Morgan Stanley.

Mr Koh: Hello again. Can I just make sure I understand slide 30, which is the forward curve slide? Those averages that you're showing there, they're like last 12-month type averages, and so we're looking at this to look at your progressive hedging and what remains to be done. The retail regulator or the AER uses a different averaging period, right, and I just want to double check that we're not confusing two separate things, yes?

Mr Brown: So, what we're doing there is they are the market observable ASX, effectively the quarterly curves there, they're the live-to-date volume weighted curves. So, again, they're just the observable ones on the ASX.

Mr Nicks: And maybe just to go to your question then on the DMO, so the DMO is over a two-year average. With Victoria it's over the one year, on average.

Mr Koh: Yes. So the Vic's now on the one year. Right, thank you. I appreciate that.

Mr Nicks: Yes, Vic's been at one year for a while.

Mr Koh: Okay. Thank you. That's good. May I ask another one, just maybe direct this question to Ms Egan, just on the new product, the EV night saver, which, I guess, makes all kinds of portfolio benefit sense for AGL, and hopefully a nice customer win, can I maybe just ask for your comments on take up on that and a bit of the background to it?

Ms Egan: Yes, thank you, Rob. Yes, look, we've seen really strong take up on that product. With our EV propositions, we're trialling a lot of different options for customers being it's such an emerging area. We've done some smart charging trials, which have been really strong. I think for now, this type of tariff that just incentivises customers to charge during low demand periods overnight has proved really popular, so we got great take up really quickly, and we're continuing to see that grow.

Mr Koh: Cool. Sounds good. Thank you very much.

Mr Thompson: Thanks, Rob. Last question now from Nik Burns from Jardin.

Mr Burns: Thanks, everyone. Thanks for taking my question and thanks for the detail around the project pipeline and timeline on slide 14. Can I just ask about the implications of the expanded capacity investment scheme on your plans? Has it changed your thinking around scope, location or timing of your investments? And I assume you expect to participate in the CIS tender process? I'm just wondering what happens to your plan if you are not successful in the particular tender, does it just shift your timeline to the right? Thank you.

Mr Nicks: I'll take that one. The CIS, whilst there's still – we haven't yet got the detail as to how the financial mechanism of the CFD will work in terms of the floors and caps and so forth, but really, my take of what that is doing is driving renewables into the marketplace. If it has the outcome of also helping planning and connection, I think that's a net positive to the market. We will always assess our projects on an economic basis with and without those sort of mechanisms in place to ensure that we're comfortable before we take an FID. So, it would depend on the project. I think something like a long duration story, like a pumped hydro, and there's certain assets in there that may well be more suited than others, but we'll continue to work through that and where the assets line up nicely, and I think every quarter they're going to put out a form of auction. We'll see where it makes sense for us to be in that or not, similar to what we did with the Liddell Battery and LTESA.

Mr Koh: That's great. Thank you.

Mr Thompson: As there are no further questions, this concludes our Q and A session. Thank you.

Mr Nicks: Thanks all.