AGL Energy Limited
ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Climate Change Authority

GPO Box 787

Canberra ACT 2600

Submitted by email: submissions@climatechangeauthority.gov.au

28 September 2017

Dear Dr Wendy Craik AM

Review of the Carbon Farming Initiative Legislation and the Emissions Reduction Fund

AGL Energy (**AGL**) welcomes the opportunity to respond to the Climate Change Authority's (**Authority**) Review of the Carbon Farming Initiative Legislation and the Emissions Reduction Fund (**ERF**), Consultation Paper, August 2017 (**Review**).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.5 million customers throughout eastern Australia.

In addition, AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes (residential, business and networks). These 'behind the meter' energy solutions involve new and distributed technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered through digital applications.

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

Whilst the Review encompasses a broad range of matters, our submissions addresses the following issues in particular:

- *What role should the ERF play in meeting Australia's future international targets? (Question 43)*
- *To what extent (if at all) is uncertainty around the future of the ERF affecting investment decisions in offset projects and the secondary market? (Question 45)*
- *How has the secondary market been operating? (Question 35)*
- *Is the secondary market sufficiently transparent and are any changes needed to increase its effectiveness (Question 36)*
- *Should the Government allow the export of ACCUs or imports of carbon credits to meet contractual obligations under the Emissions Reduction Fund? (Question 41)*

- *How can Australia ensure that ACCUs would be eligible in future international markets? (Question 42)*

The role of the ERF in meeting Australia's future international targets

AGL considers that the projected current and future impacts of climate change are inextricably linked to the effective design of Australia's energy and climate policies. All sectors of the Australian economy have an important role to play in meeting Australia's emission reduction targets and its long-term commitments under the Paris Agreement.

AGL supports the use of both regulatory and market-based policy mechanisms to deliver the required emissions reductions consistent with the Paris Agreement, as elaborated in our submission to the Authority's 2016 Special Review.[1] We note the Authority's Special Review final report, wherein the Authority recommended that the Commonwealth implement a policy toolkit that builds carefully on current policies like the ERF and safeguard mechanism, whilst adopting some key new measure to form a long term and durable solution to Australia's climate change challenge. We consider that this approach is consistent with establishing long-term investment certainty in a carbon constrained world.

We strongly support the Authority's view that a market mechanism for electricity would enable Australia to meet its emissions reduction goals at a lower cost to the community than would be possible in the absence of such a policy. We consider that the energy sector is in a unique position to lead Australia's decarbonisation agenda and unlock substantial emissions reductions in other sectors. Substantial emissions are generated by a small number of individual assets. Electrification could also deliver emissions reductions to other sectors where the transition to a lower-carbon future may be more challenging, notably transport and manufacturing.

We believe that the Independent Review into the Future Security of the National Electricity Market's (**Finkel Blueprint**)[2] recommendation to implement a Clean Energy Target (**CET**) is a viable policy option that could unleash the necessary new investment in low emissions generation in the national electricity market. We are actively engaging with the Australian Energy Market Commission (**AEMC**), governments and relevant stakeholders to support the appropriate design and implementation of this important policy reform in a timely and coordinated manner.

We also observe that the parameters of the safeguard mechanism (including baseline levels) could be revised in future to accelerate the decarbonisation of the Australian economy. We intend to provide more comprehensive feedback on this option when the Authority undertakes its review in 2018 of the mandatory National Greenhouse and Energy Reporting (**NGER**) scheme, established by the *National Greenhouse and Energy Reporting Act 2007* (Cth). However, at the outset, we note that any revision to the safeguard mechanism should occur in a transparent manner to facilitate well telegraphed policy to promote investment certainty whilst providing incentives for modernisation and decarbonisation.

Accordingly, we consider that the ERF should continue to operate as a transitional mechanism until such time as more cost-effective policy measures are implemented (notably those elaborated above).

[1] See http://aglblog.com.au/wp-content/uploads/2016/02/CCA_SpecRev_2ndDraftRep_Sub_AGL.pdf.
[2] Dr Alan Finkel AO, Chief Scientist, Chair of the Expert Panel, *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future'* (June 2017), Available at http://www.environment.gov.au/system/files/resources/1d6b0464-6162-4223-ac08-3395a6b1c7fa/files/electricity-market-review-final-report.pdf, page 23.

As a matter of international law, Australia's commitment to the Paris Agreement means that the Commonwealth cannot afford to wind back its carbon abatement efforts as policy settings are recalibrated. At a fundamental level, Australia's public policy settings need to establish a durable pathway, not only to meet its current nationally determined commitment (**NDC**), but also to ratchet up ambition over time. This means that public policy will need to drive significant emissions reductions as at exponential rate.

In our own experience with assets contracted under the ERF, we have observed that the ERF delivers crucial carbon abatement to the Australian economy that would be difficult to deliver in its absence.

AGL Energy Services Pty Limited, a subsidiary of AGL, has nine landfill gas electricity generation facilities, seven of which are contracted under the ERF (located at Woy Woy, Kincumber, Shoalhaven, Glenorchy, Hobart, Kemps Creek and Rockingham) (**AGL's contracted landfill gas capture and combustion facilities**). AGL's contracted landfill gas capture and combustion facilities receive Australian Carbon Credit Units (**ACCUs**), which were awarded at the first auction conducted under the ERF in 2015 and extend through until 2022. Over that seven year period, AGL's contracted landfill gas capture and combustion facilities will provide around one million tonnes of carbon abatement.

As we elaborated in our recent submission to the ERF Crediting Period Extension Review[3], monetising carbon is one of the key components of the business case that underpins AGL's contracted landfill gas capture and combustion facilities. We have not observed any substantial changes in the business operating environment, reputational benefits or other positive outcomes from landfill gas projects such that AGL's contracted landfill gas capture and combustion facilities would continue in the absence of funding under the *Carbon Credits (Carbon Farming Initiative – Landfill Gas) Methodology Determination 2015*. Accordingly, the continuation of these activities would be uncertain in the absence of eligibility to receive ACCUs.

Whilst we consider it prudent to introduce a market mechanism to drive the decarbonisation of Australia's energy sector, in other sectors we observe that the ERF may have a more enduring lifespan until alternatives are implemented. Any costs of decarbonisation should be shared equitably across the Australian economy. Accordingly, it is important that the ERF continue to be appropriately financed in this intervening period.

The secondary market for ACCUs

We observe that there is a lack of liquid supply of ACCUs, and transparency of supply, in the secondary market. Given the potential demand for ACCUs on the secondary market including as safeguard obligations of facilities fall due in the future, there is a need for policymakers to consider avenues through which to develop a functioning secondary market.

As the design of the CET is developed, we consider that there could be scope to allow liable entities to purchase ACCUs in order to offset a portion of their emissions from ERF projects. We note that the Carbon Market Institute has recently been advocating for this option as a means to garner political support for the proposed CET.[4] This could stimulate the secondary market by creating a viable sources of private sector demand whilst continuing to finance the important abatement projects delivered to other sectors of the Australian economy. Nevertheless, the portion of emissions eligible for an offset under the CET should be

[3] See http://aglblog.com.au/2017/07/submission-to-the-emissions-reduction-fund-crediting-period-extension-review/.
[4] See Carbon Market Institute, 'Offsetting coal emissions could be the answer to the policy impasse' *Media release* (15 September 2017), http://carbonmarketinstitute.org/wp-content/uploads/2017/09/Media-Release-15-September-2017-Offsetting-coal-emissions-could-be-the-answer-to-the-policy-impass.pdf.

limited in the short-term so as not to dilute the core policy intent of a CET: to drive increased investment in low-cost low-emissions generation at a vast scale and rebalance the short term economic value of emissions intensive generation to better reflect its associated long-terms economic risks in a carbon constrained world.

International linkages of carbon markets

AGL considers that public policy on carbon markets should carefully balance the use of domestic and international sources of carbon abatement. Indeed, whilst international abatement may be cheaper and therefore a sensible way in which to minimise the cost to Australia, a reliance on international carbon markets could effectively defer Australia's own decarbonisation exposing the economy to greater structural shock in the future should "deep cuts" be required domestically.[5]

As a matter of priority, AGL considers that public policy should focus on establishing a durable pathway to decarbonise Australia's energy sector through the development of an effective market mechanism.

Nevertheless, as the Paris Agreement rules on carbon markets evolve, international linkages have the potential to enable Australian businesses to optimise the cost of abatement. Accordingly, policymakers should also consider ways in which to develop Australia's domestic carbon market and link it to key international markets. In AGL's view, Australia should be engaging in strategic discussions with key trading partners to ensure the alignment of carbon credit methodologies under the ERF with international standards and other carbon offset markets to enable their fungibility between markets into the future. Carbon markets should also feature in Australia's foreign policy agenda as a core component of investment partnership discussions to provide Australian businesses with further opportunities in the global climate economy. Indeed, the negotiation of strategic investment partnerships could enable Australian businesses to transfer not just carbon credits and permits but also Australian technologies and business models to overseas markets in the process.

It is imperative that public policy effectively manage the risks associated with the use of international carbon credits. In this regard, AGL supports the Authority's views articulated in its Special Review final report, that the volume of international permits and credits be limited and that Australia only allow the use of robust sources of international permits and credits.

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

Yours sincerely,

Stephanie Bashir

Senior Director, Public Policy

[5] See further Tim Nelson, 'Australian Climate Change Policy – Where to From Here?' (2015) *Economic Papers.*