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AGL Submission on the Future Made in Australia (Guarantee of Origin) Bills 2024

AGL Energy (AGL) welcomes the opportunity to make a submission to the Environment and Communications Legislation Committee inquiry into the provisions of the *Future Made in Australia (Guarantee of Origin) Bill 2024*, *Future Made in Australia (Guarantee of Origin Charges) Bill 2024*, and *Future Made in Australia (Guarantee of Origin Consequential Amendments and Transitional Provisions) Bill 2024*. (Guarantee of Origin Bills).

Proudly Australian for over 186 years, AGL is a leading integrated essential service provider, delivering 4.3 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. AGL is committed to providing our customers simple, fair and accessible essential services as they decarbonise and electrify the way they live, move and work.

AGL operates the largest electricity generation portfolio within the National Electricity Market (NEM) of any ASX-listed company. Our portfolio comprises coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as one of Australia's leading private investors in the construction of renewable energy projects and owner of the largest privately owned fleet of hydro assets in Australia, to now be a leader in the business of transition to a lower emissions, affordable, and smart energy future.

At AGL, we recognise the important role that the electricity sector has in decarbonising the economy. In September 2022, AGL released its inaugural Climate Transition Action Plan (CTAP), which states AGL's updated ambition for decarbonisation, including the following commitments:

- Targeting a full exit from coal-fired generation by the end of FY35 (up to a decade earlier than previously announced).
- Ambition to meet customer energy demand with around 12 GW of new firming and renewable assets by 2036.
- An initial target of 5 GW new firming and renewables by 2030.

AGL strongly supports the passage of the Guarantee of Origin Bills to allow for the prompt development of supporting Rules and Regulations and commencement of the scheme from next year. This submission, in support of the passage of the Guarantee of Origin Bills, has drawn on our experiences as a participant and advocate in a number of environmental markets across carbon, renewables, energy efficiency.

Supporting the decarbonisation of products and commodities

Globally, action to support the decarbonisation of products and commodities is a key enabler of the transition to a low-emissions future and accelerating action to reduce the global reliance on fossil fuels. AGL understands the importance of supporting a wide range of technologies with respect to decarbonising the



economy and understands that transparency is a key factor in ensuring the integrity of low-emissions products.

Businesses, governments and customers are becoming increasingly engaged in the energy transition as they set decarbonisation targets, seeking further detail to verify the green credentials of various products. The ability to track and verify emissions associated with products and services allows market participants and the wider public to make informed choices and provides assurance that purchases are contributing to tangible outcomes.

The proposed framework for a Product Guarantee of Origin (PGO) will support the ability to make claims about the emissions associated with the production of a commodity, support the demand for domestic products with lower emissions intensity, and encourage the participation of the Australian economy with global partners who are also seeking to determine the emissions intensity of imported commodities and purchase low carbon products from Australia.

We support the proposed PGO framework, which will assist in the delivery of broader decarbonisation objectives and ensure that claims around the emissions intensity of domestic products and commodities are accurate and transparent.

Delivering an enduring certification for renewable energy

To support Australia's decarbonisation objectives, it is critical that there is an ongoing and transparent framework in order to measure, track, and account for renewable energy. Currently, the accreditation of renewable generators under the Renewable Energy Target (RET) provides a framework for the creation of both large-scale generation certificates (LGC) and small-scale technology certificates (STC). This framework allows customer to certify and account for renewable electricity across wholesale energy markets through the creation, sale, and surrender of LGCs, as well as providing a framework for measuring the output of small-scale renewables such as rooftop solar through deemed STCs.

However, the RET will expire in 2030, and there is a pressing need to ensure that a modern framework to track renewable energy is in place much earlier in order to support investment and provide market stability for renewable energy. The expiry of the RET provides a useful opportunity to develop a more modern and robust certification framework that can continue to be used for renewable certification but also support the accreditation of green products across the economy.

The proposed Renewable Energy Guarantee of Origin (REGO) scheme is a significant improvement on the RET framework in certifying the attributes of renewable energy that is being produced. It provides a robust framework to support voluntary claims regarding the emissions intensity of energy use and to support associated claims regarding the emissions intensity of energy that is used as an input into green commodities.

We support the proposed REGO framework, which will continue to enable voluntary action to reduce energy sector emissions and support ongoing transparency and assurance over the emissions intensity of green products.

Scheme eligibility

AGL is supportive of a scheme that tracks and measures all renewable energy generation, regardless of power station age or generation type. Some stakeholders have raised concerns that broadening of the scheme to include below baseline generation in the REGO scheme may result in additional supply and potentially a lower certificate price, which could send the wrong signal to new renewable energy investment.



However, this could be resolved through a number of supporting policy levers such as appropriate demand-side targets or limitations on the surrender of below-baseline REGO certificates for certain purposes only.

The way that REGOs may be used in future do not need to be limited by the architecture of the scheme. Instead, the REGO framework should be designed to accommodate the broadest possible range of renewable generation, which can then be tracked and certified for different purposes as required. It is highly likely that information required to support green claims of products may evolve in the future, and it may be that certain types of REGOs are not able to be used for all purposes depending on the relevant claim that is being substantiated.

Necessary information to support claims may be mandated either through legislation or through voluntary action, but it remains important that the architecture of the REGO scheme allows for a broad range of flexibility in the types of certificates that can be created, traded, and surrendered as these trends develop.

Small-scale system inclusion

The installation of consumer energy resources (CER) within Australia is continuing at pace. While generous feed-in tariffs were a key driver of early uptake of solar PV, incentives provided by the Small-scale Renewable Energy Scheme (SRES), and especially the upfront installation rebates from deemed STCs, were a key driver of the widespread deployment of small-scale solar PV in Australia. CER has a large role to play in the decarbonisation of the energy system and to help alleviate cost of living pressures for consumers, however, the rapid growth of CER, in particular small-scale solar, also introduces challenges in managing the stability of the grid.

Policy that leverages the certification of exported small-scale solar PV could continue to support the uptake of CER, while also supporting demand-side participation to support the broader grid. As outlined in the Guarantee of Origin Bills, there are benefits to including small-scale systems within the proposed scheme to transparently capture and track all renewable energy as well as to assist in the orchestration of CER. However, in practice, this could prove quite challenging to execute.

One of the principal reasons that solar PV uptake has been so successful in Australia is because the value of small-scale renewable generation was calculated on a deemed basis, and the administrative burden of creating and surrendering STCs was assigned to other parties, with customers receiving the benefit of the STCs in an upfront rebate. In our view, the creation and management of REGO certificates generated by small-scale generation should similarly be managed by other parties, in order to streamline the process and reduce administrative challenges, while delivering clear and simple benefits to customers.

The proposed approach to allow owners of smaller systems to assign their rights and responsibilities of REGO certificate creation to an intermediary or aggregator appears to be a sensible step to aid small-scale participation; however, care should be taken to ensure that the more complex architecture of REGO does not create an administrative burden on customers or CER providers.

While we understand that the proposed scheme does not aim to replicate the incentives provided under the existing SRES, it is worth considering more broadly how REGO architecture will interact with other policy mechanisms that encourage CER uptake, including energy efficiency and productivity schemes, as well as feed-in-tariffs and rebates.

As there is time to carefully consider how CER can integrate within the REGO scheme, given that many small-scale systems will not be eligible to participate until later this decade, we encourage the government to investigate the issues in more detail, and to design, test, engage, and refine the scheme to best support participation and orchestration of CER in the electricity system over the coming years.



REGO certificate attributes

As stated above, the REGO architecture should enable sufficient information to be provided to allow for below-baseline differentiation and to enable participants to make informed choices in supporting different types of renewable energy builds (by age, location, or generation type). However, it is worth considering the impact that additional certificate attributes may have on renewable certificate prices, as this added level of differentiation may lead to additional stratification and affect market liquidity.

In general, markets with tradable certificates that hold multiple attributes have the potential to stratify and impact market efficiency. An example of this is the Australian Carbon Credit Unit (ACCU) market which has become fragmented as a result of different methodologies commanding different prices due to perceived integrity differences. As a result, ACCUs are not treated equally, and liquidity is often low. This is not necessarily a market failure, as stratification represents several different use cases for units and differing levels of voluntary commitments. We expect that a similar outcome could occur for REGOs.

Time stamping may also lead to further price stratification and undermine tradability, but again this may not be a reason for major concern. While there are reasonable use cases for time stamping, these appear limited in the context of the overall market for renewable electricity, and the complexity and cost involved could be significant. While we understand that globally, renewable certification frameworks are looking to introduce this type of temporal detail, the impact on markets remains uncertain, and we do not see a clear need to introduce mandatory time stamping immediately.

In the interim, the proposed approach seems a reasonable balance between certainty and flexibility in the development of the scheme through further Rules and Regulations as well as the development of markets. We look forward to further detail on these instruments ahead of implementation of the scheme in 2024.

If you would like to discuss any aspect of AGL's submission, please contact Aleks Smits (Senior Manager Policy) at

Yours sincerely,

AGL Energy