AGL Energy Limited
T 02 9921 2999
F 02 9921 2552
agl.com.au
ABN: 74 115 061 375

Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065

Australian Government

The Treasury

Climate Disclosure Unit, Market Conduct Division

By email: climatereportingconsultation@treasury.gov.au

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AGL Response to Climate-related Financial Disclosure Consultation Paper

AGL Energy (AGL) welcomes the opportunity to contribute to the Australian Government's Climate-related Financial Disclosure Consultation Paper (Consultation Paper).

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.3 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW. We have the largest renewables and storage portfolio of any ASX-listed company, having invested $4.8 billion over two decades in renewable and firming generation.

The importance of transparent climate action

In recent years, AGL has sought to play a leading role in the way business engages on the critical issue of climate change, and we have been a proud leader in corporate climate disclosures. We have given serious consideration to the physical and transitional risks and opportunities associated with climate change and the transition towards a low-carbon economy.

AGL has been a leader in providing detailed climate-related disclosures in our annual corporate reports and associated sustainability reports. Additionally, since 2018 AGL has produced an annual report under the taskforce on climate-related financial disclosures (TCFD) framework.

In 2020, AGL committed to net zero emissions by 2050 and introduced carbon transition metrics as a performance measure in executive remuneration frameworks to provide a focus for AGL executives to progress the transition. AGL has taken a market leading position in this regard, being the first ASX50 organisation to link executive long-term variable pay to climate-related goals.

As a continuation of our 2015 Greenhouse Gas Policy, AGL released its Climate Statement in June 2020, stating AGL's target to achieve net zero emissions by 2050, including commitments to:

1. Offer customers the option of carbon neutral prices across all AGL products;
2. Support the evolution of Australia's voluntary carbon markets;
3. Continue to invest in new sources of electricity supply;
4. Responsibly transition AGL's energy portfolio; and
5. Be transparent.

In line with our commitment to transparency, AGL also regularly reports on the outlook of emissions through mandatory National Greenhouse and Energy Reporting Scheme (NGERS) reporting.

Most recently, in September 2022, AGL released its inaugural Climate Transition Action Plan (CTAP) under the Say On Climate initiative, which obtained the support of the majority of AGL's shareholders who voted at our last Annual General Meeting. This plan clearly states AGL's updated ambition for decarbonisation, including commitments to:

1. Exit all coal-fired generation by the end of 2035 (up to 10 years earlier than previously announced).
2. Ambition to meet customer energy demand with 12 GW new firming and renewable assets by 2036.
3. An interim target of 5 GW new firming and renewables by 2030.

Each of these reports and disclosures has provided critical information for stakeholders to understand AGL's commitments in relation to acting on climate in a comprehensive and transparent manner.

Standardised, internationally aligned requirements for disclosure

The physical impacts of climate change, as well as steps to mitigate and adapt to risks of climate change, will be a dominant factor in reshaping the global economy in the twenty-first century. Just as fossil fuels became ubiquitous in the twentieth century in providing the energy requirements to support significant economic growth and prosperity, the drive to rapidly reduce emissions and reach net-zero will impact the activities of all businesses and organisations globally, creating new opportunities but also posing substantial risks to existing models of operation.

The disclosures that AGL already provides reflect an increase in demand by investors and other interested stakeholders to provide more detailed information on material risks associated with this major economic transition, and especially climate-related risks. Climate-related risks are particularly relevant for energy businesses like AGL that earn a significant amount of revenue from generating electricity from coal and gas.

There is no doubt that the operating model for energy businesses will continue to change dramatically in response to the threats posed by climate change. Over the next three decades, vast amounts of new large-scale renewable generation and distributed solar generation will be connected to energy networks globally. Ageing thermal generation will be replaced by a range of variable and flexible generation technologies with lower emissions intensity to decarbonise the energy sector and support emissions reductions in the industrial and transport sectors. Gas supply chains will be decarbonised through switching to renewable electricity and zero-emissions fuels.

In order to fund this energy transition, access to capital will be paramount. To minimise costs of customers, the transition should be funded as much as possible by private businesses that have incentives to minimise costs, improve productivity, innovate on behalf of their customers, and deliver outcomes most efficiently. Within this context, steps taken by the government to attract global finance to Australian markets will have positive impacts in reducing costs for Australian consumers.

Increasingly, stakeholders will be looking at corporate commitments with increased scrutiny to support financing of projects and businesses. Many funds already operate under increasingly strict funding mandates, requiring organisations to deliver certain thresholds in order to access capital. And just as the impacts of and response to climate change are global, competition in capital markets to support the transition will also occur across international markets, with investors seeking out projects that deliver returns but also provide relevant co-benefits.

To support the energy transition in Australia and improve access to capital markets for businesses operating domestically, it is therefore critically important that disclosures remain aligned with standards in other jurisdictions and markets. Australian standards should be commensurate with other international markets that compete with Australian businesses for finance, to ensure that capital can be readily accessed to support the transition.

We therefore support the proposed approach taken by the Australian Government and the broad commitment to develop a sustainable finance framework for Australia, to support the ongoing growth and resilience of the Australian economy and its energy sector into the future.

While we support standardising metrics where possible, in accordance with internationally consistent approaches, it is important to note that primarily the content of disclosures should be driven by stakeholder needs. In this instance, where the Australian Government is primarily concerned with attracting capital, it is therefore important that businesses retain the flexibility to present information that is both relevant and material to investors. Treasury should ensure that the framework is therefore not overly prescriptive in its approach and requirements, and allows sufficient flexibility to enable entities to report, or omit reporting certain metrics, where that is most appropriate for the entity because of a materiality assessment.

We look forward to further opportunities to engage on the direction of this scheme prior to commencement. If you would like to discuss this submission further, please contact [redacted] (Manager Climate Change Reporting & Analysis) at [redacted] or [redacted] (Senior Manager Policy) at [redacted].

Yours sincerely,

[redacted]

General Manager (a/g), Policy, Market Regulation and Sustainability

AGL Energy

Appendix A – Response to Questions Raised in Consultation Paper

Question	Response
1. What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular: 1.1. What are the costs and benefits of meeting existing climate reporting expectations? 1.2. What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?	Cost primarily relate to the implementation of new systems and processes required to better capture data for disclosure. Under NGERS, for example, data must be provided to a high degree of accuracy, which involves material investment in emissions monitoring systems and processes. There are likely to be benefits from improved access to finance. Large companies in Australia are unable to access to capital from some international investors as reports are not easily and quickly comparable. Comparable international sustainability metrics and benchmarks may assist in some funds seeking out Australian projects.
2. Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25? 2.1. What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?	We support FY25 as a practical commencement period, noting that several businesses may need to establish new systems in order to report. Most large listed companies already undertake some level of TCFD reporting so are familiar enough with the requirements and frameworks on climate disclosures.
3. To which entities should mandatory climate disclosures apply initially? 3.1. What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively? 3.2. Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?	It would seem appropriate to include the equivalent of ASX200 businesses initially, as these publicly listed businesses already undertake mandatory disclosures and would have reporting systems in place in order to manage new obligations. Consideration should be made for the requirement to include large non-listed entities to ensure the regulatory burden on listed companies does not impose an anti-competitive outcome. Alignment with the NGER scheme disclosure requirements may be an additional appropriate measure.
4. Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?	AGL supports the creation by ISSB of a global baseline for climate and sustainability related disclosures as the most appropriate given the already strong level of TCFD climate reporting in Australia.

4.1. Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets? 4.2. Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?	
5. What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets?	While the policy design is still in its earlier stages, AGL suggests that a key consideration should be the flexibility of the final issued standards. Disclosures in this space cannot be uniformly applied across sectors or businesses and will require flexibility around application.
6. Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?	While disclosures should be standardised, we consider that it would be sensible to allow some flexibility in how reporting obligations are met and in what format these are provided. For many businesses, disclosure timing would align with annual reporting obligations, but not always. As long as they are provided regularly and with appropriate assurance, there should be a level of flexibility afforded to businesses in the timing and format of disclosures.
7. What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?	AGL endorses the ISSB's recent clarification to link materiality to financial materiality, and in particular the test as to whether the relevant information is likely to influence investor decisions.
8. What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?	Information in financial reports should be verifiable, true, and complete; and assurance frameworks are critical to provide integrity to the overall disclosure framework and support the scheme objectives. However, the forward-looking nature of some disclosures may present challenges to audit. Nevertheless, we expect that audit frameworks would evolve alongside the present process, and that over time sufficient resources, processes, and capability will be in place to be able to manage any assurance requirements in the future.

9. What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?	The ISSB recommended at its meeting in December 2022 to temporarily exempt Scope 3 greenhouse gas emissions from mandatory reporting for at least one year after the effective date of the IFRS S2. Aligning with this recommendation would allow participating businesses further time to develop systems to capture data across their value chains and consider this issue further. For businesses that are covered by the NGER scheme, there are already established reporting requirements. It is not clear what other frameworks would be easily adoptable in an Australian context; however, we note that meeting NGER scheme requirements may be too complex for smaller organisations. As an entity covered by the NGER scheme, AGL already discloses its Scope 1 and 2 emissions under the scheme requirements. We also disclose scope 3 emissions; however, with regard to this category the level of detail that is required can present challenges, particularly with regarding appropriate thresholds on the granularity and materiality of emissions. While some guidance may be helpful, we note that reporting obligations should balance accuracy and consistency but not be so onerous that they create undue compliance burdens on participating entities.
10. Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?	AGL supports this as a sensible approach but is likely less relevant now considering that entities are being asked to consider SASB index metrics by the ISSB. For entities that are involved across a number of different industries, materiality of disclosures against these metrics needs to be clearly articulated and applied.
11. What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?	Transition plans and risk management approaches are necessary elements of disclosures but can be challenging to standardise. A primary focus on approaches to reducing Scope 1, 2, and 3 emissions, including the reliance on offsets compared to primary decarbonisation activities, is likely to be the most tangible commitment. Further information on risk management processes and detailed transition plans can supplement these

	overall commitments, a support the requirements of some stakeholders, but in many cases these other commitments will be very challenging to standardise.
12. Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?	Mandatory disclosure obligations for scope 3 emissions should only be required once a robust and consistent framework and methodology can be applied.
13. Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements? 13.1. How and by whom might any data gaps be addressed? 13.2. Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?	We will be able to look to the UK as they are in the process of implementation of ISSB this year. There is limited resourcing and capability in the Australian market available to undertake this work. Phasing would assist the market to grow this capability. A significant gap is the availability of consistent, independent, robust Australian and sector specific decarbonisation scenarios. AGL uses modelling from AEMO (Australian Energy Market Operator) which is in turn based on analysis undertaken by the CSIRO, as reference point for climate action in the electricity sector. However, this approach is not consistent with other sectors, many of which do not have an independent source of Australian sectoral scenarios to reference. An Australia wide scenario, including sector specific scenarios based on pathways aligned with IPCC scenarios would therefore be beneficial.
14. Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?	Having an independent regulated body to provide basis scenarios for industries would be beneficial. This would allow a consistent and comparable approach to modelling and analysis. The CSIRO would be best placed to develop and maintain independent, robust, and accurate scenarios given their existing and ongoing work in this space.
15. How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?	

16. Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?	Consideration should be given to the fact that there is a lag in finalising some of the more detailed emissions data to support statutory reporting obligations, for example NGER data. For example, with regard to NGER, data is complete and available post annual reporting, but not necessarily to the level of detail that we will submit in final to NGER. However, as long as there are appropriate disclaimers in place about the veracity of data, especially if it is subject to revision, we see no issue with organisations making other claims to support ongoing business activities. Disclosures to support other activities or to meet continuous disclosure obligations already need to meet a clear threshold of veracity, which should be able to be managed consistently with any additional climate disclosures.
17. While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?	Flexibility should be a key aspect of reform, particularly as investor demands change. The incorporation of the ISSB's S1 draft would allow for broader sustainability related issues to be disclosed in the same manner. Similarly, future frameworks such as the TNFD could be implemented in future, so flexibility to adopt and report under these should be considered.
18. Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?	
19. Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?	