



29 May 2013

Climate Change Authority  
GPO Box 1944  
Melbourne VIC 3001

**By email:** [www.climatechangeauthority.gov.au/submissions](http://www.climatechangeauthority.gov.au/submissions)

Dear Sir/Madam,

**AGL Energy Response to the Climate Change Authority's Caps & Targets Review Issues Paper**

AGL Energy (**AGL**) welcomes the opportunity to comment on the Caps & Targets Review Issues Paper (**Issues Paper**) issued by the Climate Change Authority (**CCA**).

As a leading investor in renewable energy and one of the largest energy retailers in Australia, AGL is well placed to comment on the Issues Paper. AGL operates across the supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation. AGL is Australia's largest private owner, operator and developer of renewable generation in Australia. AGL is also a significant retailer of energy with over 3 million electricity and gas customers. The diversity of this portfolio has allowed AGL to develop a detailed understanding of the risks and opportunities presented by climate change-related policy.

**Overall approach to CCA's review**

At the outset we note that AGL does not have the scientific expertise to quantify the particular metrics that the CCA will be recommending through this review. The value of the national carbon budget that should be allocated to Australia, and the long and short term emissions reduction targets, caps and trajectories that should be implemented are significant and technical metrics that the CCA should make recommendations about with the benefit of the expert advice of climate and environmental scientists. AGL will provide its views on key considerations that the CCA should have in arriving at its recommendations.

This review presents the CCA with a unique opportunity to influence the direction of Australia's climate change goals and policies. We agree with the CCA's approach to taking as a given the basic climate change policy settings and legislative and regulatory requirements that currently exist. However, the values that the CCA chooses to ascribe to the various metrics that it proposes to quantify, and its recommendations about the manner in which our national climate change goals should be met, fundamentally set the direction in which Australia's actions in addressing climate change will move. It will also represent the policy basis for changes in investment and project spending in traditionally emissions-intensive industries going forward. Accordingly, the CCA should take this opportunity to be unambiguous, far-reaching and consistent in its approach.

We understand that policy-setting in this area is plagued with difficulty because of the inability to make accurate long term predictions on future emissions levels. This is because of prevailing uncertainties on such issues as international climate change negotiations, climate change science, and the costs and rate of economic and technological developments. This is further complicated by the fact that these areas of uncertainty directly impact the likely level of future emissions, and the likely national (and international) approach to addressing it. Accordingly, in making its recommendations, the

CCA needs to strike the appropriate balance between providing sufficient investment certainty to encourage the development of appropriate low-emissions projects so as to be able to meet emissions reduction targets, and providing governments with the flexibility to be able to respond to future uncertainties.

However, it is imperative that the CCA takes this opportunity to articulate a clear position on the attitude that Australia should demonstrate in its transition to a low carbon economy, and the steps that should be taken in that process. Most importantly, the CCA needs to:

1. Articulate clear and robust short, medium, and long term emissions reduction and climate change outcomes that Australia is aiming to achieve;
2. Recommend strategies that seek to achieve these stated purposes; and
3. Set out logical steps and processes to make the necessary transition to a low-carbon economy.

Exercising excessive caution in the design of a climate change mitigation strategy that goes part of the way to achieving the desired goals is likely to be economically, environmentally and socially unhelpful at best, and destructive at worst, as it will likely necessitate drastic mitigation activities in the future because of a failure to implement timely, sensible, short and medium term strategies. Similarly, setting unrealistically ambitious targets risks causing unnecessary shocks to the Australian economy as high emitting industries are 'dumped' as opposed to being provided with an opportunity to reduce emissions in an economic manner, and Australia's international competitiveness is potentially compromised. For climate change mitigation policies to have their best chance of success, they need to be long term in their outlook; clear in their end goals and in the role of individual actions and initiatives in achieving these goals; methodical in their progress; and easily measurable.

We set out below key considerations that the CCA should have in arriving at its recommendations on a national carbon budget and caps on emission levels.

### **Development of a national carbon budget**

The CCA should define a long term, national carbon budget for Australia that extends to 2050. Such a budget would allow businesses some insight into the suitability of investments with long lifespans.

A budget of emissions between today and 2050 would need to be derived from a global carbon budget. There is broad global agreement that an appropriate means by which dangerous climate change can be avoided is through attempting to limit average warming to no more than 2 degrees Celsius as compared with pre-industrial temperatures. This global climate objective is able to be converted with a reasonable degree of accuracy to the total volume of global emissions that can occur in order to have a reasonably high probability of achieving this objective. AGL notes that there is a wealth of expertise on this topic which would be easily accessible by the CCA.

The *Clean Energy Act 2011* and Australia's international commitments recognise Australia's overarching interest in applying the global climate objective to Australia. Accordingly, the CCA should use the derived global carbon budget to define a long term national carbon budget that is consistent with Australia's international commitments and which encapsulates what the CCA believes to be the most appropriate and equitable contribution that Australia should make to the global carbon budget.

Long term carbon budgets take account of the fact that climate change outcomes are determined by the total level of emissions released over time rather than emissions in any particular year. They also help frame the issue as one in which there is an absolute limit upon the amount of emissions that can be made over time in order to achieve particular global climate change goals. Avoiding or delaying certain mitigating strategies in the near term will necessitate more drastic action in the medium to long term. Alternatively, significant mitigation in the short-term, over and above that necessary to place Australia on track to meet a long-term carbon budget, may result in unnecessary economic costs being imposed on the Australian economy.

Long term budgets provide a transparent and direct link to a defined climate outcome. By contrast, a disadvantage of having short term budgets that are not referenced to a long term budget is that the emissions reduction targets associated with them are often disconnected from the longer term trajectories necessary to meet specific probabilistic temperature change limits. Further, long term budgets provide clearer investment signals to guide financing decisions in high emitting industries with long investment timeframes.

The prevailing uncertainties that exist in relation to long term policy setting in this area, including carbon budget allocation, are well known and have been discussed above. However, this uncertainty should not preclude the setting of a long term budget, nor should it encourage an overly-conservative initial budget with a view to tightening it as uncertainties crystallise in the future.

A long term carbon budget is, by definition, non-binding and aspirational, and therefore should be ambitious but achievable. It needs to be flexible enough over time to deal with uncertainties and changed circumstances (which is provided for in any case through the regular reviews of Australia's carbon budget that the *Clean Energy Act 2011* allows). However, it needs to have a clear and consistent focus and strong policy direction so as to provide meaningful investment signals on the likely nature and rate of required emissions reductions, to enable robust forward planning, and to allow the tracking of short and medium term budgetary targets to ensure they are moving on an appropriate course to achieving long term goals.

### **Development of short and medium term indicators**

Once established, Australia's long term carbon budget should then be used as a guide to determine medium term emissions gateways, and annual emissions caps to 2020.

#### *Medium term 'gateways'*

Climate change goal-setting involves perpetually balancing the need for investor certainty, and overall flexibility to deal with uncertainties. An effective way of achieving this balance is for the CCA to define firm emissions caps in the short term from the present until 2020, and medium term 'gateways' for potential future medium term caps from 2020 until 2030. A mix of firm caps and gateways enables short term certainty combined with medium term flexibility.

Gateways provide information on the likely size of the future abatement task by providing a likely range within which future emissions caps are likely to be set. When combined with firm caps which apply in the short term, this information would give investors some confidence to invest in emitting industries (such as power generation) by providing them with a guide as to likely future abatement costs. This provides investors with an indication of the appropriate cost structures of different low-emissions technology to invest in, that would be appropriate in the future to meet the abatement task. Critically, gateways significantly reduce the risk of stranded assets as a result of investments made without medium term emission guidance.

At the same time, gateways would provide governments with the flexibility to set future caps as new information, such as developments in climate change science and changes in technology costs, become available. This reduces the risk of overestimation or underestimation by governments of the need for future abatement. It also mitigates the potentially significant economic impacts of governments resorting to intervention in an attempt to correct firm emissions caps which were set too far into the future and prove to be inappropriate in the light of changed circumstances and cost structures.

#### *Annual emissions caps*

For long term carbon budgetary goals to have any chance of success it is essential that short term metrics are defined by reference to the national carbon budget. Without such a long term context to short term decision-making, short term targets risk being inconsistent with long term plans, ultimately necessitating more drastic mitigation strategies in the future to counteract earlier policy short-sightedness.

The CCA should use the national carbon budget as a guide to determining a short term carbon budget, and subsequently derived from that, short term emissions caps from the

present until 2020. The pathway of the annual emissions caps that should apply until 2020 needs to take account of a number of considerations such as the age of the existing capital stock, the costs of different abatement options, the availability and costs of offsets, and the likely change in costs and technology over time. The environmental impact of different emissions cap pathways also needs to be considered, given that greenhouse gases accumulate and exist in the atmosphere for more than a single year.

### **Concluding comments**

The CCA's current review is vital to the development of Australia's climate change policy and objectives. The breadth of the review enables a comprehensive consideration of the key structural elements of Australia's climate change policy and their inter-relationship with each other. Recommending a national carbon budget, an emissions trajectory and emissions caps are distinct metrics which serve different roles within a country's overall climate change policy framework. However, they are intrinsically related to each other, and taking a long term approach and using each metric as a relevant factor in the determination of the other can lead to a number of positive impacts, including:

- the ability to plot a clear course towards the achievement of long term economic and environmental goals;
- the development of long term and short term indicators that are consistent with each other; and
- relative ease of measurement of progress towards short, medium and long term goals and objectives.

While the achievement of global climate change goals by definition requires global action, AGL would discourage too much dependency or conditionality between Australia's climate change goals and those of other countries. Australia's carbon dioxide emissions per unit of GDP are considerably higher than other comparable countries. Accordingly, Australia is facing greater economic risks as a result of global action to reduce emissions.

For the first time, there is a legislative basis in Australia to linking emissions reduction targets to a scientifically-determined national carbon budget. The CCA should take advantage of this situation to recommend the adoption of robust, ambitious, and flexible long term climate change mitigation measures which are then translated into clear, consistent, short term targets. Decisive and orderly policy and investment in the short-term can prevent the need for dramatic and overly costly policy and investment later.

Should you have any questions in relation to this submission, please contact me on (02) 9921 2516 or [tanelson@agl.com.au](mailto:tanelson@agl.com.au) or Anita George at [ageorge@agl.com.au](mailto:ageorge@agl.com.au) or on (03) 8633 7212.

Yours sincerely,



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