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Ms Shayleen Thompson
Acting Chief Executive Officer
Climate Change Authority
GPO Box 1944
Melbourne VIC 3001
By email: submissions@climatechangeauthority.gov.au

11 June 2015

Dear Ms Thompson,

AGL Energy Response to the Climate Change Authority consultation on modelling electricity sector policies

AGL Energy **(AGL)** welcomes the opportunity to provide comment on the range of proposed policy scenarios to be modelled as part of the Climate Change Authority's (CCA) Special Review into Australia's Climate Action (the Review).

As a leading integrated retailer AGL is well placed to provide comment on the issues presented. AGL operates across the energy supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation, upstream gas production and provides energy solutions to over 3.8 million customers. The diversity of this portfolio has allowed AGL 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.

AGL is broadly supportive of the scenarios proposed for modelling in phase one. The individual policies proposed represent a sensible range of mechanisms and as such should be considered a reasonable representation of alternative policies that could be implemented.

This support notwithstanding, AGL suggests the following:

- The scope of phase two should be expanded to include modelling the impact of policy combinations in addition to sensitivity analysis; and
- Assessments of efficacy and efficiency should account for the gradient and consistency of the emissions path

Further information is provided in Appendix 1.

Should you wish to discuss any aspect of this submission, please contact Cameron Reid on creid@agl.com.au or 03 8633 7201.

Yours sincerely,

Tim Nelson
Head of Economic Policy & Sustainability, AGL Energy

Appendix One

The scope of phase two should be expanded to include modelling policy combinations
For the electricity generation sector, with long investment horizons and large upfront capital costs, well telegraphed and consistent policy that provides reasonable insight into the investment environment over the medium term is a pre requisite to minimise the impact on energy consumers of emission reductions. AGL economists have published articles specifically related to electricity generation, climate policy and the importance of integrating these policies more effectively. Copies of these articles are attached and form part of this submission. *Energy-only markets and renewable energy targets: complementary policy or policy collision?* highlights a range of challenges associated with current policy, including: • an oversupply of generation capacity and barriers to exit; • ongoing uncertainty regarding preferred climate and energy policy measures; and • a challenging investment environment for new renewable energy projects The proposed policy scenarios, in addition to emission reduction, may address (to varying degrees) one of the related challenges listed above. As such, a combination of policy measures will potentially provide the optimum outcome against the Authority's criteria. AGL recommends Scope Two of the Authority's modelling exercise include scenarios that contain combinations of policy options. AGL recommends modelling a scenario that combines the following listed policy scenarios: 2) 'Low emissions target': operates in a similar manner to the 'RET only' policy scenario but with an expanded set of eligible technologies including more efficient gas generation and carbon capture and storage (CCS). 3) Explicit carbon price via a 'cap and trade emissions trading scheme' (version A) or a 'carbon tax' (version B). 6) 'Regulatory approach' of standards for existing and new generators. Maximum allowable emissions intensity standards for new generators introduced. Existing generators are closed in order of age (version A) or emissions intensity (version B). AGL recommends version A of scenario six to the Authority and refer to the Canadian *Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity Regulations* as an example of this being implemented globally.
Assessments of efficacy and efficiency should account for the gradient and consistency of the emissions reduction path
Currently, fossil fuels provide 88% of Australia's electricity generation. Any implementation of policy (or suite of policies) intended to effect decarbonisation of the generation sector will be a multi-decadal process and require commensurate levels of policy certainty. Given the levels of investment across the energy supply chain, persistent, gradual and structural modernisation and reduction in carbon intensity of the generation sector will be best served by policy (market based or regulatory) that recognises these considerations and seeks to balance action required against the societal cost. As such, when assessing the efficiency and efficacy of policy scenario combinations, the consistency of emission reduction over the modelling period should be taken into account. Policies that provide for a consistent or smooth trajectory are likely viewed as more stable than alternatives.