**Statement for distribution to all shareholders**

**“This statement is provided to all AGL shareholders at the request of the**

**Australasian Centre for Corporate Responsibility and other supportive shareholders.**

It deals with the content of the Annual Report. Currently, in aggregate, fossil fuel companies are estimating with 90% certainty that they will be able to extract freely (for subsequent sale and combustion) over three times more carbon than is compatible with the internationally agreed ceiling. This inconsistency between financial accounting, physical reality and political intent is referred to as the ‘unburnable carbon bubble’. It is akin to a traditional speculative bubble because all investor's expectations cannot be met. As the bubble bursts it is likely fossil fuel reserves and other fossil fuel specific assets like coal fired power stations will become stranded, ie written down in value prior to the end of their economic life.[[1]](#footnote-1)

Since our purchase of Macquarie Generation we have become the largest carbon emitter in Australia. We have 3 potential sources of exposure to ‘unburnable carbon bubble’ risk:

* compression of the profit margin on operations stemming from local or international price or regulatory changes;
* immediate on balance sheet loss resulting from write-downs of generating assets or reserves. We own brown coal and gas reserves and black and brown coal power stations;
* reputational exposure - in particular, the risk that our company becomes seen as ‘part of the problem’ and that results in loss of custom, diminished credibility and influence on public policy and diminished attractiveness as an employer.

The International Energy Agency (IEA) has calculated that globally, energy sector carbon intensity needs to decline by 6% by 2020, 43% by 2035 and 64% by 2050 to hold global warming to the agreed 2° C.

Carbon intensity of energy supply is exceptionally high in Australia by world standards - 35% above the world average. Likewise the Australian power grid is exceptionally carbon intensive by world standards - 54% above world average.[[2]](#footnote-2) If Australia adopted public policy intended to ensure carbon intensity fell to world average by 2035 it would have to drop 57%.

Our company has ‘had a policy’ on carbon emissions dating back to 2010.[[3]](#footnote-3) It contained 7 commitments, none of which involved any quantitative target for emissions or emissions intensity. In 2012 our board did set a quantitative target, “From next year, AGL’s target will be for investments in new generation capacity to have a combined intensity lower than 0.7 tCOe/MWh.” [[4]](#footnote-4) There is no mention of this target on the ‘Greenhouse and Energy’ page of the 2014 Sustainability Performance Review[[5]](#footnote-5) nor in recent Annual Reports.

In stark contrast to the 2012 target, during the period 2011 to 2014 our company’s greenhouse gas emission intensity from power generation actually tripled from 0.32 to 0.97.[[6]](#footnote-6) In September 2014 we purchased Macquarie Generation owner of the Liddel and Bayswater black coal fired power stations in NSW which in 2013/14 had a combined estimated emissions intensity of 1.02, further increasing our company’s overall intensity.[[7]](#footnote-7) In April 2015 we revised our Greenhouse Gas Policy.[[8]](#footnote-8) It now contains nine commitments but, again, none of them involve any quantitative targets for emissions or emissions intensity reductions. It also contains no reference to the 2012 emissions intensity target.

Norway’s Parliament recently approved a decision to divest the country’s sovereign wealth fund from companies deriving more than 30% of their income from coal fired power generation. Our company falls into this category.

Norway’s sovereign wealth fund is not alone. Response to climate change is assessed by international investor groups such as members of the UN PRI[[9]](#footnote-9) as well as international responsible investment ratings agencies. Companies in industries like ours, which score well, are positioned to prosper in a 2° C constrained world. For example, they have targets for emissions reductions. In our view it is in the interests of all shareholders that our board positions our company in this manner. For example, our company could set target(s) to significantly reduce our emissions and/or emissions intensity and report performance against those targets to shareholders in Annual Reports.

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1. See <http://igcc.org.au/Resources/Documents/Climate-Change-Investment-Solutions-GuideFINAL.pdf> Annex A p 31. [↑](#footnote-ref-1)
2. This reflects Australia's reliance on coal. In tonnes CO2e/ MWh brown coal generation intensity is typically 1.2 (Loy Yang A) to 1.5 (Hazelwood); black coal is typically 1 (Eraring); CCGT gas generation is typically 0.5 (Darling Downs), renewables are zero or near zero. See ACIL Allen Consulting *Emission Factors* 2014 at [www.aemo.com.au](http://www.aemo.com.au) . [↑](#footnote-ref-2)
3. See <http://www.agl.com.au/~/media/AGL/About%20AGL/Documents/How%20We%20Source%20Energy/CSG%20and%20the%20Environment/Camden/Northern%20Expansion/V3_Appendix%20H.pdf> p 14. [↑](#footnote-ref-3)
4. See <http://2012.aglsustainability.com.au/files/assets/basic-html/page68.html> . [↑](#footnote-ref-4)
5. See <http://agl2014.sustainability-report.com.au/environment/greenhouse-and-energy> . [↑](#footnote-ref-5)
6. #### See the graph entitled ‘Carbon intensity of operated generation assets’ at <http://agl2014.sustainability-report.com.au/data-centre/environment> .

   [↑](#footnote-ref-6)
7. See Fig 18 of ACIL Allen Consulting *Emission Factors* 2014 at [www.aemo.com.au](http://www.aemo.com.au) . [↑](#footnote-ref-7)
8. See <http://www.agl.com.au/~/media/AGL/About%20AGL/Documents/Media%20Center/Corporate%20Governance%20Policies%20Charter/1704015_GHG_Policy_Final.pdf> . [↑](#footnote-ref-8)
9. See <http://igcc.org.au/Resources/Documents/Climate-Change-Investment-Solutions-GuideFINAL.pdf> p 15. [↑](#footnote-ref-9)