 

**Shareholder briefing: forthcoming AGM resolutions - adopt 'transition to lower carbon intensity’ business model**

**Tickers: AGL, ORG**

The ACCR and the AODP have recently released a research paper “ ‘Unburnable carbon’ risk and the Australasian – listed gentailers’ [[1]](#footnote-1).

The paper deals with the exposure to ‘climate change related’ risk of five Australian and New Zealand listed gentailers – AGL, Contact Energy (majority owned by Origin), Infratil, Origin and Trustpower.

As nations Australia and New Zealand stand at polar ends of the spectrum in regards the carbon intensity of their economies. Carbon intensity of energy supply is 35% above the world average in Australia and 30% below in New Zealand. Globally carbon intensity needs to decline very significantly to hold global warming to the agreed 2° C threshold.

It seems almost inevitable viewed over a time period of the next decade or so Australia will choose to reduce the carbon intensity of its economy significantly. If, say, Australia chose to ‘be a world average citizen’ it would need to reduce carbon intensity by 59% by 2035. Any similar pressure on New Zealand will be significantly muted by its current position.

The Investor Group on Climate Change Australia and New Zealand recommends Australia adopts a target of reducing emissions 25% below 2005 levels by 2025 and 58% by 2030. They note “Urgent attention to emissions reductions in the energy sector is needed”.[[2]](#footnote-2)

Both globally and within Australia fossil fuel usage is heavily protected.[[3]](#footnote-3) The current ‘business models’ of the 2 Australian gentailers AGL and Origin are dominated by coal-fired power generation. AGL is the largest Australian emitter.[[4]](#footnote-4) Given the high likelihood of future pressure to reduce Australia’s carbon footprint, the longevity of this business model is dubious. More detail about the targets, policies and performance of AGL and Origin are attached. The New Zealand companies (Infratil, Trustpower and Contact Energy) are significantly less exposed.

Resolutions have been lodged for consideration at the 2015 AGMs of both AGL and Origin which seek to address this long-term risk to shareholder value.

The ACCR and the AODP urge all AGL and Origin shareholders to support the resolutions lodged for this year’s AGMs seeking adoption by each of these companies of a business model that demonstrates sufficient diversification of power generation and supply activities to ensure profitability under pathways that limit the world to 2° C global warming.

For further information please see: [www.accr.org.au/power](http://www.accr.org.au/power) .

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*Special Resolution to amend the constitution: That, at the end of Clause 31 ‘Notice’ the following new sub-clause 31.5 is inserted: “That, (a) the board must prepare a business model that demonstrates sufficient diversification of the power generation and supply activities of the company to ensure continued profitability under pathways that limit the world to 2° C warming; and (b) include in future annual reporting to shareholders, at reasonable cost and omitting any proprietary information, information about ongoing power generation and supply chain emissions management benchmarked against that model. ”.*

In September 2014 AGL purchased Macquarie Generation - operator of the Liddell and Bayswater coal fired power stations. On the basis of figures for 13/14, but allowing for this purchase, AGL is best understood as:

* roughly 80% an electricity generator and vendor by revenue;
* roughly 86% a coal-fired power electricity generator (by GWh);
* a retail vendor of only about two thirds the power it generates.[[5]](#footnote-5)

AGL is the largest carbon emitter in Australia.

AGL has ‘had a policy’ on carbon emissions dating back to 2010.[[6]](#footnote-6) It contained 7 commitments, none of which involved any quantitative target for emissions or emissions intensity. In 2012 AGL 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.” [[7]](#footnote-7) There is no mention of this target on the ‘Greenhouse and Energy’ page of the 2014 Sustainability Performance Review.[[8]](#footnote-8)

In stark contrast to this target, during the period 2011 to 2014 AGL’s generation intensity actually tripled from 0.32 to 0.97.[[9]](#footnote-9) Macquarie Generation had an estimated emissions intensity of 1.02 further, slightly increasing AGL’s overall intensity.[[10]](#footnote-10)

In April 2015 AGL revised its Greenhouse Gas Policy.[[11]](#footnote-11) It now contains nine commitments but, again, none of them involve any explicit, quantitative targets for emissions or emissions intensity reductions. It does contain commitments with likely, similar impact to quantitative reduction targets. For example, coal-fired power station closure by 2050. It also contains no reference to the 2012 emissions intensity target. In place of the previous numeric intensity target AGL now commits to “improve the greenhouse gas efficiency of our operations, and those in which we have an influence”.

**Table A1: Comment on AGL’s April 2015 Greenhouse gas policy commitments**

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|  | **2015 Commitments** | **Comment** |
| 1. | AGL will continue to provide the market with safe, reliable, affordable and sustainable energy options.  | Lacks credibility in regard ‘sustainability’ given recent tripling of generation intensity. |
| 2. | AGL will not build, finance or acquire new conventional coal-fired power stations in Australia (i.e. without CCS) | Lacks credibility, in 2007 AGL set a target for the emissions intensity of new generation capacity which it subsequently exceeded. |
| 3. | AGL will not extend the operating life of any of its existing coal-fired power stations | To be commended. |
| 4. | By 2050, AGL will close all existing coal-fired power stations in its portfolio.  | Inconsistent with Australia’s situation, just to be a “world average citizen” Australia needs to reduce the carbon intensity of its economy by 59% by 2035. |
|  |  | Commitments 2,3 & 4 should be strengthened to reflect quantitative, monotonic decreasing annual targets for emissions or emission intensity over the next decade. |
| 5. | AGL will improve the greenhouse gas efficiency of our operations, and those in which we have an influence.  | Lacks credibility given recent tripling of generation intensity. |
| 6. | AGL will continue to invest in new renewable and near-zero emission technologies.  | To be commended. But note that investment is starting from a very low base, less than 10% of pro forma 13/14 generation was due to renewables (allowing for the purchase of Macquarie Generation.) |
| 7. | AGL will make available innovative and cost-effective solutions for our customers such as distributed renewable generation, battery storage, and demand management solutions.  | To be commended. |
| 8. | AGL will incorporate a forecast of future carbon pricing into all generation capital expenditure decisions.  | This price should be disclosed to shareholders. |
| 9. | AGL will continue to be an advocate for effective long-term government policy to reduce Australia’s emissions … . | Lacks credibility given membership of Minerals Council of Australia whose attitude to Australia’s contribution to global efforts to constrain global warming is that Australia should bludge as much as it can get away with. |

**Attachment B: Origin AGM date:** 21 October

*Special Resolution to amend the constitution: That, at the end of Clause 8.3 ‘Notice of general meetings’ the following new sub-clause 8.3 (e) is inserted: “Each year from 2016, at reasonable cost and omitting any proprietary information, routine annual reporting will include further information about ongoing power generation and supply chain emissions management, generation portfolio resilience to the International Energy Agency’s (IEA’s) scenarios; relevant strategic key performance indicators (KPI’s) and executive incentives; and our public policy positions relating to climate change.”.*

On the basis of figures for 13/14 Origin is best understood as:

* roughly three quarters an electricity generator and vendor by revenue;
* roughly two thirds a coal-fired power electricity generator (by GWh);
* a retail vendor of more than twice the power it generates.

In addition, Origin is an owner of CSG reserves and CSG supplier to LNG plant through its interest in Australia Pacific LNG.

Origin was the eighth largest carbon emitter in Australia in 13/14.

Origin, like AGL, ‘has a policy’ dealing with carbon emissions. It states “We acknowledge and continue to maintain that climate change is a global societal challenge and as such, Origin continues to support measures to reduce carbon emissions.” In fact, over the past 3 years Origin’s own scope one emissions have increased 55% pa.[[12]](#footnote-12) In 2007 Origin set itself 4 objectives in regard carbon emissions.[[13]](#footnote-13) These included an objective to reduce the greenhouse gas intensity of the company’s electricity supply chain[[14]](#footnote-14) emissions to 10% less than the national electricity market average by 2020. No reference is made to this target in Origin’s current website emissions disclosure. It appears to have been dropped.[[15]](#footnote-15)

**Table A2: Comment on Origin’s 2007 carbon emission related objectives[[16]](#footnote-16)**

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| **No.** | **Objective** | **Comment** |
| 1. | Increase the sale of our low carbon intensity products | This objective has not been achieved in any overall proportionate sense. The emissions intensity of Origin’s internal generation has more than doubled its 2009 on an equity basis. On an operational control basis it has increased approximately one quarter. In 2013/14 0.06% of Origin’s direct internal generation was attributable to renewables. |
| 2. | Reduce the greenhouse gas emissions intensity of our electricity supply chain | This objective appears to have been dropped? It should be reinstated as part of a business model which provides for quantitative, monotonic decreasing annual targets for emissions or emission intensity over the next decade. |
| 3. | Reduce the greenhouse gas emissions intensity of our gas production | Achieved |
| 4. | Reduce or offset all emissions from our non—energy producing sites | Achieved |

1. See <http://www.accr.org.au/power> . [↑](#footnote-ref-1)
2. See Position paper on Post 2020 emission reduction targets for Australia, IGCC, Australia and New Zealand, April 2015 at <http://www.igcc.org.au/Resources/Documents/IGCC%20INDC%20discussion%20paper_150424.pdf>. [↑](#footnote-ref-2)
3. Globally, fossil fuel subsidies are estimated to exceed renewable subsidies by about a factor of six. This encompasses transport as well as stationary energy usage. In Australia, ‘subsidy and subsidy equivalent’ public policy contribution towards stationary fossil fuel emissions increase is estimated to exceed public policy contribution towards emission reductions by a factor of over two. [↑](#footnote-ref-3)
4. Subsequent to the purchase of Macquarie Generation. [↑](#footnote-ref-4)
5. See pp 37 & 45 of <http://www.agl.com.au/~/media/AGL/About%20AGL/Documents/Media%20Center/Investor%20Center/2014/2014Results_Pres_release.pdf> . [↑](#footnote-ref-5)
6. 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-6)
7. See <http://2012.aglsustainability.com.au/files/assets/basic-html/page68.html> . [↑](#footnote-ref-7)
8. See <http://agl2014.sustainability-report.com.au/environment/greenhouse-and-energy> . [↑](#footnote-ref-8)
9. ####  See the graph entitled ‘Carbon intensity of operated generation assets’ at <http://agl2014.sustainability-report.com.au/data-centre/environment> .

 [↑](#footnote-ref-9)
10. See Fig 18 of ACIL Allen Consulting *Emission Factors* 2014 at [www.aemo.com.au](http://www.aemo.com.au) . [↑](#footnote-ref-10)
11. See <http://www.agl.com.au/~/media/AGL/About%20AGL/Documents/Media%20Center/Corporate%20Governance%20Policies%20Charter/1704015_GHG_Policy_Final.pdf> . [↑](#footnote-ref-11)
12. On an equity basis, see <http://www.originenergy.com.au/sustainability/sites/default/files/gri_download/GRI_environment.pdf> p 8. [↑](#footnote-ref-12)
13. See <http://reports.originenergy.com.au/2010/sustainability/gri/energy_use_and_air_emissions/> . [↑](#footnote-ref-13)
14. That is for electricity supplied to Origin’s customers. [↑](#footnote-ref-14)
15. In the years 2007, 08 and 09 Origin's supply chain emissions intensity was similar to the grid average. See <http://reports.originenergy.com.au/2010/sustainability/our_communities/5-year-strategies/#two> . Current disclosure focuses on the emissions intensity of Origin's internal generation which has nearly doubled over the past 3 years on an equity basis. Nevertheless, on an operational control basis it is now about 10% under the grid average. See p 9 of <http://www.originenergy.com.au/sustainability/sites/default/files/gri_download/GRI_environment.pdf> . See also chart 3 of <http://www.originenergy.com.au/sustainability/material-aspects/emissions> . [↑](#footnote-ref-15)
16. See <http://www.originenergy.com.au/content/dam/origin/about/our-approach/docs/sustainability-gri-environment-2014.pdf> p 9. [↑](#footnote-ref-16)