**This statement is provided to all ORIGIN 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 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.

The IEA calculates carbon intensity of energy supply across time and countries. 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.[[1]](#footnote-1) If Australia adopted public policy intended to ensure carbon intensity fell to world average by 2035 it would have to drop 57%.

Because of our position as one of the largest carbon emitters in Australia we have 3 potential sources of exposure to this ‘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 gas reserves and black coal fired electricity generation capacity;
* 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.

Our company ‘has a policy’ on 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 our own scope one emissions have increased 55% pa.[[2]](#footnote-2) In 2007 we set ourselves 4 objectives in regard carbon emissions.[[3]](#footnote-3) These included an objective to reduce the greenhouse gas intensity of the company’s electricity supply chain[[4]](#footnote-4) emissions to 10% less than the national electricity market average by 2020. No reference is made to this target in our current website emissions disclosure. It appears to have been dropped.[[5]](#footnote-5)

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 the members of the UN PRI[[6]](#footnote-6) 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. 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-1)
2. On an equity basis, see <http://www.originenergy.com.au/content/dam/origin/about/our-approach/docs/sustainability-gri-environment-2014.pdf> p 8. [↑](#footnote-ref-2)
3. See <http://reports.originenergy.com.au/2010/sustainability/gri/energy_use_and_air_emissions/> . [↑](#footnote-ref-3)
4. That is for electricity supplied to Origin’s customers. AGL’s 2010 commitments also included benchmarking supply chain carbon intensity. Their public disclosure does not appear to track this metric. [↑](#footnote-ref-4)
5. In the years 2007, 08 and 09 our 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 our 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> . The distinction between electricity sold and generated is significant because we distribute over twice the GWh we generate. [↑](#footnote-ref-5)
6. See <http://igcc.org.au/Resources/Documents/Climate-Change-Investment-Solutions-GuideFINAL.pdf> p 15. [↑](#footnote-ref-6)