



**27 February 2013**

European Commission  
Directorate-General Climate Action  
Unit B.1 – Implementation of ETS  
Avenue de Beaulieu, 24  
B-1049 Bruxelles  
Belgium

**By email: [clima-ets-structural-measures@ec.europa.eu](mailto:clima-ets-structural-measures@ec.europa.eu)**

Dear Sir/Madam,

**Response to European Commission's consultation on structural reform in European carbon market**

AGL Energy Limited (**AGL**) welcomes the opportunity to comment on the reform package proposed by the European Commission (**Commission**) to be implemented in the European carbon market.

**AGL Energy Limited**

AGL is a leading investor in renewable energy and one of the largest energy retailers in Australia, and accordingly is well placed to comment on the Commission's proposed reform package.

AGL's operations include the following key business streams:

- an energy retail business which retails natural gas, electricity and energy-related products and services to almost 3.5 million customers across Australia.
- a Merchant Energy division which manages the risks of procuring and delivering gas and electricity for AGL's wholesale and retail portfolios, and also manages AGL's compliance with mandatory renewable energy targets.
- an Upstream Gas business which explores, develops, stores and produces natural gas throughout eastern Australia.

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. The diversity of AGL's energy portfolio has allowed AGL to develop a detailed understanding of the risks and opportunities presented by climate change-related policy both domestically and internationally where there are international linkages with Australia's climate change policies.

**Australia's greenhouse gas reduction policies**

As the Commission may be aware, the Australian Government has put in place the *Clean Energy Future* program which is designed to reshape the Australian economy, provide greater certainty to drive innovation in renewable energy technologies, and help avoid the

increased costs associated with delayed action on climate change. Significant features of it are:

- a carbon pricing mechanism which commenced on 1 July 2012, under which around 500 of the biggest emitting companies in Australia will pay for each tonne of carbon dioxide equivalent that they emit, either through the surrender of an appropriate number of carbon units which represents their emissions, or through the payment of a penalty charge.

For the first three years of the operation of the scheme, the carbon price will be fixed (starting at \$AUD23 in the 2012/13 financial year, and then increasing by 2.5% per year), and from 1 July 2015 a cap will be placed on Australia's total emissions and the carbon price will be determined by the market.

As the Commission would be aware, a full two-way link between the Australian and EU emissions trading systems will commence by 1 July 2018, under which businesses will be able to use carbon units from either the Australian or EU emission trading systems for compliance under either system. An interim link will exist from 1 July 2015 onwards, from which time Australian businesses will be able to use EU emissions allowances to help meet liabilities under the Australian emissions trading system.

- programs and funding designed to drive the greater use of renewable energy including the:
  - Renewable Energy Target, which aims to ensure that at least 20% of Australia's electricity will come from renewable sources by 2020;
  - Clean Energy Finance Corporation, which will invest in the commercialisation and deployment of renewable and clean energy projects; and
  - Australian Renewable Energy Agency, which will improve the competitiveness of renewable energy and related technologies through supporting renewable energy technology innovation.
- Programs designed to improve energy efficiency and reduce carbon pollution in manufacturing industries.
- Incentives for the land, forestry and farming sectors to reduce carbon pollution and increase the amount of carbon stored on the land.

The Climate Change Authority (**Authority**), the independent advisory body, established by legislation, which provides expert advice to the Australian Government on the carbon price and other climate change mitigation initiatives, recently completed a review of the Australian Renewable Energy Target.

Of prime importance to the Authority in reaching its conclusion to leave unchanged current targets (despite strong opposition voiced by a range of industry participants) was to create an environment of policy stability so as to encourage investment in the sector.

AGL entirely agreed with the Authority's rationale as stated in the Authority's report <sup>1</sup>:

*"Confidence, including in the sustainability of important policy frameworks, is critical in persuading investors (and their financiers) to continue with their plans for long-term investments in renewable generation. Shocks to confidence, from whatever source, tend to be followed by curtailments and deferrals of investment plans..... In its recommendations, the Authority has sought to avoid adding to these uncertainties in ways that could increase risk premiums required by lenders and investors in renewable energy."*

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<sup>1</sup> Climate Change Authority, (2012), "Renewable Energy Target Review Final Report December 2012", Melbourne, page vi.

## Commission's reform package

AGL agrees with the direction that the Commission is taking in attempting to address the current oversupply of emissions allowances that is continuing to accumulate, largely as a consequence of the economic conditions being faced in the European carbon market. AGL is broadly supportive of the Commission's back-loading plan, to postpone the auctioning of 900 million emissions allowances from 2013-15 until 2019-20 while at the same time maintaining the overall cap on emissions for Phase 3.

However, on the basis of the same rationale as was adopted by the Australian Climate Change Authority in its review outlined above, AGL considers it to be important that while some reforms may be necessary in order to ensure that climate change policies operate as they were intended to, key long-term policy settings in the European carbon market are not changed over the course of Phase 3 in such a way as to cause economic or policy instability. Such significant changes would risk ultimately discouraging the very investment in clean energy that the EU's climate change policies are designed to encourage.

Maintaining an environment of economic, policy, and investor certainty is very important in determining the appropriate strategy to adopt in relation to the future of the European carbon market. Investments made pursuant to the EU's climate change policies result in projects with long-term operating lives. A stable framework established for the long term, as the EU's emissions trading system is, is critical to the achievement of rates of return which ensure economic efficiency throughout the industry.

We note that the Commission's back-loading proposal changes the temporal profile of the emissions allocation over Phase 3, however does not change the actual number of emissions allowances to be auctioned during this time. AGL considers this to be an important factor in order to encourage business certainty. We consider that any major changes to the economic environment or conditions of Phase 3, including a change in the number of emissions allowances to be allocated over this period, to be risky, due to the economic and policy instability it may cause, and the detrimental impact this would be likely to have on investor confidence across the market. The international linkages that are being created with the EU emissions trading system and those of other countries make the potential impact of such instability more widespread.

We would be pleased to discuss with the Commission the views set out in this submission, or Australia's climate change policies more generally, if this would be helpful. Please contact me on +61 2 9921 2516 or [tanelson@agl.com.au](mailto:tanelson@agl.com.au) or Anita George, AGL's Manager of Energy Policy & Strategy on +61 3 8633 7212 or [ageorge@agl.com.au](mailto:ageorge@agl.com.au) if you would like to do so.

Yours sincerely,



Tim Nelson  
Head of Economic Policy and Sustainability