

Investor Bulletin: AGL one year on - reflections and opportunities

15 November 2023 | ASX: AGL

A late-starter to the energy transition, AGL needs to fire up its tenacity if it wants to deliver and enhance its strategy, ward off the competition nipping at its heels and ensure it doesn't return to being viewed as a company existing primarily to sweat its coal assets.

It's been 12 months since AGL's shareholders made history by electing four new climate competent directors to the board. Prior to the 2022 AGM, AGL released its Climate Transition Action Plan (CTAP), which included the significant commitment to bring forward closure of its most polluting coal fired power station, Loy Yang A, avoiding the release of up to 200 million tCO₂-e.

While investors are generally of the view that the ship is finally pointed in the right direction, it is clear that the work at AGL is not done, and there will be a need for more hands-on stewardship in 2024. Given the changes to the board, investors should expect a more constructive conversation than in previous years.

Key points:

- **AGL remains Australia's largest direct greenhouse emitter and will do so for many years.** This remains the case even with the closure of the Liddell coal-fired power station in April 2023.
- **A significant share of AGL's ownership is of the view that the company can present a more ambitious and compelling transition strategy.** While the Chair and Managing Director regularly state that the company's Climate Transition Action Plan (CTAP) was endorsed by shareholders in 2022, more than 30% of shareholders voted against it. AGL sits behind just Woodside Energy and Santos as having the least supported transition plan globally since the inception of the Say on Climate mechanism. (see Chart 1 below)
- **Having arrived late to the party, AGL now faces a challenging energy transition:** There is no question that AGL was too slow to present a plan to transition the company away from coal-fired generation. Having only recently reached this point, the company is now encountering a range of barriers to the decarbonisation of the national electricity market (NEM), relating to social licence for much needed transmission and generation infrastructure, regulatory issues, supply chain crunches and cost increases. These barriers must be effectively and sensitively addressed by governments and the energy sector, in partnership with affected stakeholders. Without the buildout of replacement generation, improved coal closure timelines are theoretical only. Unfortunately we have seen this play out in real time in the push to delay the closure of Origin's Eraring power station, even though numerous credible alternatives to delayed closure had been tabled.¹

¹ <https://hexaadvisory.com.au/eraring-can-be-closed-on-time-to-save-consumers-money/>
<https://reneweconomy.com.au/how-the-consumer-energy-sharing-economy-can-help-eraring-close-on-time/>

- **No time to be passive: Where is the Can Do, Will Do?** AGL has recently unveiled a new corporate purpose and values², including the value of “can do, will do” which seeks to “make things happen”. It is not clear how this value is influencing AGL’s approach to navigating the challenges of the energy transition, with Managing Director Damien Nicks stating AGL is “going as fast as we can” in the rollout of its strategy.³ This suggests that AGL, Australia’s largest electricity generator, is a passive participant in an energy ecosystem that urgently needs vision and leadership. There is a huge opportunity for AGL to be advocating more publicly and proactively for the policy settings and other interventions it needs to deliver and indeed enhance its own transition strategy. Arguably if AGL isn’t more public in its push for collaborative problem solving and targeted policy interventions, it risks appearing content with the delayed transition and the opportunity to sweat its coal generators for longer.
- **AGL is giving up market share with a combined renewable generation and storage target of 12GW.** Analyst David Leitch recently highlighted that AGL’s 12GW target for 2035, that aggregates both storage and generation “won’t replace anything more than 60% of its current coal generation”⁴. This is striking for a market where electricity demand is projected to double by 2050 as households and industry embrace electrification.⁵ It would be helpful for AGL to present disaggregated storage and renewable generation targets, to better enable assessment of their suitability and implications for market share.
- **Agile competitors are coming:** While a period of high electricity prices and improved plant availability has made coal fired generation a more profitable enterprise for AGL, as demonstrated in the company’s FY23 and FY24 earnings guidance,⁶ this situation is far from permanent. Hungry, agile competitors are a threat to the company’s market share and competitiveness. While Brookfield’s entry to the NEM through the Origin Energy assets is currently under question, it is clear that well funded, agile actors view a huge opportunity in the transition of our largest electricity market.

Key stewardship considerations for investors

While it is understandable that investors have been keen to give the board and management space to settle in and focus throughout 2023, in this challenging time for the energy transition, we do anticipate opportunities for engagement will increase in 2024. Key themes for questioning include:

- How is AGL applying its new corporate value of “Can do, Will do” and the commitment to “make things happen” to navigating the challenges it is encountering in the energy transition?

² <https://www.agl.com.au/about-agl/who-we-are/our-purpose-and-values>

³

<https://www.afr.com/companies/energy/agl-slumps-to-1-26b-bottom-line-loss-20230809-p5dva1#:~:text=AGL%20Energy%20chief%20executive%20Damien,decarbonisation%20plan%20every%20three%20years>

⁴ <https://reneweconomy.com.au/the-decarbonisation-efforts-of-australias-big-gentailers-are-a-disgrace/>

⁵

<https://aemo.com.au/en/newsroom/media-release/aemo-releases-30-year-electricity-market-roadmap#:~:text=%E2%80%9CThe%20step%20change%20scenario%20forecasts,2030%2C%E2%80%9D%20Mr%20Westerman%20said>

⁶

https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02676681-2A1455182?access_token=83ff96335c2d45a094df02a206a39ff4

- Tomago Aluminium (AGL customer) joint venture partner Rio Tinto is regularly on the record⁷ stating that a lack of access to firm renewable energy is becoming an existential risk for its alumina and aluminium assets. How is AGL working collaboratively with actors like Rio Tinto to maximise and expedite opportunities from the energy transition for both parties?
- Why has AGL combined its renewable capacity and storage targets, considering the very different roles that storage (a consumer of energy) and generation capacity (supply of energy) play in energy markets? Instead, can you split these targets so that investors have better visibility of how you are prioritising and incentivising these important investments?
- How is AGL publicly and proactively advocating for the policy settings and other interventions it needs to deliver and enhance its own transition strategy?
- What advocacy can investors undertake to help AGL and the broader energy transition thrive?

Chart 1: Votes against company climate transition plans under the “Say on Climate” mechanism

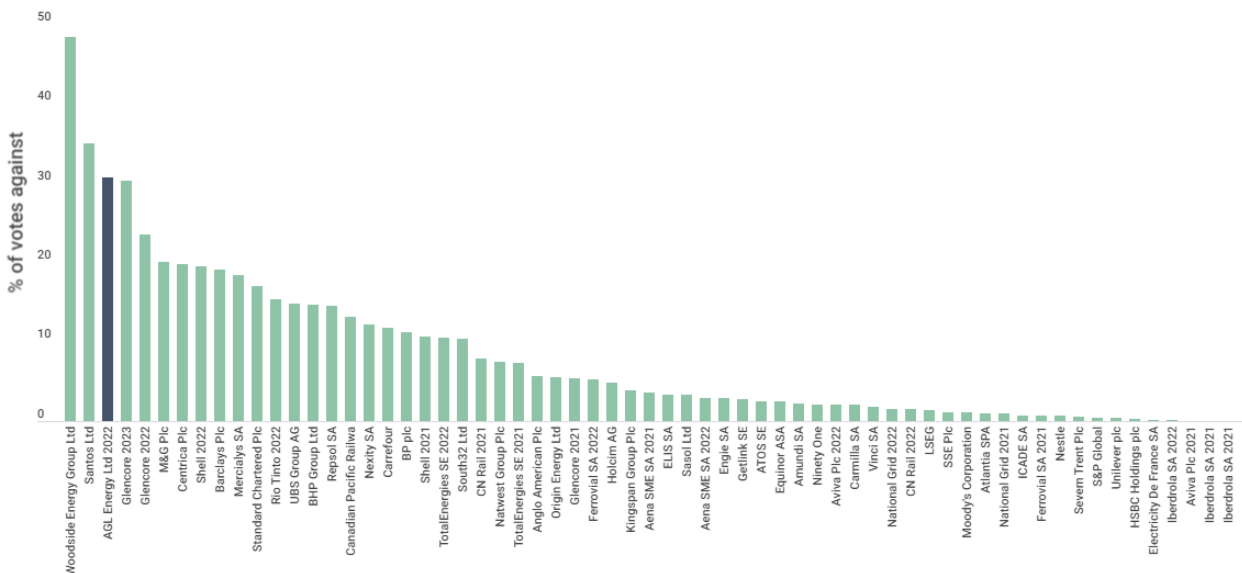


Chart: Australasian Centre for Corporate Responsibility | Source: MSCI Shareholders' Say on Climate (15 Feb 2023), ASX announcement

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