



AGL Energy Limited



Australian Government

The Treasury

By email: [climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

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### **AGL Response to the Treasury's Consultation Paper - Climate-related financial disclosure**

AGL Energy (AGL) welcomes the opportunity to contribute to the Climate-related financial disclosure Consultation.

#### **About AGL**

AGL is a leading integrated essential service provider, delivering 4.3 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio and have the largest renewables and storage portfolio of any ASX-listed company, having invested billions over two decades in renewable and firming generation.

As the global community responds to the risks of climate change, AGL Energy – as Australia's largest corporate emitter – recognises the large part that we must play in the transition to a low carbon economy.

In September 2022, AGL released its inaugural [Climate Transition Action Plan](#) (CTAP) which states AGL's updated ambition for decarbonisation, including the following commitments:

- Targeting a full exit from coal-fired generation by the end of FY35 (up to a decade earlier than previously announced);
- Ambition to meet customer energy demand with around 12 GW new firming and renewable assets by 2036; and,
- An initial target of 5 GW new firming and renewables by 2030.

Our plan recognises that a balance needs to be struck between responsible transition and rapid decarbonisation to keep Australia's electricity supply secure, reliable, and affordable. We are committed to working constructively with our stakeholders, including government, our people and the communities in which we operate, to lead a responsible and orderly transition.

#### **The importance of transparent disclosure of climate-related risks**

AGL has significant experience relating to climate-related financial disclosures in Australia. In recent years, AGL has sought to play a leading role in the way business engages on the critical issue of climate change, and we have been a proud leader in corporate climate disclosures. As an early adopter in Australia, AGL has made a commitment to disclose climate-related information in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) framework. Although the use of the TCFD framework is currently voluntary in Australia, our stakeholders, including investors, governments, customers, and the community, expect us to be transparent about our climate-related risks, opportunities and performance. AGL has been incorporating risk and strategy disclosures in our annual corporate reports since 2016, and since 2018, these disclosures have been aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework.



We detailed the work we are doing in transitioning our portfolio and disclosing climate risks through our CTAP and TCFD reports in our [submission](#) to Treasury's first consultation on climate-related financial disclosure.

Based on our experience with these types of disclosures, we are supportive of this framework development and how it will feed into the Treasury's sustainable finance agenda, improving transparency for markets and encouraging the investment that will underpin Australia's transition to a net zero emissions economy.

### **Disclosures in proportion to material risk**

We are supportive of the principles laid out in the paper – particularly the principle that the climate disclosures be proportional to the risks they seek to address. In discussions with Treasury, it has been suggested the number of companies captured under this reporting framework could be of the order of 20,000. Some of these companies will have had no engagement with the consultation process and could be unaware they are captured until scheme commencement. For these companies, it will be important that disclosure, while capturing the major climate risks associated with their core business, is not overly burdensome.

### **Clear government commitments to support and underpin forward statements**

The quality and detail of reporting would be greatly aided by government providing additional leadership and assistance to support the complex modelling and qualitative assessments that will be required under the proposed framework. For larger group 1 companies, familiar with the level of reporting involved, forward looking statements will benefit from more detailed information regarding emissions budgets (both on a national and sectoral basis), explaining how these budgets contribute and track towards Australia's Nationally Determined Contribution (NDC) and also align to different global temperature outcomes.

### **Providing assurance on emissions across the entire value chain**

The ability of companies to report Scope 3 emissions to high levels of assurance will need to be monitored by government to be certain that this level of assurance is possible given lack of data available across value chains and to facilitate reporting where possible.

### **Assistance for smaller entities**

Smaller group 3 companies, inexperienced with this level of risk reporting, may need assistance from government in the form of best practice metrics, transition plan guides and model scenario analyses. From our experience, undertaking analysis to examine climate scenarios is fairly complex – while larger organisations may have the data and resources available to undertake this analysis, many smaller organisations may not be aware of the steps that are required to meet obligations, including the appropriate capturing of data to be able to inform disclosures.

### **Staging implementation for success**

In our view, the largest risk to the delivery of Treasury's agenda lies in the ability of organisations to source quality and timely assurance services to meet the proposed requirements. The Australian assurance market may not have the capacity to support the number of organisations who will be captured by the proposed requirements, despite the staggered implementation roadmap proposed by Treasury. While we acknowledge the value of assurance to stakeholders (we currently seek assurance over aspects of our ESG, climate-related, and NGER disclosures) we suggest that Treasury consider limiting the scope and level of assurance, and/or place requirements on the auditability and accuracy of data, and require organisations to disclose the processes undertaken to (internally) assure accuracy.



Our position on the elements of climate-related financial reporting discussed in the consultation paper is further elaborated in our responses to the consultation questions included at Appendix A to this submission.

We look forward to further opportunities to engage on the direction of this framework prior to commencement. If you would like to discuss this submission further, please contact [REDACTED] [REDACTED]  
[REDACTED]

Yours sincerely,

[REDACTED]

General Manager (a/g), Policy and Market Regulation

AGL Energy

## Appendix A – Response to consultation questions

### Reporting entities

**Proposal:** that all entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the *Corporations Act 2001* (Cth) (Corporations Act) would be required to make climate-related financial disclosures.

AGL is in group 1. Given our size and experience with climate and emissions reporting to date this is appropriate.

#### *Definitions*

The inclusion of both a financial threshold – revenue/asset value/employee numbers – and an emissions threshold is consistent with international frameworks. This broad coverage promotes comparability of disclosures for companies operating in Australia, strengthens transparency for investors and encourages investment in Australian companies. We also interpret these requirements as covering entities that meet the threshold requirements, where that entity is part of an overseas incorporated company that reports on a consolidated basis. This aspect is also consistent with international frameworks including the UK and New Zealand.

#### *Smaller entities*

We note that some of the requirements on group 3 may be considered to be burdensome relative to the size of these entities and their current reporting commitments. It may be helpful to consider some timing/staging beyond that proposed, or additional assistance to this group, if necessary.

Several group 3 companies would be coming into this process with little background in emissions reporting as they may not meet the threshold for NGER reporting.

It will be important to consider whether these businesses would have the capacity to carry out some of the reporting required, and the value that the proposed level of reporting would provide to the shareholders and other stakeholders of some of the businesses likely to be captured. Given the principles in the paper, the level of reporting required should be in proportion to the materiality of the emissions and how closely related their core business is to climate risk.

#### *Resourcing capability and capacity*

The Consultation Paper notes the likely increase in demand this framework will create for professional services. With 20,000 companies covered by end state, these concerns are valid. We propose that government develop contingency plans for the staging requirements if this capacity is insufficient to deliver quality disclosures in time.

We note a few specific issues that may add to the demand for professional services:

- For companies undertaking both this reporting and NGER reporting, the reporting dates could compress timeframes causing a surge in demand for ESG specialists. A better reporting cadence might allow the same ESG resources to tackle both sets of reporting.
- With the level of complexity involved, businesses might opt for one auditor to cover the modelling of both financial and non-financial risks, locking out significant consulting capacity.
- Different consultancies could be required for the assurance and auditing processes to avoid conflicts. This could be a multiplying factor on demand worth consideration.
- A consulting firm may not wish to disclose proprietary information such as scenario modelling details to a competing firm.

Accounting for the multiple factors adding to demand for ESG capacity will be important so that we don't see a situation where group 1 companies consume all

technical resourcing in the earlier years of the scheme, creating problems for groups commencing in later years.

The proposed requirements would be phased-in over three years, with full application of the mandatory reporting for all groups of reporting entities from the 2027-28 reporting year onwards (end state).

As noted above, meeting the proposed reasonable assurance for scope 3 emissions by 2027-8 will be resource intensive. It is well accepted that scope 3 emissions are generally very complex to calculate to a high level of assurance and all entities are likely to require considerable specialist capability. We will be reliant on suppliers and the quality and reliability of their data to meet this level of assurance. We propose that Treasury consider building in the flexibility to revisit this requirement in 2027-8 and consider delaying the start year if the systems and processes are not in place to enable more certainty around this reporting. We agree with the proposal that disclosure of scope 3 emissions be limited to material emissions as this would be proportional to the climate risk and increasing the reporting burden for more detailed disclosures would be of little value to investors.

As part of the development process, it will be important for Treasury to also consider the appropriateness of current methodologies for reporting of scope 3 emissions. Our understanding is that the current standard for reporting has not been updated since 2013. This principle – that all methodologies be as up to date as possible to reflect current best practice – should equally apply to other disclosures covered in the framework.

#### Materiality

**Proposal:** Principles of financial materiality would apply.

We are supportive of this proposal.

#### Governance

**Proposal:** From commencement, companies would be required to disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.

We are supportive of this proposal. We note, however, that the proposed requirement for limited assurance over climate-related governance disclosures from Year 1 is not commensurate with existing requirements for non climate-related governance disclosures. That is, corporations are not currently required to seek external limited or reasonable assurance over Corporate Governance Statements.

#### Scenario analysis

**Proposal:** From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.

We believe that it is important that organisations are given the flexibility to conduct scenario analysis in a way that best suits their business. A key purpose of scenario analysis is assisting businesses with setting strategy and making informed decisions related to operations and investments, rather than solely for the purposes of disclosure. Scenario analyses will be unique to individual businesses and will not be directly comparable at a business or sector level.

However, to aid comparability and to improve the robustness of scenario analysis, providing some standardised scenarios that could be utilised by businesses that are robust, relevant to the Australian operating environment, and sector specific, would be beneficial.

For example, AGL uses modelling from the Australian Energy Market Operator's (AEMO) Integrated System Plan, which is in turn based on analysis undertaken by the CSIRO, as reference point for climate action in the electricity sector. However, this approach is not consistent with other sectors, many of which do not have an independent source of Australian sectoral scenarios to reference. What could aid comparability is consistent, independent, robust Australian and sector specific



decarbonisation scenarios.

In particular, having an independent body determine and publish updated carbon budgets for Australia under Paris-aligned scenarios (e.g., 1.5 degree and below 2-degree budgets) could be beneficial, as well as guidance on sectoral budgets within Australia and how these budgets contribute to Australia's overall NDC.

The Paper proposes that scenario analysis should initially have limited and then reasonable assurance. We request further detail from Treasury as to what specific aspects of scenario analysis disclosure should be made mandatory for assurance, if any. By its nature, scenario analysis is imprecise, involves judgement and reason, and only represents one or several of an infinite number of possible outcomes.

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**Proposal:** From commencement, reporting entities would be required to disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the *Climate Change Act 2022*.

We seek clarity around what is meant by the term "climate resilience assessment". It is unclear if this is intended to comprise assessments of physical risk, transition risk, or both, and how this differs from scenario analysis.

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#### Transition planning and climate-related targets

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**Proposal:** From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.

We are broadly supportive of this proposal – noting that any information about offset plans should be conscious of their impacts on carbon market stability.

We would welcome the opportunity to engage further on this point once there is more clarity around how the ISSB's new global standard for climate-related financial disclosure (IFRS S2 Climate-related Disclosures) would apply in the Australian context.

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**Proposal:** From commencement, all entities would be required to disclose information about any climate-related targets (if they have them) and progress towards these targets.

AGL is generally supportive of transparent disclosure of climate related targets. AGL has been involved in CERT disclosures from its pilot phase.

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#### Greenhouse gas emissions

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**Proposal:** From commencement, scope 1 and 2 emissions for the reporting period would be required to be disclosed.

It would be helpful for Treasury to specify the level of rounding (t, kt, Mt) required to be included in the OFR. While AGL reports GHG emissions to the nearest tonne in our NGER submission, with an operated Scope 1 and 2 footprint of around 40 MtCO<sub>2</sub>e annually, we do not believe that this level of disclosure (i.e., to 8 significant figures) is needed by our shareholders in the context of the OFR.

We suggest it may be appropriate for organisations to report emissions to a material threshold within the OFR, with emissions to the nearest tonne reported via NGER or in other forms outside of the OFR, at a later date commensurate with the NGER submission deadline of 30 October. This would allow organisations to publish early, timely and relevant OFRs. For example, AGL publishes assured, material scope 1 and 2 emissions data in our OFR within the second week of August, covering over 95% of our Scope 1 and 2 emissions. We subsequently publish comprehensive



emissions data on our website in November.

**Proposal:** Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.

We note that most large organisations recognise that reporting accurate and complete Scope 3 emissions across a company's value chain is a journey that few, if any, have perfected. While understanding and capability regarding Scope 3 emissions is rapidly accelerating, there remains significant data and methodological gaps for most businesses.

Further, we note that the GHG Protocol, which is the main Scope 3 guidance document, was issued over a decade ago, meaning that industry best practice is outstripping guidance documents which makes it harder for companies to access information about best practice.

### Industry-based metrics

**Proposal:** By end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well-established and understood metrics available for the reporting entity.

We are supportive of this – noting industry-based metrics will likely be internationally aligned given the ISSB standards are based on more internationalised metrics from the Sustainability Accounting Standards Board (SASB). However, industry-based metrics will not suit all business models. We welcome further engagement when the final industry-based metrics are known.

### Reporting framework and assurance

Reporting location, frequency, and timing

We seek further clarity on the proposed frequency of updates to scenario modelling and transition plan reporting. Depending on the sector, it may not be beneficial to refresh scenario analysis on an annual basis. Emerging best practice is for climate transition plans to be updated on a three-yearly cycle.

Location

We suggest that organisations are given the flexibility to report some information outside of the annual report provided that it is clearly referenced. For example, AGL publishes a significant amount of climate and ESG data within a comprehensive ESG data centre on our website. This helps avoid clutter in the annual report and makes it easier for our stakeholders to understand and access information about our performance.

(<https://www.2022datacentre.agl.com.au/>)

Timing of lodgement

#### *Level of reporting accuracy*

We foresee issues with the timing of NGER and annual reporting. As a large energy company and a large emitter, emissions reporting to the level of accuracy required under the NGER Act requires considerable resourcing. In the lead up to the end of financial year, much of our ESG resourcing is dedicated to reporting. We are concerned the length of time it would take to get reasonable assurance may delay annual reporting at EOFY.

To demonstrate this point for AGL, before NGER data is submitted to the regulators at the end of October, it goes through an internal finalisation and review process and receives external limited assurance. To align with the proposed disclosure requirements, this process - including the higher level of assurance than is currently undertaken - would need to be completed in under 2 months for inclusion in our annual report released in August.

Our ability to meet these dates would depend on the level of materiality we had to report to. For example, this would be less of an issue if we are able to utilise accounting methods similar to financial accounting methods such as accrual, noting



that this may require a deviation from current NGER requirements.

We would welcome further guidance from Treasury as to the level of accuracy sought.

*Staggering of reporting*

An alternative approach to the above would involve staggering the two types of reporting – NGER and climate risk. This would allow our current ESG resourcing to cover both processes. While this might sound specific to our processes, we are not the only company to release our annual report early and this could avoid exacerbating the likely resourcing constraints for the ESG workforce we flagged in the reporting entities section.

*Flexibility in reporting of finalised numbers*

Often in NGER reporting there are delays that are out of our control such as those relating to late quarterly invoices, and contractor data. We would welcome the option of providing an update to the annual report at a later date with the assured NGER figures. We don't want this strict timing to be a deterrent to businesses trying to report on their emissions.

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Scope 3 emissions

We are comfortable with disclosure of *material* scope 3 emissions.

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