

GreenPower Program Manager
NSW Trade and Investment
Level 11 323 Castlereagh Street
Sydney NSW 2000

By email: greenpower.admin@trade.nsw.gov.au

27 March 2015

Dear Sir/Madam,

AGL Energy Response to the GreenPower Program Review

AGL Energy (**AGL**) welcomes the opportunity to provide input to the GreenPower Program Review (**the review**).

As a leading integrated retailer AGL is well placed to provide input to the review. AGL operates across the supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation and provides energy solutions to over 3.8 million customers. The diversity of this portfolio has allowed AGL to develop a detailed understanding of the risks and opportunities presented by renewable energy in general and GreenPower in particular.

AGL agrees that despite the success of the program to date the changed operating environment presents both challenges and opportunities to the program. Given the broad coverage of the review AGL encourages the Steering Group to explicitly rank the importance of review elements, considering both the ability of the recommendation to be implemented and the sequencing of recommendations as required. AGL has provided recommendations and supplementary commentary in Appendix One below. The recommendations have been categorised as primary or secondary corresponding to the relative level of importance AGL ascribes to them. Importance is a result of overall impact on the program and/or consideration of appropriate sequencing.

The "additional" status of GreenPower, where the electricity produced is additional to any legislative targets or requirements, provides the cornerstone of the product. An ability to demonstrate this and provide a product that responds primarily to consumer preference is paramount. It enables all participants and providers to identify the key differentiator from both a supply and demand side.

First and foremost AGL recommends this issue be addressed as a matter of priority. The absence of a resolution of this issue leaves subsequent recommendations subject to uncertainty, and therefore unlikely to be effectively implemented, regardless of merit or potential.

The review represents an opportunity to recalibrate GreenPower for the current circumstances, particularly at a time of uncertainty regarding the RET and energy policy more generally. It is imperative that the underlying issue of "additionality" be resolved.

Should you wish to discuss any aspect of this submission, please contact Cameron Reid on creid@agl.com.au or 03 8633 7201.

Yours sincerely,



Tim Nelson
Head of Economic Policy & Sustainability, AGL Energy



Appendix One

Primary Recommendations

Advocacy: A1 Confirm the additionality of GreenPower

AGL considers this the most important recommendation that must stem from the review. Without this concept to underpin the program all other aspects of the program from its aims, marketing options and product strength are diminished.

Retailers seek to provide a range of products and services to consumers, each seeking to meet consumer demand whether that be price, flexibility, energy management or, in the case of GreenPower, the source of the generation.

A failure to resolve any question of GreenPower additionality increases the risk that providers, and retailers in particular will seek to invest finite resources such as product development, advertising budget and commercial analysis in products that provide longer term certainty as to the underlying product basis.

This is specifically important at a time when utility scale renewable energy is experiencing a contraction in investment and ongoing policy uncertainty.

Program Aims: A2 Update the aims

It is critical that the program has a clear set of aims. While the current aims are not inappropriate, consideration of the altered operating environment may deem them unnecessary or better served by a rewording process. For example, while consumer awareness of renewable energy and greenhouse issues are relevant AGL would suggest there exists other more specific programs or options to deliver this outcome. GreenPower can support the awareness without maintaining this as a required outcome of the program.

Program aims, once agreed will provide a set of guiding objectives against which other aspects of the program can be reconciled or assessed.

Importantly AGL considers recommendations and discussion regarding marketing and funding to be inappropriate except at a conceptual level. Without a clear statement of the aims any discussion of funding or marketing contains an inherently subjective assumption of the program aims and is therefore potentially counterproductive over the longer term.

Governance: G3 Establish a Stakeholder Reference Group

AGL strongly supports the establishment of a stakeholder reference group (SRG) to provide input to the National GreenPower Steering Committee. The development of an appropriately balanced and representative reference group maintains the decision making independence and integrity of existing procedures and adds a reference pool of experts for the steering committee to draw upon and receive information from regarding progress, issues and opportunities for the program.

While the makeup and size of any reference group must be considered by the Steering Group, AGL would recommend it include consumer representatives from both an environmental and consumer rights perspective to ensure the reference group maintains a broad perspective.

Program Rules: R8 Incorporate renewable electricity from the grid into calculations of the percentage of GreenPower

Revise the rules so that 100% GreenPower includes the proportion of renewable energy already in the grid due to the RET.

AGL understands the legacy of GreenPower and why considerations of other legislative instruments such as the RET were not specifically accounted for in the past. However there are at present material levels of renewable energy currently in the “grid mix” and it is more rather than less likely to increase over time. Therefore it is appropriate at this juncture to revise the rules such that GreenPower calculations address the level of renewable energy in a manner that enables effective response over time.

Currently, the retailer must surrender Renewable Energy Certificates equal to the consumption of GreenPower customers. AGL recommends this be adjusted to a simple formula of:

$$L = C * (1-RPP)$$

L: Liability for the retailer to surrender Renewable Energy Certificates

C: Consumption in MWh

RPP: Renewable Power Percentage (as published by the Clean Energy Regulator)

The RPP is updated annually and can be reasonably well forecast subject to a stable policy outlook. Incorporating the RPP into the GreenPower calculation serves a number of purposes, including:

- Reducing the cost of GreenPower attributed to the product, thereby increasing the potential for increased sales
- Setting a dynamic approach that enables ongoing adjustment with minimal administration by the steering group
- Providing a balanced approach that recognises the additional component attributable to the customer but takes into account “broader community contributions” in the form of legislated targets

Secondary Recommendations

Funding: F1 No change

AGL is not opposed to alteration of funding in principle. However without a resolution of the additionality criteria and subsequent clarification of aims there is no ability to assess the adequacy of current funding levels or structures, let alone recommending new ones.

AGL recommends deferment of consideration of funding levels and structures until issues associated with program aims, governance and advocacy are resolved.

Marketing & Engagement: M4 Refresh and relaunch

AGL considers this an appropriate option with caveats. Without a resolution of the additionality criteria and subsequent clarification of aims there is no underlying basis for revised marketing objectives to be set, reducing the potential impact of any refresh or relaunch.

Other options provided under marketing and engagement may be subsets of a refresh strategy however GreenPower should remain cognisant of the difference between marketing the “brand” and its associated integrity, additional renewable energy and positive outcomes and marketing the “product” which involves a GreenPower provider and associated service that customers interact with. AGL considers M2, M3, M6 and M7 more appropriate for a product provider to consider and therefore should not be a focus of the GreenPower program.



Program Rules: R6: Increase the minimum GreenPower content of residential Products

AGL supports the increase of GreenPower product content. The specific increase should be considered only after the resolution of the additionality aspects and whether the Review will adopt the recommendation to allow for RET input into the “grid mix”.

Other than R8 (Primary Recommendation), R6 (above) and R4 (refer below) AGL considers other recommendations should be part of an operational process once the program obtains a solid basis upon which to move forward.

Areas of Concern

Program Rules: R4: Support small scale generation

AGL does not support any move to include accreditation of small scale generators. From 1 January 2011 STCs created by SGUs under SRES have not been eligible for GreenPower. AGL continues to support this position. Inclusion of SGU’s will add a level of complexity and hence cost to GreenPower as well as raising potential issues regarding the integrity of the product (due to deeming), commercial considerations (interaction with SRES targets and spot prices) and regulatory burden (forecasting).

Advocacy: R4: Introduce opt out requirements for GreenPower

AGL does not support any move to require an initial offer to be a default GreenPower offer. GreenPower products have traditionally come at a higher price to the customer. AGL agrees that consumers are more inclined to choose the default option that is presented to them. As such AGL considers that the proposed opt-out requirement carries an inherent risk customers will inadvertently select a product that does not suit their circumstances. This is because, despite adequate disclosure, consumers may not fully understand that the GreenPower offer is optional, the full cost of taking up GreenPower or how GreenPower benefits them.