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A Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity

AGL Energy (AGL) welcomes the opportunity to make a submission in response to the *Low Carbon Liquid Fuels - A Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity - Consultation Paper* (Consultation Paper).

Proudly Australian since 1837, AGL delivers around 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 \$4.8 billion in renewable and firming generation over the past 20 years and added more than 2,350 MW of new generation capacity to the grid since 2003.

In September 2022, AGL released its inaugural [Climate Transition Action Plan](#) (CTAP) under the Say On Climate initiative, 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 of new firming and renewable assets by 2036.
- An initial target of 5 GW new firming and renewables by 2030.

AGL has also committed to repurposing its large thermal generation sites into low carbon integrated energy hubs, designed with circular economy principles, bringing together industries that can make a positive contribution to the energy transition.

The role of Low Carbon Liquid Fuels in decarbonisation

Achieving Australia's emissions reductions targets will require significant emissions reductions across all sectors of the economy. AGL is very supportive of the work underway by the Australian Government to develop an overarching Net Zero Plan, which will consider the six sectoral decarbonisation plans that cover all major components of the economy. We note the important linkages between these sectoral plans and the work undertaken to develop a low carbon liquid fuels (LCLF) industry and encourage the government to ensure that there is close collaboration between the relevant departments when undertaking this work.

The electricity sector has and will continue to play a critical role in decarbonising the economy and supporting a new era of economic growth powered by renewable electricity. Low-emissions electricity has the potential to unlock substantial emissions reductions across the broader economy, most notably in the transport and industrial sectors through fuel switching. However, for parts of the economy that cannot readily electrify, other mechanisms will be required. LCLFs will therefore have an important role in decarbonising fuel reliant sectors that are unable to readily electrify, such as aviation, transport, maritime, construction, mining, and agriculture.

AGL supports the Australian Government's focus on growing new industries that will benefit communities and workers while playing an important role in the transition to net zero. We also support the Consultation Paper's



focus on advanced biofuels and synthetic e-fuels in order to reduce waste and to not compete with food production, given they are a drop-in replacement for fossil fuels. Although the costs associated with synthetic e-fuels are significantly higher than for biofuels, these are expected to decrease as technology improves and renewable generation accelerates. It is important to both unlock biofuel reserves that can be easily substituted now, while jointly incentivising e-fuel production given its scalability potential. This may also drive a need for additional investment in carbon capture technologies like direct air capture (DAC) to minimise the carbon emissions created by the e-fuel production process.

As noted in the Consultation Paper, a local LCLF industry has many benefits: improving sovereignty capabilities, expanding the economy and providing benefits to regions most impacted by the energy transition, offering a decarbonisation option for industries where electrification is difficult, and supporting waste reduction through use of feedstocks such as municipality waste. LCLFs also have complementary functions; for example, sustainable aviation fuel (SAF) production is complemented by other low-carbon products, such as renewable diesel and lighter hydrocarbons, enabling further decarbonisation in road transport and heating.

In order to grow the industry, it is important to overcome any regulatory barriers now and provide incentives required to move ahead. AGL supports the Australian Government developing a framework to support the domestic LCLF industry and help the market overcome barriers in the short, medium, and long-term. We also support the Commonwealth's investments in projects through the Sustainable Aviation Fuel Funding Initiative and the Hydrogen Headstart program.

Production & demand-side incentives

Establishing a clear long-term vision for the LCLF industry, through long-term policy settings and guidelines, and enduring demand signals, will be critical to providing a stable environment for investment in the LCLF industry. Long lead times for LCLF production means that appropriate policy signals are required now for investment certainty, and timeframes for incentives need to be realistic. It is also important to consider and manage impacts to the consumer of potential flow-on effects such as product price rises as a result of any mandates or demand-side mechanism, particularly for those most vulnerable.

A range of different mechanisms may be required to incentivise production of LCLFs given that industry participants will be of various size and maturity, with different commercial requirements. For example, up-front capital may be required by start-ups while production credits may be more appropriate for established international entities. We would recommend that flexibility is retained to offer support either through production linked credits or capital grants.

Rules for funding and incentives, such as eligibility criteria for funding and certification, need to be clear and transparent, and applied consistently, to provide confidence to industry and support investment in infrastructure and capital. Eligibility criteria for incentives should also account for the differences in needs of industry participants, e.g., for some participants, there will be a reliance on securing funding prior to establishing commercial arrangements and sites. A phased approach may be required whereby the criteria for funding and certification is more flexible in the beginning to establish the industry, progressing to fully zero emission LCLFs as production costs decrease.

Interaction with existing incentives and schemes such as the Safeguard Mechanism and Australian Carbon Credit Units (ACCUs) will need to be considered to ensure efficient allocation of funding. Supporting measures such as the Capacity Investment Scheme (CIS) are equally important policy levers to help accelerate the required renewable electricity to support green hydrogen and generate LCLFs. Consideration needs to be granted to government schemes contingent on one another, with renewable electricity required to underwrite green hydrogen, and in-turn, some LCLFs.

To aid establishment of a LCLF industry, AGL urges the government to proactively look for ways to minimise the approvals and regulatory burden whilst maintaining measures that are in the long-term interests of the industry. We recommend that consideration be given to application and ongoing reporting requirements under



any potential incentives scheme, and streamline these where possible to reduce time spent and costs incurred by industry participants.

Emissions and sustainability criteria

Transparency around emissions and sustainability criteria will be key to building trust and demand in LCLF products and ensuring that emissions reductions are real. Reporting and accounting mechanisms must adapt to reflect the need to accurately capture emissions and abatement in the LCLF sector.

AGL supports the Consultation Paper's intention to utilise the Guarantee of Origin (GO) Scheme as a basis for emissions and sustainability criteria for a potential production incentive program, to track and verify emissions from the production of LCLFs. AGL has been very supportive of the development of the GO Scheme, with certification of renewable electricity through Renewable Electricity Guarantee of Origin certificates (REGOs) a key element not only of driving decarbonisation in the electricity sector, but also supporting decarbonisation of other products and services that use electricity as an energy input¹. Given that the existing certification scheme for renewable electricity—the Large-scale Renewable Energy Target—is due to end in 2030, and much of the demand for LCLFs is expected to come after 2030, it is critical that an enduring green certification scheme is established. Certification through this scheme will provide the necessary signals and transparency to market participants to make informed choices. It will also provide assurance that purchases of green products is leading to real sustainable outcomes.

We are also supportive of aligning certification arrangements with international schemes such as the Guarantees of Origin scheme in the European Union, which has been operational for years, and the International Civil Aviation Organization's Carbon Offsetting and Reduction Scheme for International Aviation (CORSA) scheme. As noted in the Consultation Paper, the CORSA scheme considers aspects such as food security, water quality and availability, and soil health and so is a good example to leverage when designing certification for LCLFs in Australia. International schemes and experiences provide a valuable source of information and learnings for developing a domestic certification scheme.

It is important that a certification program has sufficient flexibility to enable the development of new LCLFs - particularly synthetic fuels which require a range of different inputs - while having a clear pathway to zero emissions. Any emissions reduction threshold should be set to deliver a clear emission reduction compared to conventional fossil fuels, with that threshold gradually becoming more ambitious over time. An emissions reduction threshold should also be harmonious with international standards. This will become increasingly important to remain competitive in the global context as nations introduce stricter sustainability standards and introduce carbon border adjustment mechanisms (CBAMs). These need to be complemented by transparent and fair carbon accounting standards.

Consideration should also be given to the work that the Australian Government is undertaking with the Australian Sustainable Finance Institute (ASFI) to develop a sustainable finance taxonomy. This piece of work will be important in supporting the flow of capital into sustainable activities and ensuring market integrity, transparency, and fairness.

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Yours sincerely,

AGL Energy

¹ See [AGL's submission](#) to the Guarantee of Origin (GO) consultation paper Feb-23

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