

Responsibly funding net zero

15 years ago, Al Gore showed us an inconvenient truth behind the science of climate change. Today, the science is settled on emissions reduction. Faster is better. The harder question is how.

Many investors have focused on funding only zero emissions activities, reducing financing in many sectors with carbon emissions.

Earlier this year, the UN Special Convey for Climate Action and Boris Johnson's finance advisor for COP26, Mark Carney, gave some resounding advice for investors wanting to help accelerate the energy transition – "Go where the emissions are".

In the past week, the Commonwealth Bank's Catherine Livingston noted that much of the heavy lifting toward achieving net zero will be borne by companies with a high emissions intensity profile and a clear pathway forward.

Deputy Governor of the Reserve Bank, Guy Debelle, also noted that financing net zero did not mean financing only zero emissions activities.

I agree.

Today's inconvenient truth is that Australia's transition to net zero means continuing to fund emissions intensive activities until we replace them. Explaining why involves describing the responsibility we have to our 2.4 million customers and the communities in which we operate.

EnergyAustralia is a leading energy retailer and generator with a portfolio covering coal, gas, renewables and storage. We supply customers with energy every minute of each day. Our customers expect reliable and affordable energy supply through the energy transition.

We supply energy from our power stations including Yallourn in Victoria's Latrobe Valley and Mt Piper near Lithgow in New South Wales. Both areas have produced coal for over a century.

Indeed, coal power has been integral to regional communities and economies, supporting local businesses and with strong ties to generations of families. These communities want a future beyond coal.

Our business is planning for that cleaner energy future, today. We recently committed to net zero emissions by 2050, to be out of coal by 2040, and to reduce our direct emissions by 60 per cent by 2028/29 relative to this year.

Our responsibility is to deliver a successful energy transition through respectful and responsible actions. By transitioning local communities and the power system together, we can ensure no one is left behind.

Earlier this year, we announced the early retirement of Yallourn in mid-2028. We think there is merit in our approach: plenty of notice for our workers and the community, support for our people to develop new skills, and investing in the region and a modern power system through the commitment to build a large battery in the Latrobe Valley before the Yallourn closure.

Australians support each other through tough times and change is always tough. With many more coal plant closures to follow on the path to net zero, we hope to see long notice periods and a strong focus on supporting regional communities by the public and private sectors.

As coal retires, the nature of our power system is changing from one of primarily on-demand generation to having lots of different technologies that turn off and on, often in response to the sun and wind. Our sunburnt country knows better than most the variability of weather.

On the other side of the world, the UK is showing us a glimpse of our future, one in which there are natural fluctuations in the seasonal production of wind generation. The lesson from the UK is to plan for variability, to plan for a power system with resilience and depth of supply sources.

For the UK today, the backup for low wind is gas with a bit of coal. Meanwhile in Australia, renewables already constitute 25 per cent – coal with a bit of gas and hydro, a touch of battery provides the rest.

Right now, we don't have zero carbon generation or the necessary energy storage to replace the role played by coal and gas, as the backup to renewable sources. Because there is nothing we can readily turn on to replace coal or gas – we need to build it.

This leads to the inconvenient truth in that keeping the lights on and energy affordable today means continuing to invest in coal and gas generation – and the emissions that come with them.

Of course, this should not slow our transition to reaching net zero. Fortunately, Australia is already off and running in the renewables race.

Household and business choices coupled with government policies are turbocharging their introduction. A record 7.0 gigawatts of new renewable capacity was installed last year. That is more than twice the maximum demand of South Australia built in just one year.

Complementing renewable investment, EnergyAustralia is investing in the resilience and depth of supply needed in a modern and clean energy future.

Beyond our Wooreen battery in Victoria, we have underpinned the Kidston pumped storage hydro project, we're building Tallawarra B, Australia's first net zero, hydrogen-enabled gas plant. We're also developing Lake Lyell pumped hydro – an exciting opportunity for the Lithgow region.

Australia's successful energy transition relies on investing in these types of projects as well as in the current coal and gas fleet, even as we give notice and retire legacy fossil generation.

Our customers and communities expect a responsible transition. Making this possible, the investment and financing of emissions-intensive companies leading Australia's net zero transition is essential.

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