Impact investing powers revolution at AGL

How Sentient shaped carbon giant's net zero reset

15 November 2022

AGL shareholder Grok Ventures has been a key voice agitating for board reform. What is less known is the ***key role of impact investment group Sentient*** *in shaping AGL's blueprint for change mandated at this week's AGM – literally, in the form of the company's first Climate Transition Action Plan, which sees it exit coal by 2035 and pump ~$20bn into renewables.*

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Tuesday was a red letter day for impact investing. While engagement, exclusion and divestment tools have been increasingly deployed by global financial institutions to effect change, the AGL AGM marks a case-study in another option – using impact capital strategically to galvanise an agenda and transform climate science denying laggards into zero-emissions corporate leaders.

Australia's largest energy gentailer, biggest carbon emitter and most notorious climate laggard, AGL – which operates Australia's oldest, dirtiest coal power stations, and is responsible for a huge 8% of the country's emissions – was transformed by an AGM clean sweep. Despite the chair's opposition, the meeting saw all four independent board candidates elected by the vast majority of shareholders on a decarbonisation pathway agenda, and the company adopt its first ever, long overdue Climate Transition Action Plan. While it needs to be more ambitious to fully align with the climate science and Science Based Targets initiative (SBTi), it is a very good start.

The revolution in the halls of power at the carbon dinosaur followed the resignation in September of its CEO and chair after the failed, costly demerger debacle. Under this leadership, shareholders had lost some 68% of their investment in the period 2017 to June 2022, a destruction of some $10bn in shareholder value. The leadership overhaul at this week's AGM follows the recent appointment to the AGL board of former Clean Energy Council chair, Miles George, with the board of 9 now comprising a majority of 5 new independent nonexecutive directors, including the former head of the Energy Security Board, Dr Kerry Schott.

AGL shareholder **Grok Ventures**, with an 11.3% stake, has been a key voice agitating for board renewal and reform on behalf of all shareholders. What is less known is the key role **impact investment group Sentient** played in shaping AGL's new blueprint for change.

Purpose-led **Sentient** harnesses financial capital from individuals, foundations and institutions to invest in impact opportunities in line with their values. It represented a group of impact investors with a relevant interest in more than $50 million of AGL shares, or 1% of the company, to call for a strategic reset -– grounded in an appropriate strategic plan aligned with the Paris Agreement and a 1.5°C limit, consistent with the critical need to decarbonise our economy.

The plan, **Sentient** said, should be capable of delivering shareholder value against a backdrop of rapid decarbonisation, including early closure of high emissions assets and accelerating private and public capital investment flows into firmed renewables, both utility scale and distributed. It should "leverage the benefits of AGL's vertical integration, market strength, balance sheet resources and all the experienced management and staff" and enable AGL to "seize the opportunity to lead the energy transition", including the investment opportunity in firmed renewables.

Sentient impact investors formally embodied this call in a **June 2022 report it commissioned from Climate Energy Finance (CEF): "One AGL: from laggard to leader".**

This report was given to the AGL board and the chair of its strategy review. The similarities between the report, the strategy review outcomes, and AGL's Climate Transition Action Plan, formally endorsed at yesterday's AGM, are striking.

Sentient/CEF's report identifies several strategic pillars which should form the foundation of the reset. A key pillar is that AGL should "Responsibly accelerate the exit from coal to maximise value"; and, specifically, "Exit coal fired power within a decade."

The **AGL Climate Transition Action Plan** confirms that it has "brought forward the targeted closure dates for coal-fired power stations to support the transition to a lower carbon world aligned with the Paris Agreement goals" and is "targeting the closure of Loy Yang A Power Station" "by the end of FY2035." It notes that "This targeted exit from coal-fired generation, up to a decade earlier than previously announced, would avoid up to 200 MtCO2e of greenhouse gases compared to the previous closure date."

The early closure of Loy Yang will complete AGL's full divestment from coal, with its Lidell Power station closing in 2023 and Bayswater in 2033. There remains scope to shift these dates forward again, but only as firmed renewables capacity is developed and commissioned ahead of schedule, so as to ensure grid reliability, decarbonisation and lower electricity costs.

A second key pillar of **Sentient/CEF's report** is "Invest decisively to ramp up the modern clean gentailer business to a material scale" by "replacing coal with renewable energy generation and storage." Specifically: "Replacing approximately 5GW in coal capacity will require building approximately 12GW in firmed renewable capacity with storage ready for deployment before coal-fired power generation is shut down. Such a capacity would come at a capital cost of approximately $24 billion with AGL's share being around $12 billion (debt and equity), assuming a 50/50 partnership (with, e.g., pension capital)."

Again, the detail of **AGL's Climate Transition Action Plan** mirrors the **Sentient/CEF report**, albeit assuming a slower implementation timetable. It commits AGL to supplying customer demand with, "~12 GW of additional renewable and firming capacity, requiring a total investment of up to $20 billion, before 2036" with an "initial target of 5 GW of new renewables and firming capacity in place by 2030, funded from a combination of assets on our balance sheet, offtakes and via partnerships."

This is a notable development in the context of last week's bid by Canadian renewable infrastructure investor **Brookfield Asset Management and partner US-based EIG to purchase AGL competitor Origin Energy**. The parties' offer of $18.4bn is coupled with a commitment to invest a huge $20bn into renewable generation and storage capacity over the coming decade – a resounding endorsement by global capital of the scale, pace, inevitability and opportunity of the domestic energy transition, and a siren call to AGL to pivot its investment strategy, as it proposes to do, if it intends to compete.

Prior to this week's historic transformation of the board, traditional strategies of engagement and divestment had failed to change the company's course. The flight of most of AGL's large active institutional investors including superfunds and sovereign wealth funds left the board largely unmoved from its trajectory over the carbon cliff.

The Sentient/CEF report also correctly identified the need for a new team to take AGL into the future. It noted "New leadership will be required to implement the new strategy we have outlined in this document. Executing an ambitious growth strategy requires a specific skill set and mindset and a clear break from traditional incumbent thinking."

The report essentially provided the strategy blueprint for growth and rejuvenation, and at this week's AGM, shareholders overwhelmingly mandated it, changing the guard and opening a fresh chapter in the life of Australia's oldest energy company. As Brookfield has shown, the investment opportunities are there to be seized, either by AGL or others, if they choose to act too slowly.