Inside Mike Cannon-Brookes' AGL coup

When Mike Cannon-Brookes' takeover of AGL failed, he opted for a mutiny, and it's dragging one of Australia's oldest companies – and our largest polluter – into a renewable energy future. By Mike Seccombe. 19 Nov 2022 The Saturday Paper

The Torrens Island gas power station in Adelaide, which is owned and operated by AGL

To call what happened at Tuesday's AGM of the energy giant AGL a corporate coup does not do it justice. It was really more of a desperate bid by the company's shareholders to avoid climate-induced extinction.

Those investors, frustrated with AGL's sclerotic leadership, elected four new members to the company's board, all of them endorsed by its most trenchant critic, tech billionaire Mike Cannon-Brookes, and three of them installed despite the opposition of the incumbent board. Factor in another board member who joined it September and a majority – five of nine members – were put up by Cannon-Brookes, via his investment vehicle, Grok Ventures.

That's an extraordinary achievement, given he holds only a little over 11% of AGL's shares – bought at a cost of "just" $650m after the company knocked back his full takeover bid, in association with Canadian asset manager **Brookfield**, for about $8 billion, in March. And it's an extraordinary indictment of the previous board and executives that Cannon-Brookes has more influence over the company than they do.

The new additions to the board were elected as independent directors, rather than as representatives of Cannon-Brookes and Grok, although clearly he would not have nominated them had they not been similarly committed to radical change in the way the company operates.

But it was much more than a coup for Cannon-Brookes. In voting for the slate of new directors, institutional investors showed they realised the business model that has sustained AGL for 185 years – and made it Australia's biggest climate polluter – is no longer viable.

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Indeed, it has not been viable for years, as the inexorable decline in its share price attests. AGL has lost about 75% of its value over the past five years, simply because the company failed to foresee the impact the shift to renewable energy would have on companies that generate electricity through the burning of fossil fuels.

Without major change, it could well go the way of the dinosaurs, suggests Tim Buckley, director of Climate Energy Finance. “Shareholders lost $10 billion of wealth as a result of their failing to realise the magnitude of the change that was coming. Ten billion of wealth destruction, by failing to acknowledge and act on the climate science. It’s as simple as that,”. The important thing, he says, is not that Cannon-Brookes has had a win but that “it’s actually a win for the rejuvenation of AGL. We now have the majority of the board with a very clear mandate to actually work on behalf of all shareholders.

“None of the new directors … have any affiliation with Grok. What they do have is an acceptance of the climate science and the need for AGL to move from being a laggard … to becoming a leader as fast as they possibly can, because if they don’t, they’re going to have their lunch eaten by other new players.”

The new recruits to the board – former Energy Security Board chair Kerry Schott, Swinburne University chancellor John Pollaers, former CSR director Christine Holman and former Tesla Energy director Mark Twidell – are impressively credentialled, and are widely seen by analysts as having relevant, complementary skill sets necessary for coping with the rapid pace of change in the energy sector. The incumbent board opposed all but Twidell.

They will certainly have their work cut out for them. Those who led the company before them have left an awful mess due to their failure to appreciate the rate and direction of change in the energy sector. Former chairman Peter Botten conceded as much in July last year, when he formally announced a plan to dramatically restructure the company. The winds of change, he said, had been “substantially faster than many people anticipated”. “From my perspective, those winds have been extremely fast and I didn’t see quite the level of change and the acceleration of change in my thinking 12 months ago. And I believe that is representative of the AGL board.”

Those winds have since blown Botten out of the chair, as they have blown away a succession of senior people at AGL.

The precipitating factor in Botten’s demise was the failure of the planned restructure. The board proposed to split AGL into two separately listed companies – they called it a “demerger”. One entity was to operate as a “retail, trading, storage and supply” business under the name AGL. The other, to be called Accel Energy, would hold AGL’s power-generation assets, mostly coal. Over time, AGL said, it would move into more clean energy. Analysts promptly dubbed these two parts CleanCo and CarbonCo or, less politely, ShitCo.

They saw the separation plan as hugely expensive, paid for by $400-500m in reduced shareholder dividends, and vulnerable to challenge by government regulators, the courts and tax office. There were also suspicions among environmental lawyers that the plan could allow the company to avoid the costs of remediating its power plant and mining sites.

On May 30, AGL dumped the demerger plan, without even putting it to shareholders. It was an early victory for Cannon-Brookes, who lobbied strongly against it.

In addition to Botten, CEO Graeme Hunt subsequently resigned, along with two non-executive directors. And in September, having failed to find any alternative outside candidate to replace Botten, the company anointed an existing board member, Patricia McKenzie. Following this latest AGM, commentators and analysts are wondering whether the winds of change will also blow her away, given that she was another proponent of the failed demerger and lost the fight against Cannon-Brookes' three nominees for board positions.

As SMH columnist Elizabeth Knight put it: "AGL chairman Patricia McKenzie must be feeling a bit like the lobster sitting in the tank at a Chinese restaurant which advertised lobster tail as its daily special."

At the very least, the events of this week have set AGL up for further conflict.

For while shareholders endorsed Cannon-Brookes' board candidates, they also endorsed a new corporate plan – yes, another one – advocated by McKenzie and the old board, which Cannon-Brooks opposed. Under that plan, AGL proposes to shut all its coal-fired power plants by 2035, which is certainly a big advance on its previous position but still not sufficient to satisfy Cannon-Brookes.

Ahead of the meeting, Grok recommended rejecting the "Climate Transition Action Plan", on the basis that it was consistent with 1.8°C of global temperature rise, instead of the Paris Agreement-aligned target of 1.5°C. Grok reminded shareholders that they had voted at the 2021 AGM in favour of such a target, even though the board had recommended against it.

Apart from seeing the target as an inadequate response to the climate crisis, Cannon-Brookes is critical of the way the company intends to go about reaching it, arguing that there is too much emphasis on a "centralised operating model" and not enough on so-called "behind the meter" opportunities.

By this he means nothing less than turning the traditional model of electricity provision "upside down", says Bruce Robertson, energy finance analyst with the IEEFA. "What he's saying is that we need generation at the point of consumption. And storage, at or near the point of consumption. In other words, things like community batteries at the end of the street. Individual batteries in the home. Electric cars providing power, vehicle to grid," Robertson says.

There is general consensus among the more far-sighted experts that such a revolution must happen if we are to solve the climate crisis.

"Achieving the Paris goal requires decarbonisation of all of the economy, not only the electricity supply system. That includes transport, industry, buildings, agriculture, everything," says Anna Skarbek, CEO of Climateworks Centre, an independent non-profit specialising in advising on paths to net zero. "And we'll need all companies who are active in supply chain designing business models that allow us to upgrade equipment and quickly decarbonise." That means, for example, not just new electric heat pumps to replace gas water heaters "but digital interfaces that can be set to heat the water when your solar panels are generating", she says. "And so it becomes a commercial opportunity for those entities that can do it well and make it easy for consumers to adopt and easier for policymakers to adjust."

In one way at least, Australia is actually uniquely well placed to benefit from the revolution, says Tim Buckley. "Australia is a world leader on rooftop solar. We've got 15GW of rooftop solar today. Per capita, that's five times higher than any other country in the world. The Australian Energy Market Operator's integrated system plan says we're going to have four times that – 60 GW – by 2050. "And by 2050, we're going to have 20 million batteries on wheels, sometimes called EVs, enabling two-way electricity flow. And that changes everything," Buckley says. "Centralised power generation is going to be totally disrupted by distributed energy and by demand response management and by batteries and the convergence of transport and stationary energy."

And from an energy user's point of view, all these disruptive forces will be positive.

By Saul Griffith's calculation, the typical household will need 200 to 300% of the electricity it now uses, to compensate for the electrification of appliances and vehicles. But power bills will be lower. "The majority of that new electricity could come from solar that we put on our rooftops and in our communities, and because it doesn't have to rely on new transmission can be the cheapest new energy in the system," the inventor and scientist says. "We will still need a bunch of big electricity generators – solar and wind – out there on the grid, but I think Mike Cannon-Brookes is encouraging the right idea. There is far more emphasis to be made, and opportunities to be gained, by thinking about what happens behind the meter – what happens on our rooftops, what happens in our driveways, what happens in our kitchens." If AGL does it right, Griffith says, "It gets to play all of these games."

There are those, though, who question the capacity of a 185-year-old company to quickly learn new tricks.

"It's rare for an established company like AGL to be the disrupter, but that is what Cannon-Brookes is essentially aiming for," says Bruce Robertson. "And that is very difficult to do, because you have an incumbent business that you've somehow or other got to wind down without losing too much value. And changing the mindset within a big company like AGL is challenging." Robertson points to the example of Tesla and the EV revolution. Everyone, he says, knew electric cars were possible, even superior to internal-combustion vehicles. General Motors even made one, the Volt. But it took Tesla to make them a commercial reality. "It wasn't Mercedes, it wasn't VW. It wasn't Ford or GM … because they wouldn't disrupt their own business model. Then [Elon] Musk came along with a whole new model, a totally different way of doing business, and disrupted the incumbents."

He also points to the AGL's near-perfect record over the past decade of making wrong calls on big decisions. The irony is, he says, "if you go back in history, AGL was actually at the vanguard of wind and solar generation in Australia".

Indeed it was, until a decade ago, when it made the ultimately disastrous decision to vastly expand its investments in coal. In June 2012, it bought out the two-thirds of Victoria's Loy Yang A power station and associated mine that it didn't already own, for $448m.

In September 2014, it paid $1.5 billion to acquire the assets of Macquarie Generation, including the Bayswater and Liddell power stations, from the NSW government.

As a result it became by far the biggest single contributor to climate change in Australia, responsible for 8% of all national emissions of greenhouse gases.

It took only a matter of months, and the appointment of a new chief executive, to realise the purchases were a huge mistake. The new man, Andy Vesey, was appointed in February 2015, and almost immediately flagged a change of course away from coal. He commissioned a detailed internal report into how AGL might adapt to a "carbon constrained future" and subsequently said that "we need to be out of the CO2 emissions business".

But getting out proved harder than getting in. Not only did Vesey get pushback from within the company but he also was subjected to enormous political pressure. The federal Coalition government opposed his plan to shutter the old Liddell plant. It insisted that AGL keep operating Liddell for another five years or sell it to someone who would. Vesey refused.

In the protracted political fight that ensued, the government impugned Vesey's motives, suggesting his plan was to remove generating capacity from the grid to push up power prices. As *The Saturday Paper* revealed last year, in late 2017, then Environment minister Josh Frydenberg began phoning members of the AGL board, demanding Vesey be sacked.

Vesey left AGL in August 2018, and with him went much of the urgency to get out of fossil fuel and into renewables. It was not until April Fools' Day this year that the company finally shut down the first of four units at Liddell. Full closure is scheduled for next April.

"We announced the retirement of Liddell in 2015 and seven years later we are pleased to be in a position to begin the orderly and responsible closure and transition of the power station in line with our climate commitments," a company media release trumpeted.

The point here is that climate change is happening fast and AGL has a history of moving slowly and resisting change.

Anna Skarbek notes the Australian Council of Superannuation Investors published a report, "Chasing 1.5", for which Climateworks did the analysis. "What's significant about the report is clear statements of expectation from investors, that the 1.5°C goal is the goal they seek alignment with," she says. "And that accords with increased understanding of the exponentially increased harms if warming is allowed to continue to two degrees instead of the 1.5°C limit."

What they say and what they do, of course, can be quite different, as AGL's investors showed this week when they endorsed AGL's plan for the 1.8°C target.

But, thanks to the work of Australia's great disrupter, Cannon-Brookes, smart, climate-savvy people are at least on the bus at AGL. It's going to be interesting to see whether they can take the wheel and turn it around.

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