

20 November 2023

Board of Directors  
AGL Energy Limited  
Level 24, 200 George St  
Sydney NSW 2000, Australia  
Delivered via email

Dear Chair and Board of Directors

Grok Ventures considers AGL's updates to its strategic direction and targets a step in the right direction. We're pleased to see AGL acknowledge its role in Australia's decarbonisation journey for the benefit of its customers, shareholders and the planet.

AGL's announced intentions and early actions represent a first step on a long journey. A journey that requires greater leadership and ambition in Australia's energy transition. Ahead of AGL's Annual General Meeting on 21 November 2023, Grok Ventures, as AGL's largest shareholder, is reiterating our aspiration for AGL's long term plan and management incentives to align with a 1.5 degrees pathway.

### **Recognising Progress to Date**

Firstly, we acknowledge the operational and strategic improvements undertaken over the last 12 months. The new strategy articulated on 16 June 2023 at the AGL Investor Day represents a major step in the right direction.

Secondly, we praise Damien Nicks' leadership of AGL since taking the CEO role in October 2022. We value Damien's efforts in engaging with shareholders, as well as his receptiveness to feedback. We're impressed with how he has unified AGL's executive team behind AGL's updated strategic direction and targets. We look forward to continuing our dialogue with Damien and AGL's executive team.

After over 18 months of being AGL's largest shareholder, we are more convinced than ever that AGL can lead Australia's energy transition, creating value for the company, its customers, employees and shareholders. We know this transition is difficult and complex. We acknowledge it cannot happen overnight. But the next step is raising AGL's ambition and rewarding execution of that ambition.

### **Raising AGL's Ambition**

We believe AGL needs to take more urgent action to decarbonise its energy supply. Being an early mover will cement AGL's competitive position in Australia's energy market over the coming decades. To realise this opportunity, AGL needs to move faster and set more ambitious targets.

We believe that the targets set under the 'Carbon Transition Metrics' in AGL's 2023 Remuneration Report incentivise the company to stand still whilst the rest of the Australian energy market does the work: executives will be rewarded, whilst AGL, its customers and shareholders, are left behind

by inaction. This unambitious attitude reminds us of the 'old AGL' thinking - which was orientated towards watching the transition from the sidelines, instead of leading from the front.

Grok Ventures' specific concerns with the Long Term Incentive targets in AGL's 2023 Remuneration Report include:

- **Emission Intensity Goal:** the target for 100% LTI grant only requires AGL to reduce CO<sub>2</sub>e of electricity supply by ~1% p.a. over 4 years. This means AGL will have carbon intensity of supply that is more than 90% higher than the market forecast by AEMO in 2027 (ISP Step Change Scenario).
- **New Firming and Renewables Capacity Goal:** as AGL decommissions coal plants, it must drive new renewable generation capacity and firming capacity. We encourage AGL to separate this metric out into firming and generation. Furthermore, hitting 100% of this target represents only 10% of AEMO ISP's (Step Change Scenario) target of new renewables and firming by 2027 which is about half of AGL's electricity supply market share<sup>1</sup>.
- **Revenue from Green Energy Goal (Green Revenue as a % of Total Revenue):** to hit 100% of this goal, AGL is only required to grow Green Revenue by 3% p.a. over the next 4 years. This is akin to tracking CPI, achieving no real growth.

### **Grok's voting intentions**

AGL's 2023 Remuneration Report must better align executive remuneration with accelerated climate outcomes that are in line with the 1.5 degrees scenario. Setting baseline, unambitious targets will not drive change in time to capture early mover advantage.

We understand the implications of a second strike and do not believe this outcome would be a constructive one at the current stage of AGL's transition. As a result, Grok Ventures intends to ABSTAIN from voting on AGL's 2023 Remuneration Report.

In 2024, we ask that the Chair lean into the responsibility of setting a more ambitious climate strategy and appropriately align executive incentives to those more ambitious objectives.

We thank the Board for their engagement to date on these issues, and look forward to continued constructive discussions.

Yours sincerely

Jeremy Kwong-Law

Grok Ventures

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<sup>1</sup> AGL FY23 Electricity Sales Volume (p32 AGL FY23 Full Year Results Presentation) compared to AER Annual Electricity Consumption - NEM (<https://www.aer.gov.au/industry/registers/charts/annual-electricity-consumption-nem>)