



CLIMATE ENERGY FINANCE

Australia needs a stronger alignment of public and private capital to deliver on our energy transition and climate objectives

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The Clean Energy Investor Group (CEIG) and Investor Group on Climate Change (IGCC) have today released a new report, [Collaboration to support transition: Investor positions on public ownership of renewable energy](#). The report highlights that for all the positive momentum building over the last year under the Albanese Government, most recently with the passage of the [Safeguard Mechanism](#) and the [\\$15bn National Reconstruction Fund](#), Australia is not currently on track to meet its 43% emissions reduction target by 2030, let alone the more rapid trajectory aligned with the climate science, such as 75% by 2035. The key message of the report is that the Australian governments collectively need to lift collaboration with private investors, and derisk the electricity sector sufficient to crowd-in private capital at the scale and speed required to deliver on our energy transition and climate objectives.

The CEIG / IGCC report highlights AEMO's forecast that \$320bn of new electricity generation capacity and supporting firming and grid transmission investments are required. If we take a wider view and add in the investment potential in [critical minerals and metals refining](#), the investment and employment opportunities are in excess of half a trillion dollars.

We are off to a good start, with [BloombergNEF](#) reporting that total Australian energy transition investment nearly doubled to US\$12.7bn in 2022, up from an average of US\$6-7bn pa in the three preceding years. Brookfield chairman Mark Carney has said this week that Brookfield alone is looking at a potential additional \$20bn in investment into Australia on top of its Origin Energy acquisition costs. The capital is entirely available, with the right policy framework.

This message is wholly consistent with the position of the [Climate Capital Forum](#), which urges the federal government to accelerate its climate ambitions and implement fundamental reforms to modernise and decarbonise the Australian economy, to maximise the jobs benefits of the transition by incentivising domestic renewables powered value-adding of our critical minerals and metals, and to use public institutions like the Future Fund, Export Finance Australia, ARENA, NAIF and CEFC to apply a national interest lens to strategically support and finance key Australian industries of the future. By providing stable and committed revenue streams, governments can materially reduce financial project risks, attracting private investment in the sector and accelerating the development and deployment of renewable energy projects at lower cost.

As the CEIG/IGCC report points out, the electricity sector needs to decarbonise first to enable other sectors a slower glide path. Time is running out, given the very long lead times required to build out seasonal storage and grid transmission projects.

There are many benefits to a 1.5 degree C aligned transition of the electricity sector in Australia. In addition to reducing greenhouse gas emissions, it will also create jobs and investment opportunities in the renewable energy sector, improve energy security, and support the transition to electric vehicles (EV) which in turn improves energy security by reducing our reliance on high emissions fossil fuels.

It will also help to position Australia as a leader in the transition to a low-carbon economy, which is becoming increasingly important as other countries around the world move in the same direction, with a noticeable acceleration in global ambition on the back of the US [Inflation Reduction Act \(IRA\)](#). Goldman Sachs estimates the IRA could drive a staggering US\$1.6 trillion in new public and private decarbonisation investments, having sparked a massive [reindustrialisation of the US economy](#). But it is not the US IRA alone we need to consider. We are seeing a massive, increasing momentum in the global investment and policy race, with new incentives across the [EU Net Zero Industry Act](#), Japan's GX Roadmap, [Canada's Critical Minerals Strategy](#), [South Korea's EV battery incentives program](#) and [India's Production Linked Incentives scheme](#). All are competing with the [clear leadership China](#) has already established in all zero emissions industries of the future.

The CEIG / IGCC report notes this accelerated transition also presents challenges. These include the need for significant investment in new infrastructure and technologies, progressive job losses in the coal sector, and the imperative for regulatory reform to enable the integration of ever more renewable energy into the grid, as well as the integration of the additional electricity demands of 'electrifying everything', the rapid uptake of electric vehicles, and the massive firming advantages of these distributed 'batteries-on-wheels', which have the potential to feed back power into the grid. These challenges will need to be addressed through a collaborative effort involving government, industry, and the community including the creation of an independent statutory National Energy Transition Authority.

CEIG and IGCC outline four investor positions on public ownership of renewable energy in the energy transition:

1. **Government can support decarbonisation by reducing transition risks** by setting clear long term targets and implementing supportive policies, including modernising the grid and providing support for emerging technologies like offshore wind, developing labour training programs, and incentivising domestic supply chains;
2. **Governments must design efficient and effective policy** to best accelerate the energy transition including new transmission;
3. **The private sector is best placed to be a majority asset owner of established technologies;** and
4. Private investors need **clarity on corporate governance of public enterprises.**

While [AEMO](#) estimates there is a strong, 209GW pipeline of renewable energy projects in the NEM, many face challenges in reaching financial close due to a lack of certainty on the value of this service, long term pricing signals are largely absent. To overcome this, governments can provide contracted revenue policies that guarantee a certain price for the energy generated by these projects, thereby reducing the financial risk associated with those investments. The [Capacity Investment Scheme](#) proposed by the [Energy Ministers](#) in

December 2022 is a good example, offering an agreed revenue 'floor' to help cover project operating costs and debt repayments, with the government paying the difference when revenues fall short, and returning the government a share of profits returned whenever revenues exceed an agreed 'ceiling'.

We look to a greater clarity in federal treasurer Jim Chalmers' May 2023 budget statement, the next key government opportunity to accelerate the capital flows that underpin the energy transition and establish Australia's global leadership potential, particularly in light of the need to demonstrate our credentials in line with our ambitions to host COP31 in 2026. We also advocate for a wider geographic mandate for our state energy and climate financing institutions to better assist our Asia-Pacific neighbours to both improve energy security and decarbonise their systems, leveraging Australian expertise.