

A LEADERSHIP ROLE FOR SUPER FUNDS IN SOLVING AUSTRALIA'S ENERGY TRILEMMA?

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Legal Briefings - By **Neena Aynsley**

On 29 June 2019, Industry Super Australia (**ISA**) released its Modernising Electricity Sectors Discussion Paper (the **Paper**)¹ which seeks to assist super funds in understanding and navigating the regulatory uncertainty in investing in the Australian electricity sector. More specifically, it aims *“to provide decision-makers and other long-term investors with a framework for thinking through lumpy investment decisions”* in the electricity sector.

The release of this Paper is particularly timely given that, in June of this year, IFM Investors and a number of Australia's largest industry super funds, such as Australian Super, First State Super and CBUS, joined over 450 international investors in signing a letter to the 'governments of the world' demanding urgent action to limit average global temperature rise in accordance with their Paris Agreement obligations. The backing of this letter evidences the growing mandate of Australian super funds to participate in a global movement towards low emissions economies in order to meet the expectations of, and obligations to, their increasingly climate-aware members.

The Report has attracted substantial media attention, and has been heavily criticised by, among others, the Electrical Trades Union which labelled the Paper a 'disgrace' for including nuclear in the potential universe of energy generation options.² Whilst the Paper does include nuclear in the universe of generation options, and notes that it is difficult to see how Australia can make the required low emissions transition without some nuclear, the Paper makes no recommendation for the adoption of nuclear technology nor any other technology for that matter.

The reignited nuclear debate in connection with the Paper has detracted from its main focus, being the key opportunities that exist for super funds to invest their capital in long-term electricity sector assets as a low risk component of their diverse portfolios.

ROLE FOR SUPER FUNDS IN TAKING THE ‘HIGHER ROAD’ AND MODERNISING THE ELECTRICITY SECTOR

In assessing the investment opportunities in the electricity sector for super funds, the Paper acknowledges and emphasises the high level of regulatory and technological uncertainty in Australia’s electricity sector and the difficulties this presents super funds considering expanding their portfolio. However, whilst acknowledging that the absence of a long-term energy policy disincentivises and complicates active investment by super funds (and investors more generally), the Paper also highlights the investment options that super funds could consider as interim measures that will endure further policy development in the sector, including:

- replacing the current fleet of base load generators; and
- updating network infrastructure to ensure greater stability and increased capacity.

In addition to identifying investment opportunities and methods of assessing the uncertainty in Australia’s electricity sector, the Paper also poses a stewardship role for super funds, as investors in the sector, in “taking the higher road” in order to nudge the sector towards a long term solution to the energy trilemma despite the absence of a comprehensive policy agreement that deals with reliability, competitiveness and emissions reduction. The Paper goes so far as to say that super funds and large institutional investors’ concern for the long-run stability of their investment portfolios creates an imperative for them to undertake this leadership role, especially given the importance of the electricity sector to *“Australia’s security, competitiveness and the overall efficient function of the economy on many levels”* (electricity being a cost input for all sectors).

OVERCOMING UNCERTAINTY

Given the growing capital that super funds have available, paired with electricity networks requiring an estimated \$4.4 billion capital spend each year for the next 10 years, a synergy does appear to exist especially as, in many cases, the long term view required to be taken in respect of recovering such investment.

In respect of non 'business-as-usual' investment, it may be difficult for funds to get sufficient comfort and clarity to invest; however, in such absence, there also appears to be a clear opportunity for super funds to be proactive in putting forward market-led proposals that provide greater certainty in order to generate stable returns for members whilst delivering some of Australia's much needed electricity infrastructure.

Although no 'off-the-shelf' solution is identified, the Paper specifically raises the potential of engaging with governments in designing the long-term investment instruments needed to modernise the electricity sector and provide sufficient comfort for long term investment.

Despite the absence of a comprehensive long term regulatory framework, we should point out that a number of domestic and international super funds continue to actively invest in Australian renewables/electricity infrastructure and the regulatory and economic uncertainty emphasised by the Paper has not proven an insurmountable barrier for investment.

In fact, at the end of 2018, 14.8 GW of new generation was under construction or financially committed, representing \$24.5 billion in investment.³

However, without the participation of super funds and other institutional investors nudging the sector towards long term solutions, and in the context of a continuing policy vacuum, there is a real risk of inappropriate infrastructure, stranded generation assets and eventually a contracted and more painful transition to a low emission electricity sector and economy.

[Click here to access the report](#)

ENDNOTES

1. Authored by ISA Chief Economist Stephen Anthony and Emeritus Professor of Political Economy at The University of Western Australia, Alex Coram.
2. 'ETU pushes union trustees to block nuclear', *The Australian Financial Review*, Jul 10 2019.
3. [Clean Energy Australia Report](#).

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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