

NSW ELECTRICITY INFRASTRUCTURE ROADMAP: PAVING THE WAY FOR CLEAN ENERGY

On 9 November 2020, the New South Wales Government announced a landmark 'NSW Electricity Infrastructure Roadmap'. The new policy outlines a 20-year plan for delivering a modern, robust and reliable electricity system in New South Wales focused on renewable energy investment. This briefing highlights key aspects of the Roadmap and potential implications for renewable energy clients and financial investors.

BACKGROUND

For years the renewable energy sector in New South Wales (**NSW**) (and, indeed, many other states and regions in Australia) has lacked comprehensive policy support and regulatory certainty. Successive governments on both sides of the political spectrum have held on to a strong desire to retain coal and gas in the energy mix. The argument being that fossil fuels provide reliable baseload power and cheaper energy prices, which cannot be fully replaced by renewable energy.

In the Federal Budget 2020-21, the Government has paved the way for a transition to low emissions technology with comparatively less direct funding for a gas-fired recovery, consistent with a global political, social and economic trend towards clean energy and zero-carbon targets. From our own financial investor clients, we are seeing strongly increasing interest in investments with an environmental and socially responsible focus in countries with low-emission sustainable economies.

INTRODUCING A ROADMAP FOR NSW

The NSW Electricity Infrastructure Roadmap (**Roadmap**) represents a significant policy turning point. The Roadmap unveils a coordinated framework for investment in electricity infrastructure with a strong focus on supporting renewable energy projects in NSW.

The Roadmap is supported by the introduction of the *Electricity Infrastructure Investment Bill 2020* (NSW) (**Bill**), which was introduced in NSW Parliament and had its first reading on 10 November 2020. The Bill sets up the framework for

Key points

- The NSW Government has published the NSW Electricity Infrastructure Roadmap which supports renewable energy and aims to achieve a net-zero emissions in NSW by 2050.
- The Roadmap is expected to attract A\$32 billion in private investment in regional energy infrastructure investment in NSW.
- The three key pillars of the policy are development of Renewable Energy Zones, creation of an Electricity Infrastructure Investment Safeguard and investment in storage infrastructure.
- Development of Renewable Energy Zones with updated transmission infrastructure are expected to result in a strong pipeline of large-scale renewable energy and storage projects in NSW.
- Creation of the Electricity Infrastructure Investment Safeguard underwrites minimum pricing for energy to support investment in new generation, long duration storage and firming projects.
- Continued investment in energy storage infrastructure is earmarked to provide for renewable energy to be effectively stored and released when needed.

investment in generation, storage and support infrastructure to implement the Roadmap.

The Roadmap, ambitiously, intends to attract A\$32 billion in private investment in renewable energy infrastructure by 2030, supporting the delivery of 12 GW of new energy capacity and 2 GW of storage capacity. The Roadmap intends to reduce NSW emissions by 90 million tonnes of CO₂e by 2030, with an end goal of zero-emissions by 2050. This broadly aligns with the *Climate Change (National Framework for and Mitigation) Bill 2020* (Cth) recently introduced in Federal Parliament which sets a national economy-wide net-zero target by 2050.

Importantly, the Roadmap has received bipartisan support from opposing political parties and so, at least conceptually, the policy has already broken new ground by transcending politics. The Roadmap is also underpinned by an independent industry and economic analysis supporting the proposition that a renewable energy-focused NSW will lead to secure, cheaper energy prices for consumers.

The Roadmap has therefore, understandably, been met with excitement by the renewables industry – developers, investors and support industries alike. However, some industry players have a more cautious outlook. The Australian Energy Council (**AEC**) is wary that the Roadmap plan may have a distortive effect on investment and lead to an overbuild of energy assets through Government underwriting, which could ultimately lead to higher energy costs.

We set out below our observations on the Roadmap and what it means for infrastructure investors looking to invest in Australian energy assets.

We conclude that this is a positive policy development; the Roadmap acknowledges key constraints on investor certainty (transmission capacity/efficiency and exposure to energy prices) and lays the groundwork for a cohesive plan to address these issues. However, as with any framework document, the proof will be in what comes next through the passage of the Bill and the detailed planning and implementation steps necessary to put the Roadmap into action.

PILLARS OF THE NEW POLICY

The Roadmap aims to achieve its stated goals through a number of State government programs focused around the following key pillars: (a) the development of Renewable Energy Zones; (b) the creation of the Electricity Infrastructure Investment Safeguard; and (c) supporting focused investment in energy storage infrastructure.

Development of Renewable Energy Zones

One of the key constraints for renewable energy investment in NSW is that the best prospective renewable resources are located in areas where grid capacity is low. Approvals to make transmission line updates have been slow, partially driven by the circular problem that private investment in these areas to support the updates has been hesitant to commit until transmission issues are resolved.

Under the Roadmap, the plan is to deliver three Renewable Energy Zones (**REZ**) located at Central-West Orana, New England and South-West regions. A REZ involves the coordinated development of new grid infrastructure in energy-rich areas. The Roadmap plans to achieve this by combining generation, transmission, storage and system strength services to ensure a secure and robust energy system. The focus for projects in REZ areas is targeted investment in solar farms, hydropower projects and storage facilities.

The REZ are expected to result in a strong pipeline of large-scale renewable energy and storage projects focused around the REZ areas and to provide a much-needed economic boost to regional NSW. The NSW Government has estimated that this will support 6,300 construction jobs and 2,800 ongoing jobs in the regions. An estimated A\$1.5 billion in lease payments to landowners by 2042 has been predicted to secure the footprint for renewable energy and storage projects.

Creation of the Electricity Infrastructure Investment Safeguard

The primary price signal for investment in electricity generation is the energy price. Private investors need to be confident that they are investing in a project that is viable with stable returns that justify the large capital outlay. The contract market for electricity in Australia has been dominated by short term contracts, and a relative shortage of long-term power purchase agreements (**PPA**) that match the life of the investment.

Under the Roadmap, the NSW Government plans to reform the electricity infrastructure investment market by creating the Electricity Infrastructure Investment Safeguard (**Safeguard**). An independent Consumer Trustee will be established to run competitive tenders until 2040 to award Long Term Energy Services Agreements (**LTESA**) to renewable energy developers for REZ projects. The LTESA will provide generators with the option to sell their electricity at an agreed minimum fixed price to a Scheme Financial Vehicle that will be established by the NSW Government to act as a counterparty to LTESA.

LTESA will aim to provide renewable energy investors with long-term revenue certainty to enable investment into renewable energy projects (similar to the private sector PPA model). The expectation is that this will stimulate investment in NSW, including through lower-cost project finance. With the current Renewable Energy Target expected to roll-off in 2030, the 2040 end date of the LTESA support will be welcomed by investors.

Investment support in energy storage infrastructure

For long-term hydropower projects, the LTESA would be accompanied by recoverable grants to help meet upfront feasibility costs through a Pumped Hydro Recoverable Grants program. Under the Safeguard, the Consumer Trustee is aiming to establish 2 GW of long-duration storage projects by 2030 which will maintain the reliability of electricity supply.

CONCLUSION

The introduction of the Roadmap marks a favourable development for infrastructure investors looking to invest in Australian energy assets. It demonstrates a recognition by both sides of the NSW Government that the future of electricity generation in NSW will be driven by clean energy.

If properly and efficiently implemented in collaboration with the local private sector, the Roadmap could pave the way for creating an investment climate in NSW renewables that is underpinned by strong Government support, high quality infrastructure and assurance around pricing risk. This delivers policy certainty and clear signals to financial investors looking to invest in Australian renewables projects.

We expect that the industry and our private infrastructure clients will be keenly watching the passage of the Bill and the detailed implementation plan (and timeline) for these policy initiatives. The Federal Government we expect will also be closely considering this ambitious plan for NSW to build a greener future.

OUR CAPABILITIES

Our Sydney office has a dedicated Projects team, supported by M&A and Project Finance practices with deep sector experience in Energy/Projects.

With a focus on transactional work for local and offshore financial investors, we are well-positioned to assist on all aspects of investment into regional NSW renewable energy projects

We have acted on many of the largest renewable energy transactions in the Australian market, including advising Partners Group on its A\$450 million investment in the Ararat Wind Farm, A\$650 million investment in the Murra Warra Wind Farms and its A\$250 million investment in the Sapphire Wind Farm in New South Wales.

In addition to investor-focused roles, we have also worked with solar farm developers on joint venture and greenfield development. This includes the establishment of the joint venture arrangements between Photon Energy and Canadian Solar in respect of five solar PV projects with a combined 1 GW capacity in regional NSW. Four of these projects are based in the proposed Central-West Orana REZ under the new Roadmap.

We also have strong capabilities in portfolio investments and renewable energy platforms. We advised Partners Group on its market-leading A\$700 million Grassroots Renewable Energy Platform, and seed investment in the 135 MW Crudine Ridge Wind Farm, which is a significant wind farm development in the Central-West Orana REZ.

Please reach out to us to discuss how we can help you with any aspect of energy investment in Australia or the broader APAC region. Refer to the following page for our contact details.

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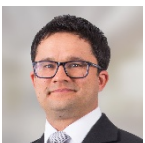
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