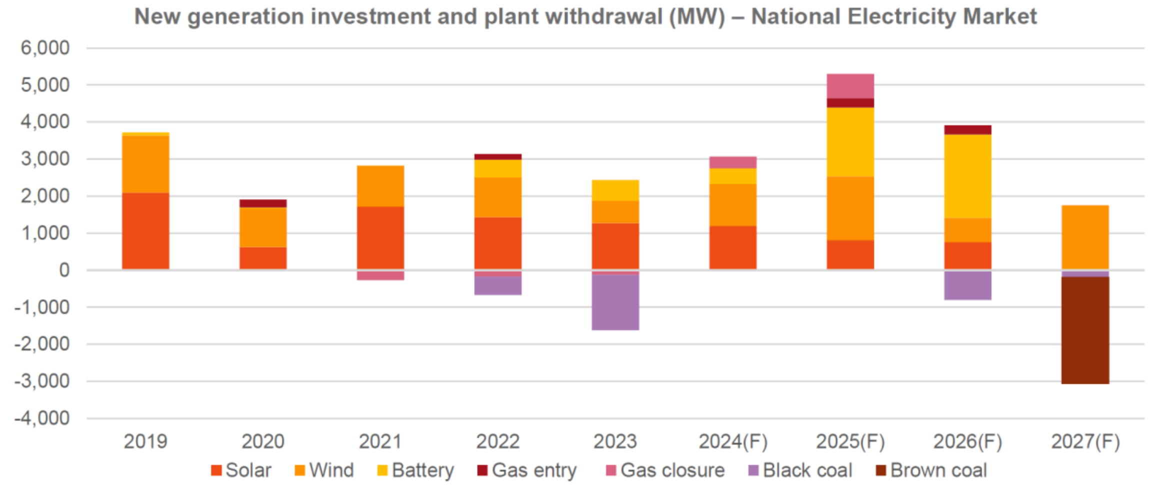
Tackling social license and other challenges in Australia’s green transition

The Australian renewables sector still offers potentially attractive returns for investors even as political and social issues continue to plague the 2050 net zero transition.

The task is monumental, requiring six times today’s utility-scale wind and solar, and five times today’s consumer energy resources by 2050, given coal-fired power stations are retiring faster than announced.

“There are attractive returns in Australian renewables and I think as always, the devil is in the detail,” Dan Cave, Senior Consultant, Frontier Advisors, said. “Investment strategy, management capability, execution are all going to be really important for those looking to invest in the sector.”

Existing coal-fired generation is expected to be retired and displaced by new wind, solar and BESS investments



Source: Australian Energy Regulator, Australian Energy Market Operator

Sam Reynolds, Chief Executive Officer, Octopus Australia said investment in new energy supply had fallen to about $1.5 billion over each of the past two years but needed to go back up to about $14 billion.

“That's where we see the opportunity. We see this as a low part of the cycle, with a lot of volatility coming in the next ten years.”

The AEMO’s Integrated System Plan (ISP) outlines a pathway including infrastructure requirements to reshape the National Electricity Market (NEM) power system.

Chloé Brayne, Investment Director – Infrastructure, CDPQ Australia, said the ISP faced short-term risks including the grid’s climate resilience, COVID-19 related supply chain disruption, and labour issues. Meanwhile, the grid build out is proceeding slower than expected due to structural headwinds while investors face issues about an appropriate rate of return.

“There's the constant debate around whether that should be steady-state brownfield returns or actually accommodating the greenfield risk that comes with grid build out, and for investors such as ourselves those are really big factors into thinking about where we stick our capital,” she said.

Octopus Australia's Australian renewable energy investments combine wind, solar and storage, which allows it to sell to the market during peak times (4-8pm) at higher prices.

"That's different to the way we do it in other parts of the world because in other parts of the world we have subsidies. The portfolio construct is not as important as in a subsidised market because you can have 20 per cent of an asset – the revenues are pretty stable because they come from the government," Reynolds added.

On managing social licence, Reynolds said Octopus worked closely with local communities to foster buy-in and employment as a long-term investor – short-term focused developers by way of contrast could potentially make promises that weren't kept.

"All renewable energy assets are going to be built in rural Australia or on Indigenous land, so you need to start thinking long-term that you're going to be part of this community for 30 years."

Rebecca Sherlock, Portfolio Manager – Global Listed Infrastructure, First Sentier Investors, said "the big social question around the energy transition is, who pays for it? How acceptable is the cost? And then how do we attract private capital to build it? I really think in order to attract that capital, we need an energy policy that is really consistent and stable."

The Federal Opposition has recently said it will scrap Australia's 2030 target, reverse a ban on nuclear power, and build nuclear reactors to replace coal-fired power stations on land it does not own.

Sherlock noted that multiple nuclear reactors around the world have cost billions of dollars more than forecast. For example, a nuclear reactor being built in France has cost €13.2 billion to date – well above a €3 billion forecast – and is still not yet operational.

"In Australia, where you've got really good renewable resource, I don't know why you would just go and put all that money into nuclear energy that's not going to deliver for well over a decade," she said.

Reynolds added that Australia had abundant land for renewable energy power unlike countries such as Japan which relied on nuclear power.

"We're telling our investors we need to be doubling down and get our assets on the right part of the grid as soon as we can, because the next ten years is going to be incredibly volatile."

Frontier can assist investors with assessing risks and opportunities in the Australia energy transition. Frontier can identify and evaluate managers with superior credentials in managing social license issues. Contact Dan Cave, Senior Consultant, Frontier Advisors, at dcave@frontieradvisors.com.au for more information.