

## ENERGY SECURITY CORPORATION BILL 2024

### STATEMENT OF PUBLIC INTEREST

#### **Need: Why is the policy needed based on factual evidence and stakeholder input?**

The purpose of the Energy Security Corporation Bill 2024 (the Bill) is to establish the Energy Security Corporation (ESC). The ESC will invest in important clean energy technologies, such as storage, and address private sector investment gaps hindering the rapid deployment of these technologies.

The ESC will be one of a number of government initiatives to assist NSW with the transition to a decarbonised electricity system that remains reliable and secure. Decarbonising the electricity system is critical for NSW to meet its legislated emissions reduction targets, as electricity generation is the state's highest emitting sector.

The private sector provided feedback that despite the availability of private capital at a large scale, funding gaps in certain technologies have created a barrier to deployment. The ESC will be seeded with \$1 billion and a flexible investment function that enable it to help fill these investment gaps. To inform Bill development, the Department carried out extensive consultation with both internal and external stakeholders.

#### **Objectives: What is the policy's objective couched in terms of the public interest?**

The Bill will establish a NSW Government-owned statutory corporation that will accelerate investment in clean energy assets to improve the reliability, security and sustainability of the state's electricity system.

The Bill encourages investment in important new electricity infrastructure such as energy storage, by crowding in investments in this infrastructure. The purpose of the Bill is to meet public interest objectives including:

- Accelerating the renewable energy transition by increasing private sector investment in needed clean energy assets in NSW.
- Supporting NSW to achieve the targets set by the *Climate Change (Net Zero Future) Act 2023*.
- Improving the reliability, security and sustainability of electricity supply in the state by investing in clean energy technologies, like energy storage and other associated infrastructure.
- Supporting economic growth in regional and remote communities through increased job opportunities and infrastructure in these areas.

#### **Options: What alternative policies and mechanisms were considered in advance of the bill?**

The NSW Government explored a variety of financial instrument alternatives to the ESC as it developed the ESC Bill. Two key alternatives were grants and financing Electricity Infrastructure Roadmap Long-Term Energy Service Agreements (LTESAs).

It also assessed alternative delivery models for the ESC's investment function other than establishing a new government-owned statutory corporation. Alternative models included through a NSW Government agency, a State Owned Corporation (SOC) or as part of the Clean Energy Finance Corporation (CEFC).

**Analysis: What were the pros/cons and benefits/costs of each option considered?**

The grants option involves the NSW Government providing grants targeting specific projects or assets. The main benefit of providing grants is they can be implemented relatively cheaply and quickly through existing departmental grant processes. However, since grants do not provide a return on investment, this option would not raise funding for additional projects. It therefore limits NSW's total investment to \$1 billion.

The LTESA option involves the NSW Government funding additional LTESAs. While this may increase the total revenue certainty provided to energy projects by LTESAs, it would duplicate an existing mechanism and not target additional barriers to investment. Additionally, LTESAs only begin providing direct revenue certainty once a project is operational. This may not be helpful to projects that face major risks and barriers prior to becoming operational.

A NSW Government agency operating the ESC would involve a NSW Government program team completing the investment process with ministerial approval. This option is relatively quick and cheap because it does not require establishing a new entity. However it would not provide the private sector assurance it can co-invest with the ESC without political interference, as there would be no independent board operating within ministerial guardrails.

Establishing the ESC as a SOC would involve it operating as a government-owned commercial business. The main benefit of this approach is the SOC structure has a well-established operational framework. However, the key issue with SOCs is they need to compete commercially with equivalent private sector entities. This is incompatible with the ESC's objective to crowd in the private sector rather than compete with it.

Establishment of the ESC within the CEFC would likely involve setting up the ESC as a CEFC subsidiary. The main benefits are being able to draw on the existing systems, processes and policies of the CEFC as a corporation undertaking a similar function. However, this option would take more time to implement because it requires amending the CEFC Act, and the CEFC would have majority control over the ESC as a subsidiary. Under this option, the NSW Government would not be able to direct the ESC despite providing its funding.

**Pathway: What are the timetable and steps for the policy's rollout and who will administer it?**

The ESC Act will commence on assent, which will establish the ESC as a legal entity. The Minister for Energy will administer the ESC Act. The next planned steps are issuing the ESC's first Investment Mandate in Q4 2024 and appointing ESC board members by January 2025. The first investments are expected to be made during FY 2025/2026.

**Consultation: Were the views of affected stakeholders sought and considered in making the policy?**

The Department undertook comprehensive and targeted consultation with external stakeholders including electricity market participants, banks, investors and other government energy market financiers such as the CEFC. Stakeholder views were considered whilst developing the policy options, entity structure and Bill. Additionally, the Department consulted with other government agencies such as NSW Treasury, the NSW Premier's Department, the NSW Cabinet Office and the Department of Regional NSW.