

KEYNOTE INTERVIEW

Scaling together: A partnership playbook



*A holistic approach involving both public and private investors is key to delivering Australia's energy transition goals, say QIC's **Patrick Mulholland** and CEFC's **Rory Lonergan***

Australia is often cited as the 'Lucky Country'; and this nickname certainly seems justified when it comes to the energy transition. With vast areas of land and excellent conditions for generating power from solar and wind sources, the country appears well positioned in the years ahead to become a global green powerhouse.

But converting potential into progress depends on a mix of factors, including a supportive policy environment and effective public-private collaboration. Patrick Mulholland, partner and energy sector lead at QIC Infrastructure, and Rory Lonergan, chief investment officer for

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infrastructure and alternatives at the Australian government-owned Clean Energy Finance Corporation, discuss the many factors driving the energy transition forward.

Q **What role do government-backed financiers and institutional investors play in Australia's energy transition?**

Patrick Mulholland: Our job as institutional investors is to shape the transition by providing long-term patient

capital that underpins large-scale projects in renewable energy generation, storage and enabling infrastructure.

Clearly the scale and duration of capital are important given the size of the task. That's why institutional capital is so well-suited to the energy transition. And when you think about government-backed sources of finance, they complement what we do very nicely because they can de-risk early-stage projects with concessional finance and guarantees.

Rory Lonergan: When it comes to renewable energy generation, institutional investors are key. If you look at

Australia, we have the big institutional super funds, but we also have retail super funds and self-managed super funds, which are just as big, but are hardly represented at all in the energy transition. It's an institutional game, and often an offshore institutional game, in the context of Australia.

If you have government financing somewhere in the mix, that helps with the fundraising task offshore, to generate that confidence. Offshore capital wants to see local capital have some skin in the game, whether it's local banks or local government investors or local super funds.

Q Which government signals are most effective at attracting private capital into the transition?

PM: The first one I'd highlight is stable, long-term policy frameworks and decarbonisation roadmaps. Clear project approval processes, which reduce development risk, is another, along with revenue certainty – whether it's long-term PPAs or regulated models. Then there are risk-sharing mechanisms, which include government support for emerging technologies and projects. And finally, tax incentives – there's probably low-hanging fruit in this area to help attract more capital investment.

In Australia, there are currently no special tax rules around institutional investment in clean energy. There can also be unintended consequences when one applies some of our tax rules to a really capital-intensive long-term asset base like clean energy. We could have some easy wins in that respect around stamp duty and capital gains tax for foreign investors.

These things are quite important because they do drive system costs, and they can reduce relative attractiveness. When you think about how attracting capital is a global game, you don't have to look too far to see how tax incentives could provide areas of opportunity from an Australian perspective.

Q How can managers balance commercial returns with sustainability objectives?

PM: In some ways, sustainability has always been key to assessing value and risk for long-term infrastructure investment. But I think the industry terminology and approaches to company goal setting sometimes suffered from a lack of "system" thinking.

Instead of putting sustainability in a bucket by itself, we think there really needs to be a more integrated perspective. Our approach is to make a more holistic assessment of strategic resilience for each of our current and new investments.

We undertake scenario analysis around transition and physical risks. Our strategy for managing those risks is then tailored for each asset as they all have different exposures. And the other piece is the inclusion of long-term sustainability-linked performance metrics or other proxies for strategic resilience. They sit alongside the normal KPIs from a financial perspective.

RL: If I go back three or four years, we were all talking about the green premium. Should green bonds be priced differently to non-green bonds? And to be honest, there hasn't been the clear emergence of a green premium, not in a way that meaningfully shifts the dial. But what we're seeing is that people have decided that good sustainability is good business. My hope is that we can stop talking about green investing, or sustainable investing, and get to the point where being sustainable is just how you invest.

Fund managers ultimately care about the next buyers of their assets. They realise that an emissions-intensive asset will have a lower value than an asset that has been decarbonised or is in the process of being decarbonised. Managers have to think about sustainability, or else they're giving away value on exit.



RL: The offshore institutions and the Australian superunds look at this in exactly the same way. They look at the Australian market through the same lens that they look at offshore markets. And if they think those settings are not quite right, they'll decide to invest in another market. In the global race for capital, you have to be competitive at a global scale if you want the dollars to flow.

Q Which specific energy transition technologies do investors need to prioritise over the next five years?

PM: From an energy perspective, the pillars of the transition remain around generation and storage. There's still significant investment required for generation at scale, but also for firming up that generation capacity. Grid upgrades that enable renewables is another key pillar.

But new opportunities have also emerged more recently, particularly where data or innovation has needed to be incorporated into assets and investments; this is key to enabling further progress on the transition. For example, distributed energy solutions, micro grids and smart meters are technologies that provide essential services underpinned by long-duration assets and long-lived inflationary cashflows.

We also expect more infrastructure business models to emerge in transport decarbonisation over the next three to five years. Historically, these assets have been too heavily biased towards commodity or demand risk to be infrastructure. But that's changing in regard to charging networks and logistics electrification.

Then there's climate resilience infrastructure, including flood levees or dam upgrades – we're seeing more discussion around these opportunities.

RL: We're going to see a continued focus on renewables generation. We have a 2030 target of 82 percent renewables in the energy mix as a

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We already have a lot of storage, compared to many European countries, but it's nowhere near enough. Under the government's Cheaper Home Batteries Program launched last year, households have installed more than 160,000 residential batteries. We need to add to that number.

Long-duration storage is where the opportunity gets bigger from the infrastructure perspective, whether that's eight-hour batteries or pumped hydro. Electric vehicles and charging, particularly heavy vehicles, is a focus for us, given how important long-distance trucking will always be for the Australian economy.

Q Where do you see the biggest opportunities for public-private collaboration in the energy transition?

PM: Partnerships are central to QIC's track record, and we expect they'll become even more critical for supporting our future energy transition investment. For us, being a good partner isn't just about sector experience or local relationships. It's about being an active investor who's able to support evolution and deliver on strategy with

management, boards, stakeholders and industry. Knowledge-sharing partnerships will be important as well to ensure that infrastructure operates in a way that supports community expectations.

We see partnerships becoming particularly essential in asset classes that were previously the domain of governments or monopoly incumbents but are now challenged because of capital scarcity. That's another area of forming partnerships that will be critical due to the complexity and scale of decarbonisation projects. New business models are needed and new funding partners will have to come on board to help deliver assets and investments that accelerate our decarbonisation goals.

Greater public-private partnerships are therefore inevitable. That might take a number of forms including a variety of joint venture or investment structures. Blended finance and government underwriting is important for projects like grid-scale storage and transition.

Another important area is regional decarbonisation projects. This is where you can leverage government ownership of energy assets and develop ways of working alongside private capital. It's about finding ways to work together in delivering things like the Queensland Energy Roadmap, with smart grids, metering and EV ecosystems.

RL: The whole transport charging puzzle is critical to achieving net zero. And it's enabled by the fact that all vehicles naturally change over based on their useful life. But the charging piece is new infrastructure that has to be built. And today, we haven't cracked that model of building charging infrastructure at scale. It has technology challenges, patronage risk and exposure to power prices.

I think private capital is interested and has the structuring capability, but government has a big role to play as well. The build-out is in its infancy – if we look forward 10 years, that has to become a real asset class. ■