

2 May 2023

The Honorable Stephen Jones MP
Minister for Financial Services
Commonwealth Government
Lodged by email to: YFYS@treasury.gov.au

Dear Minister,

Response to *Superannuation Performance Test Regulations 2023 Exposure Draft Regulations*

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the Commonwealth Treasury (Treasury)'s *Superannuation Performance Test Regulations 2023 Exposure Draft Regulations* (the YFYS Draft Regulations) published on 4 April 2023.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of installed renewable energy capacity across more than 76 power stations and a combined portfolio value of around \$38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low-cost capital needed to achieve it.

KEY POINTS

- The Performance Test continues not to be beneficial for investors in renewable energy, with performance benchmarks incorporating renewable energy assets with unlike assets.
- Passing the Annual Performance Test is likely to remain as the investment objective for Superannuation Funds.
- The change to measuring actual returns from a rolling eight-year period to a rolling ten-year period may not improve longer term member outcomes and does not significantly improve incentives, if at all, to invest in renewables assets.
- Concerns remain pertaining to the set of indices applied to calculate the benchmark. The fundamental construction of the index applied to Infrastructure, in which renewables assets tend to be placed, promotes bearing more risks in terms of absolute volatility and not structuring diversified portfolios with long term investment measures.
- Not optimising incentives for investment in renewables assets could have structural impacts for the wider national economy.

CEIG welcomes the Commonwealth Treasury updating the annual superannuation performance test.

CEIG welcomes the Commonwealth Treasury's decision to update the annual superannuation performance test to address issues raised in Treasury's review of the *Your Future, Your Super* laws.

As highlighted in our previous submission¹, CEIG is particularly focused on the updating of the performance test, and we are concerned that the current settings of the performance test could have unintended consequences on the cost of the Australian energy transition: electricity consumers may be worse off if sufficient low-cost capital (including from superannuation funds) cannot be leveraged to finance the scale of infrastructure investment required in electricity generation and transmission assets, at the pace required.

Small changes to the methodology are not sufficient to address key risks to the energy transition.

CEIG's response to two of the ten changes included in the exposure draft regulations is provided below:

- Look back period extended from 8 years to 10 years
 - Commonwealth Treasury notes that: Extending the lookback period is expected to sharpen the incentive of trustees to focus on long-term decision making and aligns with broader industry disclosures. CEIG is not persuaded that extending the look back period to ten years will promote more investment in renewables assets.
- Australian and International Unlisted Infrastructure have been updated to a median version of the existing index
 - Commonwealth Treasury notes that this amendment intends to ensure that the benchmark remains representative of investments in these asset classes. However, the median measure is derived from the data set of an index that continues to have fundamental structural inadequacies. A separate benchmark for renewables assets is required to capture and to sustain investment in the renewables sector.

Renewables – Market Context and Requirements

The total clean energy investment (generation, storage, and transmission network) required in the National Electricity Market (NEM) to 2050 was recently quantified by the Australian Energy Market Operator in its 2022 Integrated System Plan at around \$320 billion (in net present value terms)². Note this is aligned to a 1.8C scenario.

¹ [CEIG response: Commonwealth Treasury Your Future Your Super](#)

² AEMO, 2022 Integrated System Plan (Jun-22), available on the AEMO website

CEIG has recently quantified³ that achieving a 1.5C scenario in the NEM will require \$420B of investment in generation and storage alone, plus \$41B of investment in transmission infrastructure.

CEIG is concerned that continuing to use the MSCI Index for the performance test maintained in the YFYS Draft Regulations could deter superannuation funds from investing in clean energy infrastructure assets.

For the Australian energy transition to be delivered at least-cost for electricity consumers, it is essential to source low-cost capital. Superannuation funds have a significant opportunity and a critical role to play in that regard over the next decade.

In August 2021, CEIG released its CEIG Investor Principles⁴ which showed that significant savings in the cost of the energy transition can be made by accessing low-cost capital. Those savings were quantified to be up to \$7B.

CEIG's alternative proposal

CEIG is asking Ministers to reconsider making changes to the regulations as highlighted in our previous submission.

CEIG proposes to amend the unlisted infrastructure benchmark used for the performance test to:

- exclude investments in clean energy assets from the MSCI Index or from any other unlisted infrastructure index that might be developed as an alternative to the MSCI Index; and
- adopt a benchmark return of 7.5% p.a. for investments in clean energy assets.

In the absence of Commonwealth Treasury support for a fixed rate, CEIG suggest replacing the MSCI Index for the performance test with the infra300 index produced by EDHEC Infrastructure Institute, with investments in clean energy assets having a separate return profile in the Index.

The infra300 index includes significant benefits compared to the MSCI Index, including (but not limited to):

- the methodology to generate and report the infra300 index is robust;
- it is a reputable index, well understood and well used by industry;
- it has the potential for swift and timely implementation.

³ CEIG, [Decarbonising Australia - Accelerating our energy transition with a credible 1.5 degree C scenario](#) (Apr-23)

⁴ CEIG, [CEIG Investor Principles - Unlocking low-cost capital for clean energy investment Report](#) (Aug-21)

CEIG thanks the Commonwealth Treasury for the opportunity to provide feedback on the YFYS Draft Regulations and looks forward to continuing engagement on those issues. Our Policy Director Ms. Marilyn Crestias can be contacted at marilyn.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,



Simon Corbell
Chief Executive Officer and Chairperson
Clean Energy Investor Group Ltd
w: www.ceig.org.au