Global Financial Crisis survey – Energy Supply Association of Austral
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Australia's energy supply industry will need to secure almost $100 billion in refinancing and new capital expenditure over the next five years in an economic climate that has severely reduced the availability of both debt and equity, according to a new survey by the Energy Supply Association of Australia.

"The coming decade will see considerable pressure within the energy industry as it transitions to a low emission energy supply system and dramatically increases the proportion of renewable energy through the Federal Government's proposed Carbon Pollution Reduction Scheme and expanded Renewable Energy Target," said esaa Chief Executive Officer Clare Savage.

"However this significant refinancing and capital expenditure task is being made more difficult by the global financial crisis, and comes on top of the CPRS/RET; a draft decision by the Australian Energy Regulator to reduce the rate of return on network investments and; a tightened credit market as a result of government guarantees to other sectors."

Of the $100 billion required by the energy supply industry in the five years to 2014, around $50 billion will be needed just to refinance existing energy assets. Of that amount, about $30 billion will be required for networks and about $20 billion is needed to refinance generation assets.

Planned capital expenditure on existing generation assets over the next five years is more than $6.3 billion, while a further $12 billion will be required for new generation investments to begin the transition to a lower emission energy supply system and increase the proportion of renewable energy. Network businesses will require $31.2 billion to invest in both existing and new network assets to facilitate this transition to lower emission generation and ensure the security and reliability of energy supply.

Private sector participants account for about 78 per cent of total refinancing in the generation sector and about 40 per cent of total refinancing in the network sector. Most private sector participants reported a debt obligation to international banks, with the average response being around 45 per cent of debt from international sources.
In addition to the $100 billion needed for refinancing and new capital expenditure, electricity generators estimated they will need additional credit facilities to finance over $20 billion worth of emission permits in the period to 2014.

"The number of foreign banks in Australia has reduced significantly with the remaining banks reluctant to issue debt. The energy sector is competing with all sectors for equity and debt and capital is scarce," said Ms Savage.
"The relative attractiveness of energy sector assets has been severely impacted by the effect the proposed CPRS will have on the balance sheets of electricity generators and the draft decision by the Australian Energy Regulator to cut the rate of return on network investments" she said.
"When you combine the effects of these two decisions with the debt guarantees being offered to other sectors, it is tantamount to tying one hand behind the industry's back while it fights for capital in the midst of a global financial crisis.

"It is critical that the necessary incentives are in place to ensure investor confidence in the energy sector to secure the existing assets and deliver much-needed investment, both now and into the future."
esaa said the energy supply industry is not, at this stage, asking the Government to guarantee its debt or create an energy sector financing facility. The industry will compete on equal terms with other sectors of the economy as long as it is not hampered with impaired assets due to the CPRS or inadequate rates of return in the AER's final decision. If these issues are not adequately resolved however, the industry may need to consider whether a government-supported energy sector financing facility is also required to create a more level playing field.
"The environmental integrity of an emissions trading scheme is not dependent on bankrupting coal-fired generators. Increasing the initial allocation of permits to coal-fired generators will not subsidise them or keep them in production any longer than necessary – once new, more competitive, lower emission technologies are constructed these coal-fired assets will begin to cease production," said Ms Savage.

"However, to help ensure these assets remain in service to support the transition to lower emission technologies and give new investors in the energy supply sector confidence that when the Government institutes major policy change that has the potential to strand long-lived infrastructure assets, the value of these assets must be adequately recognised," Ms Savage said.

"Coal-fired generation assets were built at a time when there was no cost on greenhouse gas emissions and no clear prospect of when or how such a cost might be introduced. The clear beneficiaries of these investments were households, businesses and large industrial producers who paid considerably less for their energy use. Under the CPRS, the balance sheets of coal-fired generators will be used to 'compensate' households, businesses and large industrial producers who have historically benefited from the low electricity prices afforded by coal-fired generation."

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