



Government Gazette

of the State of

New South Wales

Number 59 - Electricity and Water

Friday, 14 February 2025

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Energy Security Corporation Investment Mandate 2025

under the

Energy Security Corporation Act 2024

The Minister for Energy, in concurrence with the Treasurer, makes the following instrument under the *Energy Security Corporation Act 2024*, section 25(1) and Schedule 2, clause 2.

The Hon Penny Sharpe, MLC
Minister for Energy

February 2025

Energy Security Corporation Investment Mandate 2025

under the

Energy Security Corporation Act 2024

Part 1 Preliminary

1 Name of direction

This direction is the *Energy Security Corporation Investment Mandate 2025*.

2 Commencement

This direction commences on the day on which it is published in the Gazette.

3 Definitions

In this direction:

the Act means the *Energy Security Corporation Act 2024*

the EII Act means the *Electricity Infrastructure Investment Act 2020*

Note: the Act and the *Interpretation Act 1987* contain definitions and other provisions that affect the interpretation and application of this direction.

4 Application of direction

This direction applies to the Board.

Part 2 Direction

5 Purpose of this Investment Mandate

- (1) The purpose of this Investment Mandate is to direct the Board on the exercise of the Corporation's investment function under section 33 of the Act to achieve the Objects of the Corporation as set out in section 6. The objectives of the Act are:
- a. to accelerate private sector investments in clean energy projects in New South Wales that improve the reliability, security and sustainability of electricity supply,
 - b. to support New South Wales to achieve the targets for reducing net greenhouse gas emissions under the *Climate Change (Net Zero Future) Act 2023*,
 - c. to complement other Government initiatives relating to clean energy technologies and partner with the private sector to finance clean energy technologies,
 - d. to achieve a government-mandated rate of return through a portfolio approach.

- (2) This Investment Mandate directs the Board to deliver on its functions and the Objects of the Act by investing the Corporation's Operational Fund.
- (3) Together with other NSW and Commonwealth policies and programs, the Corporation's investments may contribute to targets established under:
 - (a) the EII Act, and
 - (b) the Energy Savings Scheme (ESS) and the Peak Demand Reduction Scheme (PDRS) in the *Electricity Supply Act 1995*.

6 Investment factors

Consistent with the Board's obligation to deliver on the objects of the Act, when making investment decisions and overseeing the exercise of the Corporation's investment function under section 7(a) of the Act, the Board is directed to ensure the Corporation:

- (a) has regard for positive public policy outcomes,
- (b) applies commercial rigour, including by undertaking appropriate due diligence and credit and investment risk assessments, and
- (c) has regard to the potential effect of the proposed investment on other market participants.

7 Reputational Impacts

The Board must not act in a manner that is likely to cause damage to the NSW Government's reputation.

8 Medium to long term outlook for its investment strategy

The Board must adopt a medium to long term outlook when setting the investment strategy for the Corporation.

9 Focus areas for the Corporation's activities

The Board must prioritise investments in clean energy technologies that are:

- (a) utility scale storage projects to cover long periods of lower-than-expected variable renewable energy availability, which is of 8 hours in duration or greater,
- (b) utility scale storage projects between 4 to 8 hours in duration,
- (c) utility scale storage projects, up to 4 hours in duration, connected to a distribution network,
- (d) energy generation, storage and end-use equipment that is located on the customer side of the electricity meter including, but not limited to, virtual Power Plants (VPPs), and

- (e) system security and network infrastructure.

10 Limits on guarantees

The Board must:

- (a) preference the use of other financial instruments over using guarantees where possible,
- (b) ensure that all guarantees are limited and quantifiable,
- (c) ensure the total value of all outstanding guarantees at any time does not exceed 5% of the total amount that has been credited to the ESC Fund under section 39 of the Act.

11 Limits on concessionality

- (1) The Board must ensure the Corporation does not provide financial accommodation on concessional terms unless it is satisfied that:
 - (a) it is appropriate to achieve the Corporation's objectives,
 - (b) based on a reasonable assessment, the level of concessionality is proportionate to the anticipated economic benefits and public policy outcomes, and
 - (c) the concessionality provided is the minimum that would achieve those benefits and outcomes and allow the investment proposal to proceed.
- (2) The Board must limit the amount of concessionality it provides in any financial year to \$100 million for its investments.
- (3) For debt, concessionality reflects the mark-to-market valuation when the loan is made and should be measured as the difference between the present value of each loan at market rates and the present value of each loan at the given concessional rate.

12 Limits on equity

The Board must ensure that the value of equity investments in the portfolio does not exceed \$300 million, based on the initial value invested, not the mark-to-market value over time.

13 Investment thresholds

The Board must ensure the minimum amount of an individual investment is \$25 million and the maximum amount is \$150 million.

14 Target rate of return and risk

- (1) The Board must target an average portfolio rate of return of at least the 5-year NSW Treasury Bond rate + 1.5% per annum over the medium to long term.

- (2) The rate of return should exclude operating expenses and any concession charges, including loss provisions, impairment or mark-to-market adjustments resulting from any concessional component.
- (3) For the avoidance of doubt, this excludes any balances held in the Operational Fund.

15 Risk

- (1) In targeting the rate of return in clause 14(1) of this Investment Mandate and operating with an approach that incorporates both commercial and public policy objectives, the Board must seek to develop a portfolio of investments that, in aggregate, has an acceptable level of risk.
- (2) The level of risk deemed acceptable by the Board may be higher than the risk tolerance of commercial banks and private sector investors, if this higher risk tolerance supports the objects of the Act and this Investment Mandate.

16 Investment and risk policies

- (1) In preparing the investment and risk policies under section 29 of the Act, the Board must prepare policies in relation to the following matters:
 - (a) the mandatory proponent eligibility and other investment criteria deemed relevant by the Board,
 - (b) investment parameters for the Corporation's portfolio,
 - (c) the investment screening, assessment, approvals and execution processes,
 - (d) how the Corporation's investments will:
 - i. support NSW industry, including on skills and training, having regard to the principles and components outlined in the plan for the NSW renewable energy sector prepared under section 8 of the EII Act and the First Nations guidelines prepared under section 4 of that Act,
 - ii. consider social licence for the deployment of clean energy technologies, and
 - iii. incorporate circular economy principles in asset management practices as this is essential to preserving NSW's natural capital.

17 Corporate governance

- (1) The Board must have regard to Australian and NSW best practice in determining its approach to corporate governance principles.
- (2) The Board must develop operating policies about procurement, environmental, social, labour and governance considerations.

18 Non-financial reporting outcomes

The Board must seek agreement with the Minister on reporting requirements for the non-financial outcomes for all of the Corporation's investments that are to be included in the Corporation's annual report.

19 Collaboration and cooperation

- (1) To facilitate the exercise of the Corporation's investment function, the Board must, where practical and appropriate, seek to cooperate and collaborate with Commonwealth, State and NSW Electricity Infrastructure Roadmap entities that are also able to support investments in clean energy technologies.
- (2) Entities that the Board must seek to cooperate and collaborate with include, but are not limited to:
 - (a) the NSW Department of Climate Change, Energy, the Environment and Water,
 - (b) NSW Treasury,
 - (c) AEMO Services Limited (ABN 59 651 198 364) appointed as consumer trustee under the EII Act,
 - (d) the Energy Corporation of NSW established under the *Energy and Utilities Administration Act 1987*,
 - (e) the scheme financial vehicle under the EII Act,
 - (f) the Clean Energy Finance Corporation established by the *Clean Energy Finance Corporation Act 2012* of the Commonwealth,
 - (g) the Australian Renewable Energy Agency established by the *Australian Renewable Energy Agency Act 2011* of the Commonwealth, and
 - (h) the Commonwealth Department of Climate Change, Energy, the Environment and Water.