CEFC
CLEAN ENERGY FINANCE CORPORATION

Direct Action inquiry
7 March 2014
Clean Energy Finance Corporation
Canberra

Senate Standing Environment and Communications References Committee

Inquiry into the Government's Direct Action Plan

PUBLIC HEARING
Friday, 7 March 2014
Parliament House, CANBERRA
Opening Statement by Ms Jillian Broadbent AO – Chair of the Board of the Clean Energy Finance Corporation

[*Tabled by Leave*]

I thank the Committee for inviting the Clean Energy Finance Corporation (CEFC) here today to provide evidence to the Committee's inquiry into Direct Action.

The Terms of Reference for this inquiry are quite broad. For the purposes of our testimony today, we will limit our statement and take questions only in relation to the CEFC's work to date as it relates to the Government's emissions reduction policy and our potential role and future under Direct Action.

The CEFC was established to overcome barriers to investments in emissions reduction and energy productivity. It pursues this through leveraging private sector co-financing in clean energy technologies.

These barriers are broadly acknowledged and are the lived experience of sector participants. They are a consequence of an underdeveloped market, which needs wider availability of technical knowledge, greater depth, experience and risk appetite for mobilising the investment required to support Australia's ongoing productivity improvement and competitiveness in a carbon constrained world.

In addition to progressing investment in emissions reduction, the CEFC's objective is to broaden the range of clean energy technologies adopted and release the productivity gains they offer businesses and the Australian economy.

In pursuing this objective, the CEFC has established, in its relatively short life, an operating model with considerable market expertise and credibility with co-financiers and project owners and proponents.

Australia is challenged to improve our productivity. It will require business and government to adopt new technologies, changed practices and investment in new capital equipment and infrastructure. Available finance and greater risk appetite are critical to each of these requirements of the productivity challenge.

The CEFC has definitely contributed to increasing the risk appetite and available finance for the take-up of clean energy technologies. Our portfolio of investments demonstrates how we are achieving this and facilitating cost-effective abatement in Australia:

- The CEFC has developed a **total portfolio of $590 million**. With the contribution of **$1.8 billion** by our co-finance partners, it has catalysed investments in projects over **$2.4 billion** in value.
- On completion, these investments alone will deliver an estimated **3.9 million tonnes of CO_2-e** abated annually.
- Some $300 million of this portfolio is directed towards improving energy productivity.
- This abatement is delivered at negative cost (i.e. benefit) to the taxpayer of **$2.40 per tonne of CO_2 abated** (net of government cost of borrowing)
- These CEFC investments are expected to earn an average yield of approximately **7% which is approximately 3.5%** above the government's cost of funds.
- Our projects are demonstrating the benefits of a broad range of globally proven technologies, including wind, solar, bioenergy, energy efficiency and low emissions technologies in the Australian market.
- Many industries across regional and rural Australia are benefiting from CEFC financing, including agribusiness, property, manufacturing, utilities and local government, as the Corporation helps build Australia's clean energy supply chain capability.
- There is momentum building in the market by the demonstration effect of the CEFC projects. This is helping the sector move down the cost curve and is encouraging increased investment flows from the private sector into new technologies.
- Co-financing is integral to our strategy. Matched private sector funds of **$2.90 for each $1 of CEFC investment**, has effectively progressed projects and programs to deploy renewables and improve energy efficiency.
- With regard to future investments, the CEFC is currently in **active discussions with 34 project proponents**, who are seeking CEFC finance of over $1.2 billion (for total project costs of over $3 billion). We have **received proposals from over 150 project proponents** seeking CEFC finance of over $4.3 billion (for total project costs of over $11.8 billion).

The CEFC has proved a highly valuable policy tool. It is an efficient and effective operating model to assist the Government meet its targets under Direct Action.

The effectiveness of the ERF depends on its ability to engage with the market and deliver emissions reductions at least cost to the economy. This effectiveness will be enhanced by:

1. Widening the scope and participation of ERF eligible projects
2. Ensuring that the successful ERF projects achieve their targeted emissions reductions
3. Leaving the economy well equipped to pursue cost-effective emissions reductions beyond the financial capacity and life of the ERF.

The CEFC can contribute positively to each of these drivers of effectiveness.

Firstly, the CEFC offers the capacity to widen the scope and participation of ERF eligible projects by securing the finance for viable projects to be considered under the ERF. The CEFC also provides the capacity to include SMEs in this abatement effort through its already established aggregation models for smaller scale, but highly cost-effective projects.

Many of the lowest cost abatement opportunities are smaller scale and disaggregated, like building upgrades and energy efficiency upgrades. Small to medium enterprises (SMEs) are the least able to take the risk of investing the up-front capital associated with project development costs (such as project design, feasibility and bidding costs) required to participate in a competitive auction. The CEFC's existing aggregation vehicles in partnership with the private sector are addressing these barriers and its extensive pipeline could provide a valuable source of well-developed cost effective abatement opportunities for consideration under the ERF.

Secondly, financial backing by the CEFC and co-financiers improves the likelihood of projects being completed and achieving their intended emissions reduction outcomes.

Thirdly, a developed emissions reduction financing market is critical to equipping Australia with the capacity to pursue cost effective emissions reductions beyond the financing resources and life of the ERF. Our national capacity is also enhanced by the take-up and adoption of a broad range of technologies. The CEFC's ability to provide long term financing, and encourage co-financiers into new technologies contributes to equipping the economy to continue meeting this challenge beyond the life of the ERF.

With the experience of working within the market to expand the appetite for investment, it is evident that without the CEFC as a focused fund to work with the sector to address market gaps, the economy will likely experience a real pullback of emissions-reducing project investment. This will mean that market barriers will persist and the positive budget outcomes from this emissions abatement will be foregone.

I thank the Committee again for the invitation to give evidence and make myself, Mr Yates and Mr Powell at the Committee's disposal for questioning.
ENDS