House Standing Committee on Economics – Clean Energy Finance Corporation Bill 2012

ANSWERS TO QUESTIONS ON NOTICE – 28 MAY 2012

1. **What evidence is the 7.5% default rate based on?**
   The assumed rate for the purposes of the forward estimates for the investments of the Clean Energy Finance Corporation (CEFC) is 7.5 per cent of the additional invested funds each year. The rate of 7.5 per cent is an average across the portfolio of CEFC investments and is based broadly on expected performance of the corporation, noting the risks of the industry in which the CEFC will invest, particularly the potential for higher risk in renewable energy sector. The CEFC will be required to apply a commercial filter when making investment decisions and focus on projects and technologies at the later stages of development, meaning the CEFC will invest where there is a reasonable expectation that investments will be repaid and minimise investments with a low probability of repayment. Given this, the rate is considered to be a prudent estimate.

   The 7.5 per cent rate represents an initial assumption and will be reviewed as necessary following experience with the operation of the CEFC.

2. **Would you be able to provide us with a list of overseas examples of funds overseas; a list of their failure rates; and also their rate of return?**
   In developing the CEFC, the Government has drawn on the experience of similar financing mechanisms used overseas, particularly the United Kingdom Green Investment Bank and United States Department of Energy Loan Programs.

   Across the three loan guarantee programs administered by the United States Department of Energy, 33 projects have received loan guarantees worth around USD $35 billion. The Department of Treasury understands that two of the projects from the loan guarantee program have filed for bankruptcy: Solyndra Inc. for $535 million and Beacon Power Corporation for $43 million (less than 2% of funds guaranteed).

   The United Kingdom Green Investment Bank is in its preliminary phase, committing to its first investment in April 2012. The United Kingdom Government is currently investing directly, on fully commercial terms, ahead of obtaining state aid approval for the Green Investment Bank.

3. **Could you also provide some examples for instance of some of the government programs that have already been in this space such as the Solar Flagships Program and the failure rate associated with that program?**
   There are no programs of a similar nature in Australia to provide meaningful comparisons with the CEFC. Australian Government initiatives in the renewable energy space are primarily grant programs, where there is no expectation of an investment return on funds.

4. **Remuneration for Future Fund Board**
   The current remuneration for the Future Fund Board of Guardians, as set by the Remuneration Tribunal, is $188,010 for the Chair and $94,020 for Board members.

5. **What is the cost of capital for the Clean Energy Finance Corporation?**
   The Government will need to finance its investment in the CEFC and interest costs will be incurred equivalent to the Government's cost of borrowing at the time the borrowing occurs.

   The 2012-13 Budget reflects the latest debt and interest projections, which incorporates the impact of all expected government transactions.

6. **What is the guidance provided by relevant departments including the Department of Finance, if there is such guidance, as to what the cost of capital should be for government business enterprises (GBEs)?**
   Sections 4.7 to 4.13 of the Commonwealth Government Business Enterprise Governance and Oversight Guidelines (the GBE Guidelines) provides advice for the financial target requirements for Government Business Enterprises (GBEs). As part of these requirements GBEs are required to add to shareholder value in their operations.

   Shareholder Minister(s) will agree with each GBE the methodology they will use to measure performance against their financial targets annually as part of the Corporate Plan process.

7. **Is the CEFC subject to the department of finance business enterprise governance and oversight guidelines of October 2011?**
   The Government has not prescribed the CEFC as a GBE and therefore the CEFC is not subject to the GBE Guidelines.

8. **Is it a common arrangement to legislate so that there is a series of appropriations in a piece of legislation dealing with one government owned corporation?**
   A similar example of a special appropriation that is committed in legislation over a number of financial years is in sections 64-66 of the *Australian Renewable Energy Agency Act 2011*. Payments under this Act are made by the Department of Resources, Energy and Tourism to the Australian Renewable Energy Agency, which is a body subject to the *Commonwealth Authorities and Corporations Act 1997.*

   A multi-year funding arrangement is also provided under the *Australian Research Council Act 2001*, section 48-58.