Australian Government
Department of Industry, Science, Energy and Resources

Clean Energy Finance Corporation Amendment (Grid Reliability Fund) Bill 2020

Submission to the Environment and Communications Legislation Committee

22 September 2020

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INTRODUCTION

This submission provides information to the Environment and Communications Legislation Committee in relation to the inquiry it is conducting on the *Clean Energy Finance Corporation Amendment (Grid Reliability Fund) Bill 2020* (the 'Bill').

ANALYSIS

Overview

The Australian energy market is currently in a state of transition. A doubling of renewable generation since 2013[1] has created new challenges for energy providers and energy users. Large scale solar photovoltaic and wind generation, which makes up the majority of the new generation, is not always reliable due to the intermittent nature of the solar and wind resource, and its energy output can be hard to predict ahead of time.[2] Furthermore, deployment of renewable energy in large concentrations can create grid stability issues.[3]

At the same time, the thermal generators that have historically provided on-demand electricity and grid stabilising services are approaching the end of their operational lives, and some are even closing ahead of schedule.[4] Without investment in new dispatchable (i.e. available on-demand) capacity, as well as grid stabilising technologies, there is a risk the electricity system will become less reliable, less secure and less affordable.[5]

The Bill helps to address these issues by creating a new $1 billion Grid Reliability Fund (the 'GRF'), which will be used to invest in projects and technologies that can stabilise and secure the grid. The GRF can be used for new low-emission electricity generation, storage and other technologies that promote the stabilisation of energy supply, including additional transmission and distribution infrastructure.

The Clean Energy Finance Corporation (CEFC) will be responsible for managing and making investments under the GRF. The CEFC is well-placed to deliver this commitment, having already made commitments of $8 billion to projects in the clean energy sector worth $28 billion since its inception in 2013. Importantly, the GRF will not be drawn from the CEFC's existing $10 billion Special Account. Instead the CEFC will receive a new injection of capital, meaning that its management of the GRF will complement rather than divert from its ongoing mission to commercialise clean energy technologies across Australia.

Securing the grid is not an optional component of Australia's clean energy transformation, but rather lies at the heart of any efforts to reduce emissions to 2030 and beyond.

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[1] See generally Department of the Environment and Energy, Australian Energy Update 2019, pp.24-28.

[2] See e.g. International Energy Agency, Will system integration of renewables be a major challenge by 2023? (2020) ("Wind and solar PV are technically different from conventional forms of electricity generation. Their maximum instantaneous output depends on how much wind and sunlight are available at any given moment, which makes their output variable and only partially predictable").

[3] International Renewable Energy Agency, Renewable Energy Integration in Power Grids (2015), p.9.

[4] The COAG Energy Council estimates that the National Electricity Market is likely to lose 61 per cent of its thermal generation capacity over the next two decades: COAG Energy Council Energy Security Board, Post 2025 Market Design Consultation Paper (2020), p.8.

[5] See generally Australian Competition and Consumer Commission, Restoring Electricity Affordability and Australia's Competitive Advantage: Retail Electricity Pricing Inquiry Final Report (2018).

The Bill

The Bill amends the *Clean Energy Finance Corporation Act 2012* (the 'Act') in order to implement the GRF. The main provisions of the Bill, and the rationale behind them, are highlighted below.

1. Establishment of GRF

The Bill establishes the GRF by creating a new Grid Reliability Fund Special Account (the 'GRF Account').[6] The GRF Account will initially be allocated $1 billion,[7] with the possibility of this amount being increased in future through regulations.[8] The CEFC will use the GRF Account to make GRF investments.

By creating a new GRF Account that is separate from the CEFC's current Special Account, the Bill demarcates a clear distinction between the CEFC's GRF and non-GRF functions. Funds for GRF investments are drawn from the GRF Account,[9] meaning the CEFC's continued use of its general Special Account is not impacted by the new facility.

2. Definition of GRF investments

The Bill defines GRF investments as investments made to support energy storage, electricity generation, transmission or distribution or grid stabilisation.[10] The investments must also be made as an exercise of the CEFC's investment function[11] and must meet any relevant criteria established in an Investment Mandate issued by the responsible Ministers.[12] A separate Grid Reliability Fund Investment Mandate will be issued following passage of the Bill. The Investment Mandate enables the Government to provide timely direction to CEFC in relation to emerging priorities without having to return to Parliament to amend the Act. However, the Bill does not change the CEFC Board's responsibility for investment decisions within the broader parameters set by Government..

The Fund seeks to maximise technology neutrality by avoiding any hard floors on renewable investment, which currently constrains CEFC's investment activity.[13] The CEFC will be able to make GRF investments in any of the clean energy technology classes identified in the Act (renewable energy, energy efficiency and low-emission technologies).[14] In addition, the Bill amends the definition of low-emission technologies to specifically include technologies for energy storage, electricity generation, transmission or distribution or grid stabilisation that support the achievement of low-emission energy systems in Australia.[15] Low-emission energy systems are achieved through creating an interconnected network of energy assets, such as generation, transmission and distribution infrastructure, that operate collectively to supply low emission energy to consumers and includes a region of an interconnected network with security and reliability needs substantially independent of the network as a whole. This will be

[6] Bill item 23.
[7] New paragraph 51B(a) in Bill item 23.
[8] New paragraph 51B(c) in Bill item 23.
[9] See new sections 51C-51E in Bill item 23. See also Bill items 17 and 26-28.
[10] New paragraph 58A(b) in Bill item 32.
[11] New paragraph 58A(a) in Bill item 32. For the CEFC's investment function see "Background" below.
[12] New paragraph 58A(c) in Bill item 32. For the CEFC's Investment Mandate and the identity of the responsible Ministers see "Background" below.
[13] Bill items 31 and 36. For the CEFC's general requirement to invest at least 50 per cent of its funds in renewable energy projects see sub-section 58(3) of the Act.
[14] For the definition of clean energy technologies see section 60 of the Act.
[15] New paragraph 60(4)(a) in Bill item 33. This amendment is intended to catch any GRF investments that don't otherwise fall within the categories of energy efficiency or renewable energy technologies.

stipulated and explained in a CEFC Grid Reliability Fund Investment Mandate. What constitutes a low-emission energy system will evolve as other efficiencies and technologies are deployed.

These changes are reasonable and appropriate, and remove ambiguity as to whether the CEFC is able to invest in certain types of projects including gas electricity generation where this is contributing to a low-emissions energy system. Many of the examples of relevant low-emission technologies are of the nature of enabling technologies, such as batteries, transmission upgrades and grid stabilisation technologies where it is the system benefits of these technologies that are relevant and not the operational emissions-intensity of the technology. Relevant limits are then imposed through the need for a connection with the achievement of low-emission energy systems in Australia. The intended effect is to clarify that the CEFC has the ability to invest, in a technology-neutral manner, across a wide range of businesses and projects while retaining responsibility for investment decisions.

3. Support for complex investments

The Bill amends the definition of investing under the Act to allow for new types of investments to be prescribed by regulations for the purposes of the GRF.[16] These would be additional to the types of investments already prescribed by the Act, namely applying assets for a return or giving a guarantee.[17] Similar to giving guarantees (which is already allowed), these prescribed investment types may not necessarily provide a return in the short term, could be revenue neutral, or could create a contingent liability for certain risks which allows a clean energy investment to proceed.

Such instruments may be necessary to support the development of new transmission links and the establishment of Renewable Energy Zones. For example, CEFC may need to underwrite the early feasibility works, fill a financing gap where other investors are not willing to accept deferred returns, or carry the risk of delays in new generation being deployed to support the revenue requirements of a Renewable Energy Zone.

The amendment will also facilitate the CEFC's involvement in the Underwriting New Generation Investments ('UNGI') program and similar initiatives into the future. The UNGI program was established in direct response to Recommendation 4 of the ACCC's Retail Electricity Pricing Inquiry,[18] and addresses an identified market failure that there are insufficient long-term offtake agreements available in the market to underwrite new generation projects.

It will remain at the CEFC's discretion whether to use the types of investments prescribed by the regulations, with the proposed change simply increasing the number of support tools at the CEFC's disposal. Any costs associated with the use of such support mechanisms would be offset by the returns made across the GRF portfolio which is expected to make a return as a whole[19].

It will also remain at the CEFC's discretion which, if any, UNGI projects it chooses to support through the GRF, and by which method those projects would be supported. The CEFC will not

[16] Bill item 3.
[17] See the current definition of "investment" in section 4 of the Act.
[18] Australian Competition and Consumer Commission, Restoring Electricity Affordability and Australia's Competitive Advantage: Retail Electricity Pricing Inquiry Final Report (2018), p.xvii.
[19] The CEFC currently targets a portfolio benchmark rate of return for its core investment activities equivalent to the five-year Australian Government bond rate +3 to +4 per cent per annum over the medium to long term.

be expected to consider any UNGI projects which are outside of the CEFC's legislative mandate.

4. General support for grid reliability

The Bill expands the functions of the CEFC to include assisting Commonwealth agencies in the development or implementation of policies or programs that support grid reliability.[20] This will allow the Government to draw upon the CEFC's expertise when structuring finance or settling terms and conditions in relation to any shortlisted UNGI projects not taken on by the CEFC. It will also allow the CEFC to provide advice to the Government on any of its other initiatives to improve and support grid reliability.

BACKGROUND

The Clean Energy Finance Corporation

The CEFC was established on 3 August 2012 as an independent statutory authority through the Act. It formally commenced operations in April 2013. It is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013*.

The object of the CEFC is to increase the flow of finance into the clean energy sector by making commercial investments in clean energy technologies and projects. It has access to a $10 billion Special Account.[21] It also partners with the finance industry to develop new sources of capital for the clean energy sector. To 30 June 2020, it has committed more than $8 billion to a diverse range of projects with a total value of over $28 billion.

The CEFC's investment function is set out in Part 6 of the Act. Under Part 6, the CEFC must invest in 'clean energy technologies' (i.e. energy efficiency, low-emission or renewable energy technologies)[22] and its investments must be solely or mainly Australian-based.[23]

The CEFC is governed by a Board consisting of a Chair and between four and six other members.[24] Board members are jointly appointed on a part-time basis by the responsible Ministers[25] (currently the Minister for Energy and Emissions Reduction and the Minister for Finance[26]). The Board's main responsibility is to make investment decisions on proposals placed before it by the CEFC executive team. The Board is guided in its decision-making by an Investment Mandate issued by the responsible Ministers.[27] Investment mandates cover matters such as risk and return, eligible technologies and the allocation of investments between them, and allowed types of financial instruments. Nonetheless, final responsibility for investment decision-making ultimately rests with the Board, and the Government cannot direct the CEFC to make any particular investments.

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[20] Bill item 5.
[21] Section 46 of the Act.
[22] Section 60 of the Act.
[23] Section 61 of the Act.
[24] Section 15 of the Act.
[25] Section 16 of the Act.
[26] See table item 4 of Part 5 of Schedule 1 to the *Acts Interpretation (Substituted References—Section 19BA) Order 2004*, as modified by table item 1 of sub-section 2.3(2) of the *Acts Interpretation Substituted Reference Order 2017*.
[27] Sections 64-67 of the Act. The CEFC's current Investment Mandate is the Clean Energy Finance Corporation Investment Mandate Direction 2020.

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