Joint Committee of Public Accounts and Audit

Inquiry into Commonwealth Investments

Auditor-General Report No. 26 (2020-21) *Investments by the Clean Energy Finance Corporation*

Additional Questions on Notice for the Clean Energy Finance Corporation

Additionality

Examining the question of whether the CEFC had facilitated increased flows of finance into the clean energy sector, the audit found that it had, but that 'the extent of these increased funds is unclear because the calculations of leverage both overstates some leveraged funds and does not include funds that may have been indirectly leveraged'. [Audit, p. 69.]

The audit noted that 'the CEFC calculates leverage as the amount of funds (excluding CEFC funds and any government grants) included in a project's costs where the CEFC has provided finance, divided by the CEFC investment', a calculation 'applied consistently across all product lines'. [Audit, p. 72.]

The audit concluded that an 'assessment of the CEFC's effectiveness in facilitating an increased level of funding into the clean energy sector could be further improved by financial analysis of industry data on the overall flows of investment into clean energy projects':

> For example, the clean energy sector has matured in terms of projects having less risk (offtake agreements and construction) and generating more commercially acceptable returns without the need for concessions or grants. This has led to a surge in private sector investments in renewable energy projects to $9.1 billion in 2017. [Audit, p. 73.]

Questions for CEFC

- In a rapidly developing and maturing clean energy sector, how effective is the CEFC at creating additional clean energy capacity and leveraging private-sector investment?
    - Would much of this investment now be occurring anyway?
- How does the CEFC measure the amount of additional clean energy it is creating through its investments?
    - Does the CEFC analyse industry data on the overall flows of investment into clean energy projects?

CEFC Response

- **In a rapidly developing and maturing clean energy sector, how effective is the CEFC at creating additional clean energy capacity and leveraging private-sector investment?**
    - **Would much of this investment now be occurring anyway?**

The CEFC is effective in creating additional clean energy capacity and leveraging private-sector investment. This point was noted on page 17 of the Auditor General's Report No 26 of 2020, and in Deloitte's 2018 Statutory Report into the CEFC. In its submission into the Deloitte statutory review process, CEFC highlighted at page 11 the important counter-cyclical role it has played in large scale renewable energy financing since its inception.

As of 30 June 2021, for every $1 the CEFC has invested, the private sector has invested $2.40. This is across investment commitments of some $9.5billion and deployed total capital of $7.4billion in projects with a total transactional value of some $32.8billion (see the 2021 CEFC Annual Report for more detail).

More broadly, the CEFC takes a flexible approach to investment, which recognises the needs of evolving markets. This includes retreating from sectors when private investment is operating effectively and stepping in to fill gaps when the private sector is absent or where CEFC participation helps leverage or accelerate private sector investment in the sector.

While certain technologies and industries such as wind and solar are rapidly developing and maturing (for which the CEFC claims some credit, along with ARENA and the large scale RET; particularly through funding many of the early projects at scale), there are still challenges being faced by the private sector in obtaining commercial finance for many of these projects (such as those lacking an offtake/Power Purchase Agreement). The CEFC has been instrumental in banking certain of these projects and in encouraging other commercial banks to join in (for example, through a lender syndicate), enabling their better understanding on how to manage and price merchant price risk.

In order to create additional clean energy capacity, our recent mandated focus is on unlocking Renewable Energy Zones, Interconnectors, Storage and other enablers of grid stability which will allow for a much greater penetration of renewables in the grid while maintaining reliability and security of supply. The CEFC's involvement in unlocking projects such as Project Energy Connect and assisting finance Transgrid Services in the development of grid infrastructure critical to the delivery of Snowy 2.0 are cases in point.

Other clean energy technologies such as Energy from Waste, while mature in Europe are still in their infancy in Australia. The CEFC has supported, through construction debt, the first two large Australian facilities of this nature. Technologies such as Hydrogen are also attracting a lot of commercial interest but at this stage are far from mature and will require CEFC to continue to invest in this area for some time. Accordingly, the CEFC is making its first investments in the sector.

To the question of "*Would much of this investment now be occurring anyway*", the CEFC notes that its role is often to accelerate decarbonisation that is likely (technologically speaking) inevitable. The reason why the CEFC would fund something that is likely inevitable (such as – for example a grid scale battery) is because in acting as a policy instrument, the CEFC is effectively aimed at accelerating Australia's transition to a lower emissions economy. It may well be that the battery is needed *now* in order for a local grid to deal with increased variable renewable energy and to unlock a means for an old plant to be safely retired. It ought to be noted, that the measure of success for decarbonisation is not just a question of *volume* of CO2-e emissions abated avoided or abated (for example, Australia's official target of 26-28% below 2005 levels) but also a function of *time* (for example an achievement date for Australia's official target of 2030). So, it is not enough that a decarbonisation project is built, but to meet our targets it must be built as soon as possible and within the window of achievement for the target. The CEFC's measure of success is therefore as often as not - *has it demonstrably accelerated a project*?

- **How does the CEFC measure the amount of additional clean energy it is creating through its investments?**

Please refer to the answer above. In addition, page 32 of the 2021 CEFC Annual Report states:

"*As in previous years, the CEFC is careful not to claim that this abatement occurs independently of other policy measures, such as government grants or procurement settings, or regulatory settings such as the Renewable Energy Target*".

CEFC's primary intent is to increase the flow of finance into the clean energy sector, with the resulting abatement attributed to the projects it has invested in i.e.: rather than CEFC claiming a proportion.

CEFC has an abatement methodology which is based on industry practice (such as accounting for the gradual decline in emissions savings as the emissions intensity of the grid is forecast to decrease over time) and official published data (such as the national emission intensity conversion factors). Where the estimates rely on forecasts (such as forecast levels of electricity generation), the CEFC's calculations are conservative (based on the most likely outcome).

  - **Does the CEFC analyse industry data on the overall flows of investment into clean energy projects?**

Yes, we constantly analyse industry data on investment flows into clean energy projects through a range of mechanisms and in association with other industry and regulatory bodies that we are actively engaging with in the market.

We analyse subscription services such as Inframation and Sparkspread which report on energy sector financial transactions; Bloomberg New Energy Finance which reports on global and Australian clean energy investments and also general news services. We also regularly review energy sector investment forecasts and engage with the likes of AEMC and AEMO, feeding into the ISP processes for example. Please refer to page 64 of the 2021 CEFC Annual Report for additional detail on some of our external market engagements. This all feeds into our strategic planning process.