



WWF Submission to Senate Economics Committee Inquiry into the Clean Energy Finance Corporation Bill

21 June 2012

1. Summary and Key Recommendations

Key Points

- To reduce greenhouse gas emissions Australia should aim to be 100% reliant on renewable energy by 2050 at the latest. For the electricity sector this goal could be achieved even earlier. The Clean Energy Finance Corporation will have a critical role to play in achieving this goal, alongside the Renewable Energy Target and the carbon price mechanism.
- Both the Carbon Price and the RET will only support the cheapest renewable and low pollution technologies as they become cost competitive. A gap will still exist for emerging technologies such as solar thermal, geothermal and wave.
- Investing in these technologies and resources now will help provide experience that can reduce the cost or risk of future deployments at scale; drive competition; improve market reliability and security; and accelerate transition if we need to reduce emissions faster.
- The CEFC is being established to overcome capital market barriers that hinder the financing, commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies. The CEFC will assist by helping to reduce risk for private investment and increase capital flows. A well designed CEFC could unlock billions of dollars in private finance for a range of projects and develop a range of renewable technologies and resources.
- WWF believes the investments made through the CEFC should support projects that will deliver renewable energy above and beyond the 20% Renewable Energy Target (RET). Currently there is no guarantee this will happen.
- Failure to make CEFC investments additional to the current 20% RET could create price uncertainty in the RET and add additional barriers and uncertainty to planned investment.
- It also is an inefficient use of government funding and would constitute a missed opportunity to accelerate Australia's transition to 100% renewable energy.
- WWF supports CEFC projects being eligible for Renewable Energy Certificates (RECs) under the RET legislation (the carbon price at this stage will not be high enough to drive new renewables on to the grid especially higher cost technologies like solar thermal). However, we believe this can be done without interfering with the existing RET investment pipeline.
- There are at least two clear options to ensure that CEFC projects are above and beyond the 20% target:
 - Option 1: Replace RECs for CEFC funded projects: For each REC provided to a CEFC project, the government 'tops up' a REC back into the scheme to ensure the integrity of the 20% target. This mechanism already exists for waste coal mine gas projects under the RET.
 - Option 2: Expand and extend the RET target: CEFC projects generate RECs and the RET target is expanded to reflect this investment.



Recommendations:

The Government should:

- Immediately commit before the CEFC Bill passes parliament to ensuring that CEFC projects will be new and additional to the 20% target; and
- Request the Climate Change Authority – during the RET Review in late 2012 – to identify and recommend the most appropriate mechanism to achieve this.

2. Introduction

WWF-Australia welcomes the opportunity to submit its views on the *Clean Energy Finance Corporation Bill 2012*.

WWF-Australia strongly supports the establishment of the Clean Energy Finance Corporation (CEFC) as a crucial part of the wider Clean Energy Future reforms. We believe the CEFC has the potential to fast-track the development of Australia's world-class renewable energy resources, including solar and geothermal. Not only will this help to reduce emissions faster, it will also ensure Australia remains competitive in the booming global clean energy market, which last year was worth over US\$260 billion.

WWF-Australia has previously outlined its detailed position on the CEFC, which can be found at http://www.cefcexpertreview.gov.au/content/consultation/submissions/downloads/WWF_Australia.pdf. The primary purpose of this submission is to highlight the importance of ensuring investments made under the CEFC deliver renewable energy above and beyond the existing 20% Renewable Energy Target.

About WWF

WWF-Australia is part of the WWF International Network, the world's largest and most experienced independent conservation organisation, with over 80,000 supporters in Australia, five million supporters worldwide and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural resources and to build a future in which humans live in harmony with nature. Climate change is the greatest threat to the survival of species. According to scientists a 2-3 degrees rise could result in between 20-30% of species becoming extinct.

WWF's goal is for a reduction of greenhouse gas emissions to keep the global temperature increase well below 2 degrees Celsius above pre-industrial levels and to achieve 100% global renewable energy by 2050.

WWF is a science based organisation that works with Governments, business, other NGOs and communities to achieve our mission and goals.

3. Why WWF supports the CEFC

WWF-Australia believes Australia should aim to be 100% reliant on renewable energy by 2050 at the latest. For the electricity sector this goal could be achieved even earlier. The Clean Energy Finance



Corporation will have a critical role to play in achieving this goal, alongside the Renewable Energy Target and the carbon price mechanism.

As noted above WWF's goal is for a reduction of greenhouse gas emissions to keep the global temperature increase well below 2 degrees Celsius above pre-industrial levels and to achieve 100% global renewable energy by 2050.

Through the Cancun Agreements, Australia and the rest of the international community have agreed that the global aim should be to keep emissions below 2 degrees Celsius. According to the Australian Government, for this global goal to be met Australia will need to take on a national greenhouse gas (GHG) emissions targets of 80% below 2000 levels by 2050 (now legislated) and by between 5-25% below 2000 levels by 2020.

To contribute its fair share and minimise risks of tipping points and overshoot, WWF believes Australia must aim for national emissions reductions of at least 25% below 1990¹ levels by 2020 and at least 90% by 2050. WWF also believes it is in Australia's best interest economically to try and achieve these reductions domestically, and our modelling shows that this is achievable².

As new scientific evidence comes to the fore, even stronger targets may be necessary and must be anticipated. Indeed it is possible that the goal posts will shift and that the world and Australia will need to act faster and make deeper cuts. Ensuring our energy sector can transition faster if needed be is therefore essential.

The energy sector is the major contributor of Australia's greenhouse gas emissions and will also need to do more of the heavy lifting as some sectors like agriculture may struggle to meet required emissions reduction targets. This means the energy sector will need to undergo massive transformation over the coming decades if we are to meet our global and domestic targets. Given that energy projects have long lifespans of between 15 and 30 years, investments made now have repercussions for how the energy market will look in 20-30 years' time.

The challenge for policy and decision makers is how to achieve multiple and sometimes moving objectives. In the case of the energy sector, the objective is to ensure energy security and decarbonise at the latest by 2050.

Australia will need a wide number of clean energy technologies and resources into the energy market as early as possible to create a diverse, competitive, and reliable energy market that can decarbonise faster if science and governments deem necessary. This requires governments to foster concurrent development of renewable industries now and not waiting for each technology to become 'cost competitive' in their own time.

¹ We acknowledge that a final decision on the 2020 target will be not be made until 2014 at the earliest as part of the cap setting process for the emissions trading scheme. In the meantime it is vital that we continue to build a policy and regulatory framework that is capable of delivering the full range of short- and long-term targets and lay the foundations for the transition to a low carbon economy faster if we need to.

² See for example modelling in WWF's submission to CEFC Expert Review http://www.cefcexpertreview.gov.au/content/consultation/submissions/downloads/WWF_Australia.pdf



Transitioning to a low carbon economy and investing earlier in a mix of technologies and resources will require an unprecedented level of capital investment where returns may not be evident for decades. Unfortunately our current financial systems are not suited to taking such a long-term view. Investors expect a return within a couple of years. However research shows that there are benefits to investing earlier, even at small scale. For example, investment at a comparatively small-scale now leads to exponential growth in installed capacity and reduces the chance of delay to large-scale capacity. Further a recent International Energy Agency (IEA) report argues that for every \$1 of investment in low carbon transition between 2011 and 2020, it avoids an additional \$4.3 in required expenditure between 2021 and 2035 to compensate for the increased emissions.³

As of July 2012, Australia will have a carbon price which will increase costs of fossil fuels; Low Carbon Australia which will provide financial solutions and advice on energy efficiency; ARENA which will provide grants for research, development and early phase commercialisation for renewable technologies; and the Renewable Energy Target (RET) which has two bands – one to support small-scale renewable energy and one band for large-scale renewable technology.

While this is a good raft of measures to support deployment of renewable energy, it is important to emphasise that both the Carbon Price and the RET will only support the cheapest clean technologies as they become cost competitive with coal, so for example in the early years carbon price will support gas and the RET will support wind. A gap will still exist for currently feasible large-scale technologies such as large-scale solar PV and building integrated PV, and emerging technologies such as solar thermal, geothermal and wave. Investing in these technologies and resources now will help provide experience that can reduce the cost or risk of future deployments at scale; drive competition; improve market reliability and security; and accelerate transition.

The CEFC is being established to overcome capital market barriers that hinder the financing, commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies. The CEFC will assist by helping to reduce risk for private investments and increase capital flows. A well designed CEFC could unlock billions of dollars in private finance for a range of projects and develop a range of renewable technologies and resources. If the CEFC is clever with the money it could catalyse significant investment domestically and transform Australia's economy. To this end WWF supports the passage of the CEFC through the parliament.

While strongly supportive of the CEFC, WWF believes that improvements can be made to make it more transformational. One such improvement is outlined in detail below.

4. Ensuring CEFC goes beyond 20% renewable energy.

WWF supports CEFC projects being eligible for Renewable Energy Certificates (RECs) under the RET legislation. This is likely to be important to ensure the projects are commercially viable, especially while current projections are that the carbon price may be lower in the short-term than originally

³ IEA World Energy Outlook, 2011 www.worldenergyoutlook.org



thought⁴. However, WWF believes the investments made through the CEFC should support projects that will deliver renewable energy above and beyond the current 20% Renewable Energy Target (RET). Currently there is no guarantee this will happen.

The current 20% RET will see up to an estimated \$19 billion in private capital invested in the most cost effective commercial scale renewable energy technologies (primarily wind).⁵ It makes sense to ensure the CEFC does not interfere with that investment pipeline. Rather it should be invested in technologies where private sector investment is not flowing, with emphasis on emerging technologies, which will help make market based mechanism such as the RET and the carbon price, as well as the energy market, more efficient and cost effective in the longer term.

Published analysis of the potential new renewable energy generating capacity from the CEFC range from 1.5GW by ClimateWorks Australia through to 7GW by Bloomberg New Energy Finance⁶, while a US Department of Energy Loan Guarantees Program investing US\$10 billion led to approximately 3GW of new solar energy generation and 2.5GW of annual PV production capacity⁷. So while there is uncertainty as to how much renewable capacity could be deployed through the CEFC, what is clear is there is potential for a substantial amount of new renewable capacity beyond what the 20% RET is already scheduled to deliver.

WWF is therefore concerned that by making CEFC projects eligible for but not additional to the current RET two things may happen:

1. The 20% RET target will act as a “cap” on renewable energy deployment, so CEFC projects will effectively just displace current planned renewable projects, meaning there would not be additional renewable in the grid beyond the 20%. This is likely to be the case if the carbon price remains low out to and beyond 2020; and
2. It could create price uncertainty in the RET and add additional barriers and uncertainty to planned investment.

However, if the CEFC is additional to the RET, Australia could reap the benefits of increased private investment, more jobs and a faster transition to a clean energy future.

What is also clear is that not making CEFC projects additional to the current RET target is an inefficient use of carbon price revenue (Government funds) and a wasted opportunity.

⁴ For example Bloomberg New Energy Finance modelled the carbon price to be at AUD \$17.50 in 2020

<http://bnef.com/PressReleases/view/162>

⁵ MMA (2010), *Impacts of Changes to the Design of the Expanded Renewable Energy Target*, Report to the Department of Climate Change and Energy Efficiency.

⁶ ClimateWorks Australia (2011), *Low Carbon Growth Plan for Australia, 2011 Update*; Australian Solar Energy Society (2012), *Australian Solar Energy Society Welcomes New Solar Flagships Arrangements* accessed at

<http://www.aapmedianet.com.au/MNJ/Release.aspx?R=727361&K=8685907>

⁷ National Renewable Energy Laboratory (2011), *DOE helps ‘guarantee’ future for solar*, accessed at

<https://financere.nrel.gov/finance/content/doe-helps-guarantee-future-solar-0>



There are at least two clear options to ensure that CEFC projects are above and beyond the 20% target:

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WWF believes the appropriate way forward is for the Government, during the Senate debate of the CEFC Bill, to commit to ensuring that CEFC projects will be new and additional to the 20% target and to request the Climate Change Authority – during the RET Review in late 2012 – to identify and recommend the most appropriate mechanism to achieve this.

For Further information please contact:

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