

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2014 - 2015

Department/Agency: CEFC

Question: AET 15

Topic: Reducing greenhouse gas emissions

Reference: Hansard page no. 37 - 25 February 2015

Senator: Milne, Christine

Question:

Senator MILNE: I want first of all to go to Clean Energy Finance Corporation—in particular, your objective of reducing greenhouse gas emissions. Previously you said you could achieve half of the government's current 5 per cent reduction target. That was some time ago. You obviously have had a lot more projects up and running and more in the pipeline. Could you give me an understanding now of what you could lay claim to in terms of the projects that are already financed and up and what the pipeline might achieve, if it were to come to fruition?

Mr Yates: We are continuing with our activities, as you are aware, and we are building a pipeline. The level of emissions in relation to the projects that we actually finance, obviously, is quite dependent upon the projects that we are likely to finance. At the moment we are seeing a change within that as large renewable energy projects have been slowed down with the RET. It is quite difficult for to us forecast with any precise terms the exact amount that we would be able to contribute to the overall government's objective to reduce greenhouse gas emissions, but I would be very happy to try to forecast that for you in more detail as a question on notice, Senator, when we look in more detail in relation to the outlook, and particularly if we know the outcome from the RET review.

Answer:

Under its legislation, the purpose of the CEFC is to facilitate increased flows of finance into the clean energy sector. Under the CEFC Act and Investment Mandate, the CEFC is to apply commercial rigour when making investment decisions, target a benchmark rate of return, and operate with a commercial approach. As such, the CEFC investment model represents a very low cost to government of emissions abatement.

The CEFC has committed investment of some 10 per cent of the CEFC's total \$10 billion in appropriations available under the CEFC Act. The CEFC's committed investments to date include projects that, once constructed and operational, are estimated to achieve annual abatement of approximately 4.2 million tonnes CO₂e p.a.

It is important to note that the CEFC does not claim that the projects it invests in will bring about abatement in isolation of other government policies, or general economic parameters (e.g. the RET, the former carbon price, or various state government incentives). Because the CEFC works applying commercial rigour, its participation as an investor in projects is as a complementary mechanism to those policies to help deliver abatement. In respect of the finance of pre-existing assets, the CEFC only attributes abatement to the extent of any specific new abatement activity which occurs as a result of that funding (e.g. a building upgrade which delivers specific energy efficiency gains).

Any projection of the amount of abatement that CEFC funded projects might ultimately involve would require forecasting a range of variables, including the portfolio mix and the

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multiple of private sector funding which is leveraged into those projects (e.g. between large scale project finance and financing programs for smaller scale SME energy efficiency investments; the variable capital intensity of carbon savings across different sectors and types of projects and technologies).

The CEFC has previously placed on the record the impact of the ongoing uncertainty around the CEFC's own future, and of the presently subdued demand for renewable energy investment and energy market investment generally, based on market and policy factors such as excess supply in the NEM, the outcome of negotiations on the RET, the progression of the Energy White Paper process, the inception of the Emissions Reduction Fund, and changes to state legislation and initiatives. All of these factors impact the carbon abatement that projects in which the CEFC is involved would be able to realise were its total \$10 billion availability be invested. As such, a reliable further estimate would not be feasible until market conditions are more certain.