

CLEAN ENERGY  
FINANCE CORPORATION

**Corporate Plan**  
**2015/2016**

**CEFC**

CLEAN ENERGY FINANCE CORPORATION



## CEFC Mission

To accelerate Australia's transformation towards a more competitive economy in a carbon constrained world, by acting as a catalyst to increase investment in emissions reduction.



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# Introduction



The Board, as the accountable authority of the Clean Energy Finance Corporation ("CEFC" or "the Corporation"), presents the 2015/2016 Corporate Plan, covering the four financial years commencing on 1 July 2015 and ending on 30 June 2019, as required under paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* ("the PGPA Act").

A handwritten signature in black ink, appearing to read 'Jillian Broadbent', written over a horizontal line.

**Jillian Broadbent AO**  
**Chair**  
Clean Energy Finance Corporation

August 2015



## Objectives and Purpose

The CEFC was established by the *Clean Energy Finance Corporation Act 2012* (“CEFC Act”) with the stated and legislated objective: “...to facilitate increased flows of finance into the clean energy sector.<sup>1</sup>” Ultimately, this objective is achieved through investing directly and indirectly and in doing so, encouraging and facilitating others to also invest in renewable energy, energy efficiency and low emissions technologies and projects. Consistent with that statutory objective, the Board has established the following Mission:

“ To accelerate Australia’s transformation towards a more competitive economy in a carbon constrained world, by acting as a catalyst to increase investment in emissions reduction. ”

The CEFC is an investment institution with a legislated investment function. The CEFC Act sets out that the investments are to be in clean energy technologies (including related technologies and enabling technologies) that are solely or mainly Australian based.<sup>2</sup> Its Investment Mandate direction specifies that the CEFC is to apply commercial rigour when making its investment decisions,<sup>3</sup> using financial products and structures to address the barriers inhibiting private sector investment in the sector.

The CEFC is not a grants making organisation. It seeks to generate positive financial returns and this is expressed in the Investment Mandate as a target portfolio benchmark rate of return. The Corporation therefore makes investments with a commercial approach, based on careful risk assessment and appropriate terms, with an expectation that such investments will be repaid. The CEFC undertakes its investment activity responsibly and manages risk to minimise the likelihood of losses. The Corporation is governed by an independent Board, which reports directly to its responsible Ministers – the Treasurer and the Finance Minister – and through them to the Parliament.

The Corporation works with private sector financiers and project sponsors wherever possible, to facilitate and leverage increased flows of finance into the clean energy sector. The CEFC does not displace private sector banks nor disrupt areas where the financial markets are functioning well.

The CEFC differs from private sector financial institutions in that it has a public policy purpose. This public policy purpose requires the CEFC to consider external benefits associated with its financing activities. These external benefits include emissions reductions, moving new technologies down the cost curve, productivity gains through energy efficiency, technological diversity in the energy mix, encouraging innovation, building capability and leveraging private sector funds into the sector. In limited circumstances, the CEFC can provide concessional finance where the Board considers that public policy benefits are promoted through the concessionalism being provided.

The CEFC has developed specialist financing capabilities in the clean energy and energy productivity sectors. It shares knowledge and expertise with project sponsors, lenders and the broader industry, helping build capacity within the private sector and developing financing structures to encourage further private sector investment in emissions reduction.

In pursuing its objective, the CEFC Act requires the Corporation to ensure that, at any time on or after 1 July 2018, at least half the funds invested for the purposes of its investment function are invested in renewable energy technologies.

<sup>1</sup> Section 3, Clean Energy Finance Corporation Act 2012.

<sup>2</sup> Part 6, Clean Energy Finance Corporation Act 2012.

<sup>3</sup> Part 2, Clean Energy Finance Corporation Investment Mandate Direction 2015.



## Operating Environment

The CEFC’s operating environment is primarily influenced by three key external factors, namely, private sector investment activity, technology development and innovation, and government policy. Ultimately, these three factors influence, directly and indirectly, the level of demand for CEFC funding and the overall performance of the Corporation.

### 3.1 Private sector investment activity

The CEFC’s investment environment is impacted by the broader economic and investment activity and, more specifically, by credit markets. In difficult economic and market conditions, the CEFC will seek out opportunities to invest and catalyse funds into the clean energy sector.

In strong liquid markets where adequate private sector funding is available at reasonable pricing, there is less demand for CEFC finance. However, credit markets can deteriorate rapidly as we saw in the global financial crisis. Currently, the capital markets are reasonably stable, however, concern over Greece, China and the impact of potential interest rate rises in the US, highlight the potential for rapid change.

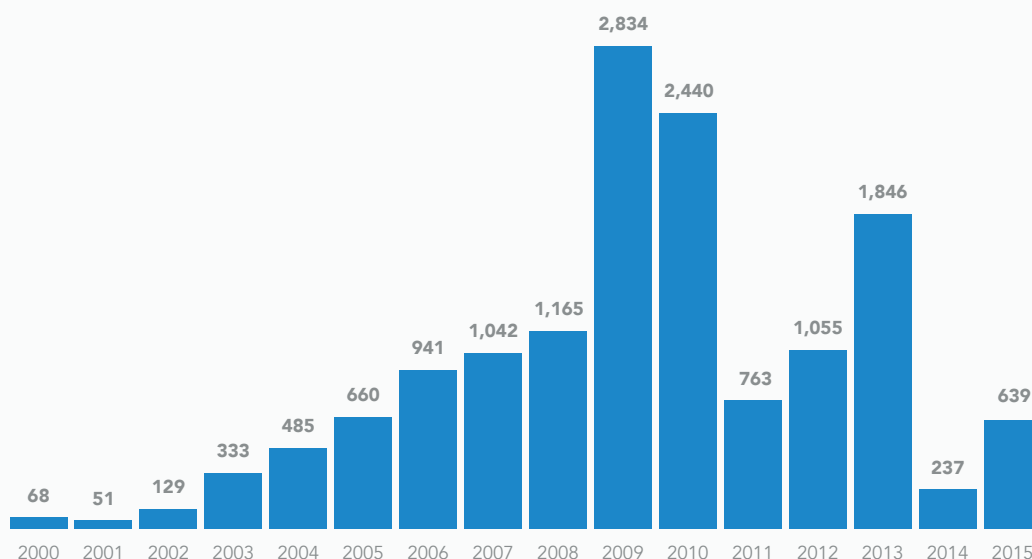
Being a sector-specific investor in renewable energy, energy efficient and low emissions

technologies, the CEFC’s operating environment is particularly impacted by energy market pricing, government policy initiatives and general investor confidence in these sectors.

Large scale investments in the clean energy sector are particularly sensitive to movements in the energy market, both in respect of the general ‘black’ electricity price and the Renewable Energy Target (RET), or RET-specific ‘green’ energy price. In recent years net energy demand has fallen for a variety of reasons, which has contributed to a lower ‘black’ electricity price and in turn, negatively impacted on investment returns in the energy sector.

Australia’s well-documented recent slowdown in investment activity in the renewable energy market is shown in the following graph:

Figure 1: **Historical Investment in Australian Renewable Energy**



Source: Bloomberg New Energy Finance

In 2014, investment in Australian renewable energy projects dropped 87%, which many analysts attribute to the market's perceived uncertainty with regards to the RET during that period. Following the legislated revised 2020 RET, the CEFC has experienced an uptick in interest among large scale renewable energy developers, but a key issue remains for longer-dated developments that require some certainty of a RET and/or some form of emissions penalty price post 2020 to underwrite capital raising.

A key characteristic of renewable energy, energy efficiency and/or low emissions technology projects is the inherent high proportion of up front capital expenditure required. As with any

significant infrastructure type investment, the availability of finance at a reasonable cost is critical if future energy costs are to be minimised for consumers. Where adequate levels of financing are not able to be sourced from the private sector at a reasonable risk-reflective cost, this creates a barrier to investment or a financing gap that the CEFC is mandated to address. New and innovative financing sources and financial products are required to attract reasonably priced capital and, in turn, to overcome barriers to deployment of finance into Australia's clean energy sector. This is where the CEFC is already playing a leading role.

### 3.2 Innovation, development and commercialisation of technologies

The rate of innovation, development and commercialisation of renewable energy, energy efficiency and low emissions technologies is impacted by a multitude of factors, including economic activity, technological advancements, costs of energy (wholesale and retail), and consumer preferences, as well as regulatory and policy drivers. In the renewables sector globally, the market is exhibiting trends where utility-scale wind and solar facilities are now cheaper to construct than new-build coal, and increasingly on par with new-build gas.<sup>4</sup>

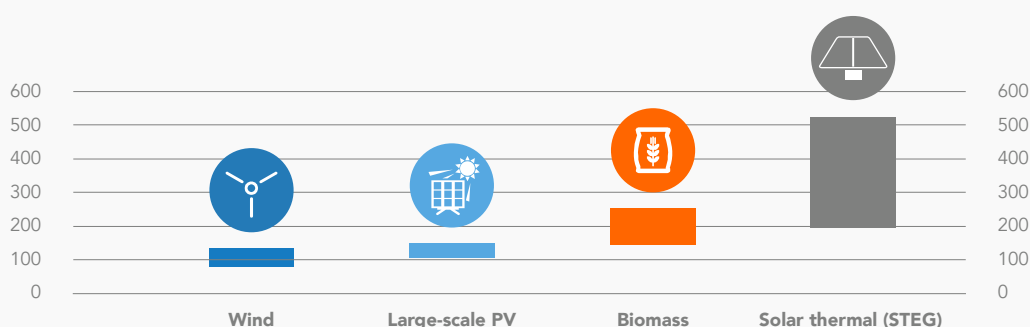
An independent report<sup>5</sup> highlights the extent to which financing barriers currently exist in Australia for all renewable energy projects, regardless of their technology types and their relative maturities and concludes that:

- Currently nearly all renewable energy projects are facing issues impacting the availability of commercial finance;
- The limited availability of long term revenue contracts (PPAs) is a significant barrier to nearly all renewable energy projects being able to secure financing from commercial sources; and
- In the short to medium term, there is a low likelihood of improving commercial financing potential for renewable energy projects without PPAs.

<sup>4</sup> [http://www.cleanenergysummit.com.au/dam/clean-energy-summit/2015-presentations/Market-Trends-and-Analysis/1.6.4\\_Kbhavnagri.pdf](http://www.cleanenergysummit.com.au/dam/clean-energy-summit/2015-presentations/Market-Trends-and-Analysis/1.6.4_Kbhavnagri.pdf); <http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/aeta/2030-lcoe-summary-chart.pdf>

<sup>5</sup> Seed Advisory – Barriers to Commercial Financing of Renewable Energy Projects (soon to be published).

Figure 2: **Levelised Cost of Energy (LCOE)**



Source: Bloomberg New Energy Finance

Technological developments, innovation, commercialisation, economies of scale and ultimately bankability all drive down the cost of technologies. These factors have an important impact on the commercial viability of the relevant technology. The CEFC's investment environment will improve with faster technology innovation. The speed with which technologies move down

the cost curve is an important factor in the level of expected future investment and in turn, future energy costs. Ultimately these factors are impacting growth and maturity in this sector in Australia. To the extent this leaves Australia behind international trends, this could impact on Australia's international competitiveness.

### 3.3 Government policy

Government policy affects the CEFC's operating environment in two key ways:

- Firstly, the CEFC is a corporate Commonwealth entity, and support or otherwise for the CEFC is a Government prerogative, as is the issue or amendment of the Investment Mandate by the responsible Ministers in accordance with the CEFC Act.
- Secondly, investment in the sector and demand for CEFC finance can be influenced by various government policies at the federal, state and local level, particularly at the confluence of energy, environment and emissions policy.

As at the date of this Corporate Plan, Australian Government policy is to abolish the Corporation and a Bill to abolish the CEFC remains on the Australian Government's legislative agenda. Whether the policy remains and whether or not the Bill is passed is properly a matter for the Australian Government and the Parliament to determine. For the purposes of this Corporate Plan, however, it is assumed that the CEFC continues to operate over the Plan period.

The CEFC's investment activities are given broad direction by the Investment Mandate issued by the responsible Ministers under s64 of the CEFC Act. Among other matters, the Investment Mandate may make determinations on matters of risk and return, the eligibility of various technologies and the allocation of the investment portfolio between the various classes of technologies. These parameters for investment set in the Investment Mandate can therefore significantly impact upon the Corporation's investment functions and the available universe of investment and performance over the Plan period. As at the date of this Corporate Plan, a draft revised Investment Mandate had been received by the CEFC and the Corporation is currently in a statutory consultation phase with the Government as to its final form.

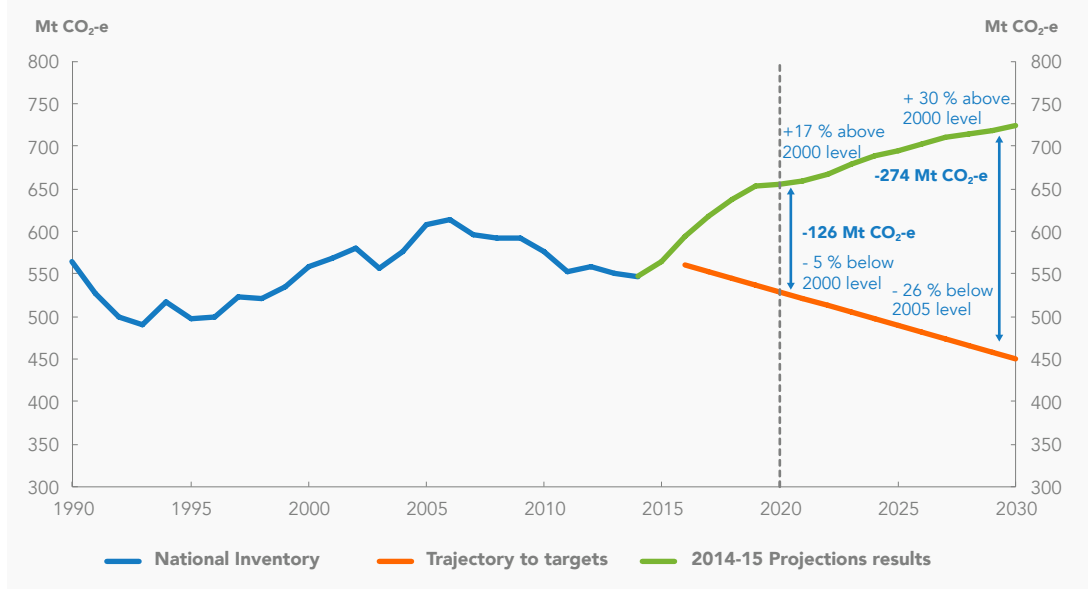
The Explanatory Statement to the CEFC's Investment Mandate instructs the Corporation to support policies such as the Renewable Energy Target, to mobilise and leverage the flow of funds for commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies necessary for Australia's transition to a lower carbon economy.

Policies relating to the generation, use and storage of energy and greenhouse gas emissions reduction at federal, state and local government levels all influence the CEFC's operating environment, sending market participants a regulatory or pricing signal that can work to make investment in the sector either more or less attractive which, in turn, impacts on the CEFC's operating environment.

The economic transformation required to deal with Australia's greenhouse gas emissions abatement is a major challenge for the energy sector and the economy more generally, including households. To reduce the cost of this economic transformation, the CEFC accelerates market deployment of clean energy technologies and contributes to a more stable investment environment, in an effort to achieve a smoother investment trajectory. Private sector funds invested alongside the CEFC are critical to the achievement of these objectives.



Figure 3: **Australia's Abatement Task**



Source: Department of Environment

As at the date of this Corporate Plan, Australia's emissions reduction target for 2020 is 5% below year 2000 levels. This corresponds to an "abatement task" of 126 Mt CO<sub>2</sub>-e and is reflected in Figure 3. In the context of negotiations for a new global climate change agreement which will be finalised in December 2015 at the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties in Paris, the Australian Government has announced a target of 26-28% below 2005 levels by 2030.

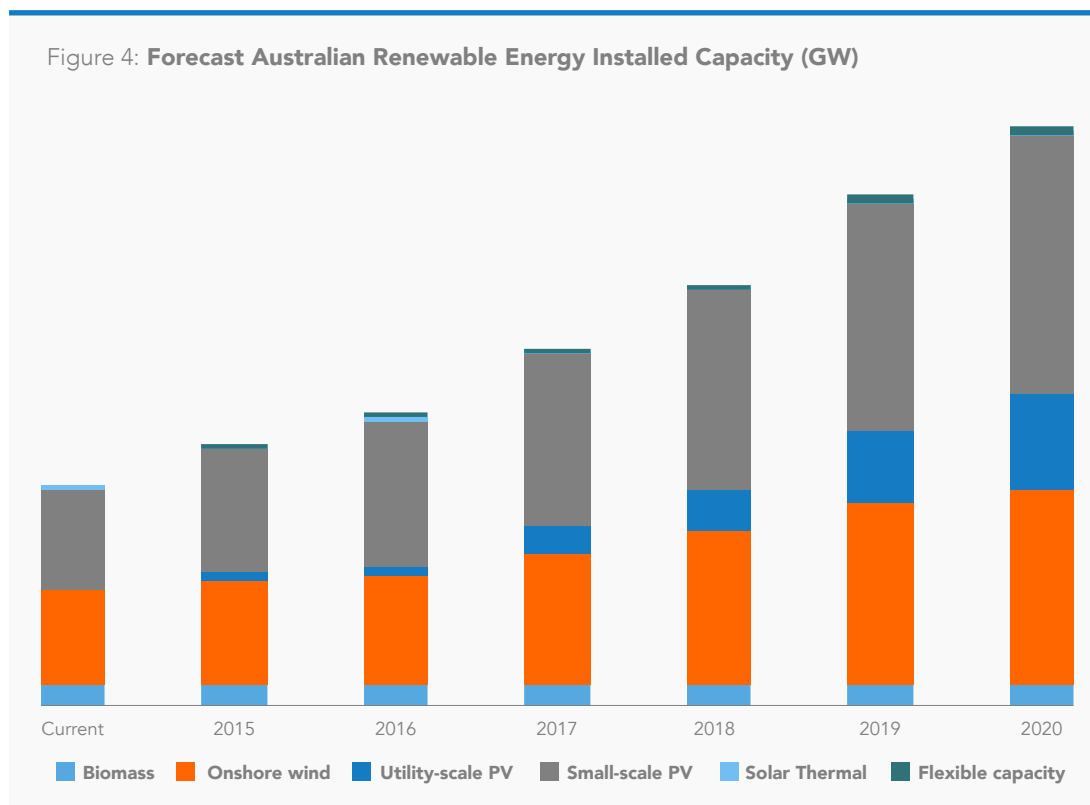
Countries have agreed to a collective goal of limiting global average temperature rise to less than 2°C above pre-industrial levels. Effective global action towards meeting this goal will reduce climate risks to Australia's environment and economy. To have a meaningful global impact, all countries need to act to limit and reduce their greenhouse gas emissions. The Australian Government has said that the Paris Agreement must deliver full participation and commitments to take coordinated action by all countries.

The size of the reduction target that is ultimately adopted, along with the associated emissions reduction policies, will impact the CEFC's own operating environment.

Figure 4 forecasts that Australia's installed renewable energy capacity, including small scale solar PV, will grow by 13 GW to reach 23 GW by 2020, requiring estimated new investment of \$30 billion if the RET target is to be achieved.

The CEFC was designed to accompany the RET. To that end, the CEFC is working with the private sector to assist in meeting the capital requirements to achieve this level of investment at the lowest possible cost. This is critically important, as failure to attract the required investment to meet the RET target could trigger a penalty price under the *Renewable Energy (Electricity) Act 2000* and increase energy prices as a result. Investment in a diverse range of technologies is essential if Australia is to utilise the cheapest sources of energy in the future.

Figure 4: **Forecast Australian Renewable Energy Installed Capacity (GW)**

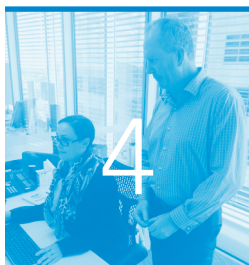


Source: Bloomberg New Energy Finance

### 3.4 Impact of changes in the operating environment on CEFC performance

Progressive changes in all three operating environment factors (listed below) would have a positive impact on the CEFC's operating environment. Changes in Government policies and technology development, commercialisation and market diffusion would have an impact on market and investment conditions and, in turn, CEFC performance. With positive credit markets, an improvement in private sector financing appetite would increase the overall flows of private sector finance into the clean energy sector and in energy productivity, which is the CEFC's primary purpose and ultimate objective.

Environmental factor	Factor change	Impact on CEFC operating environment and performance
1. Private sector investment activity	Deteriorating credit markets	Positive
2. Technology development and innovation	Faster innovation and commercialisation	Positive
3. Government policies	Strengthening emissions reduction policies	Positive



## Capability

The CEFC has been investing since 1 July 2013 when the first tranche of investment funds was credited to the special account under s46 of the CEFC Act. Since that time, the Corporation has built up a capable and professional team, and an investment organisation with support functions, systems and networks of commercial relationships for the delivery of CEFC finance. The Corporation has made a significant impact in the market, through educating, encouraging and supporting private sector investment.

### 4.1 Statutory appropriations

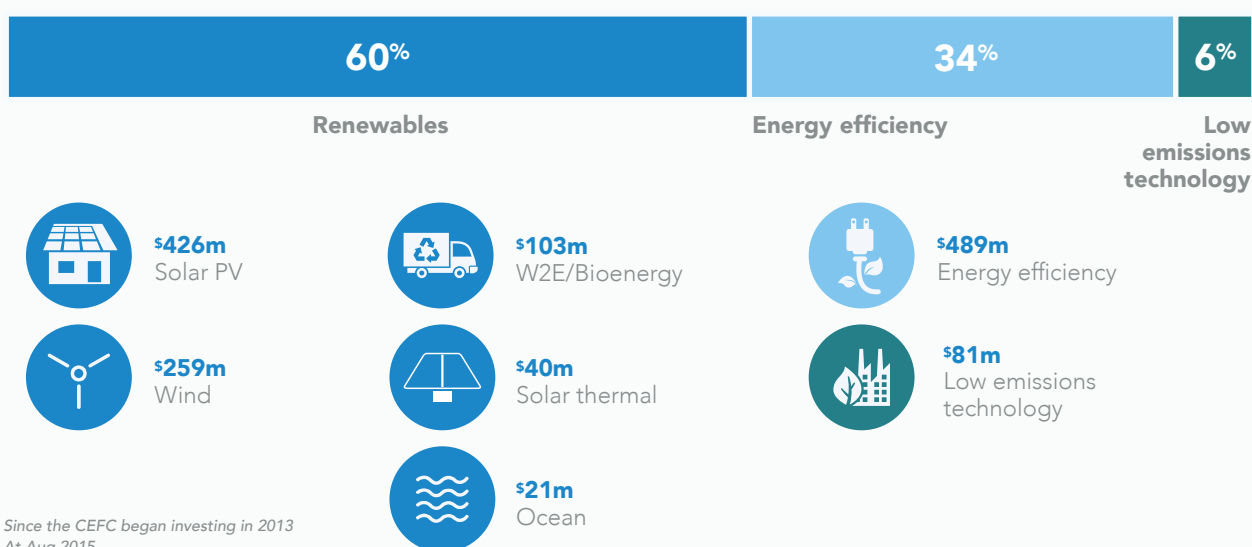
The CEFC is appropriated directly through its enabling legislation via credits to a Special Account controlled by Treasury. This account is to be credited with \$2 billion each year for five years commencing 1 July 2013, plus any funds returned to the Treasury from investments.

This means that at the end of this Corporate Plan period, the Corporation will have access to a funding corpus in excess of \$10 billion.

### 4.2 Investments and investment portfolio

A snapshot of the Corporation's portfolio to date is included in Figure 5, which analyses the CEFC's total investment commitments to date of \$1.4 billion. It should be noted that some of these investment commitments are currently in their construction phase and some financing programs have been operational for less than 12 months and are still ramping up towards full utilisation. Even though some of these commitments may not ultimately be fully utilised, the availability and commitment of funds from the CEFC is developing the market and is encouraging productive investment that may not have otherwise happened.

Figure 5: **CEFC's Investment Commitments**



### 4.3 People

The CEFC has 58 full time equivalent (FTE) employees at the beginning of this Plan period. This level of staffing is adequate in the current environment and with the current investment portfolio.

The CEFC will need to grow if capital market, policy or technology conditions:

- encourage private sector investment in the sector but the lending market is slow to respond through a shortage of liquidity; or
- discourage private sector investment below levels necessary to meet our statutory obligations.

Both scenarios would require additional staff and resources to enable the CEFC to increase its commitment of funds to maintain investment in the clean energy sector and encourage private sector lenders.

Conversely, should conditions change and a stable, deep and vibrant capital market form within the sector that can support an efficient and cost effective transition to a carbon constrained economy, there can be a commensurate reduction in the CEFC's role, funding and resourcing.

### 4.4 Systems capability improvement initiatives

During the plan period, the Corporation will continue to progressively build out and improve its key business systems in the finance, communications, client management and information technology functions, to ensure the business can support anticipated requirements for scalability.

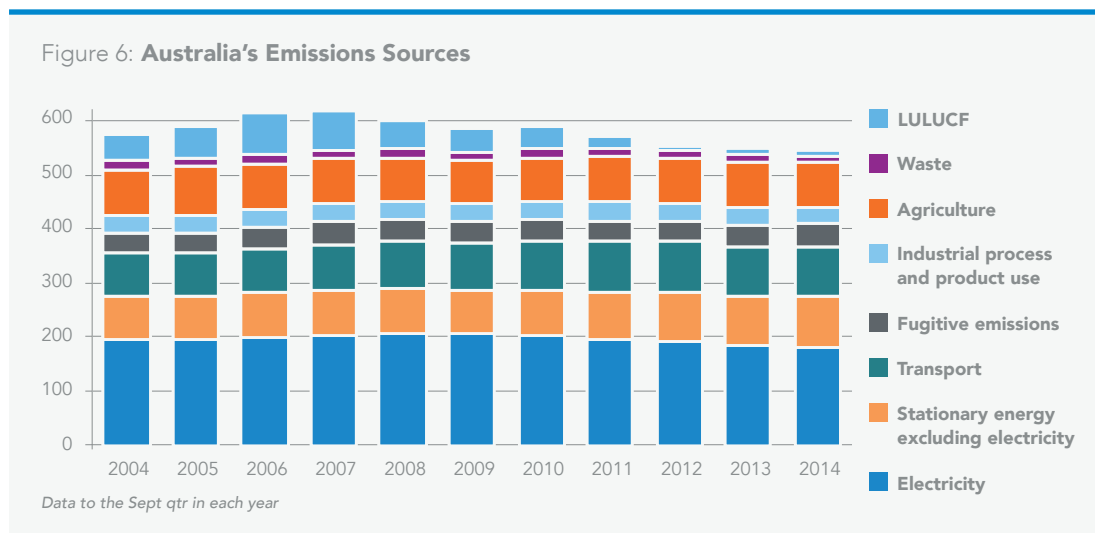


# Strategy

The CEFC’s legislated purpose is to facilitate increased flows of finance into Australia’s clean energy sector. The clean energy sector includes renewable energy, low emissions and energy efficiency technologies. It is typically the energy intensive sectors that represent the best business case for technology upgrades and step-changes in energy efficiency.

## 5.1 Strategic context

The strategies adopted by the CEFC are largely focused on delivering financing solutions to the electricity generation, stationary energy (including buildings and manufacturing) and transport sectors, noting that over 75% of Australia’s greenhouse gas emissions arise from these sectors.



The CEFC will invest in a responsible manner that delivers positive public policy outcomes and maximises the opportunity for positive returns. The amount ultimately invested will be heavily influenced by external environmental factors, the majority of which are outside the control of the CEFC. The Board is confident, however, that the CEFC has the expertise and capability to invest a sufficient portion of the appropriated funding during the Plan period to be financially sustainable and meet its public policy purpose.

This Corporate Plan focusses on the strategies to deliver on the purpose of the Corporation. The relationship between Purpose, Strategies and supporting Operational Activities is shown in Figure 7.



## 5.2 Strategic Objectives

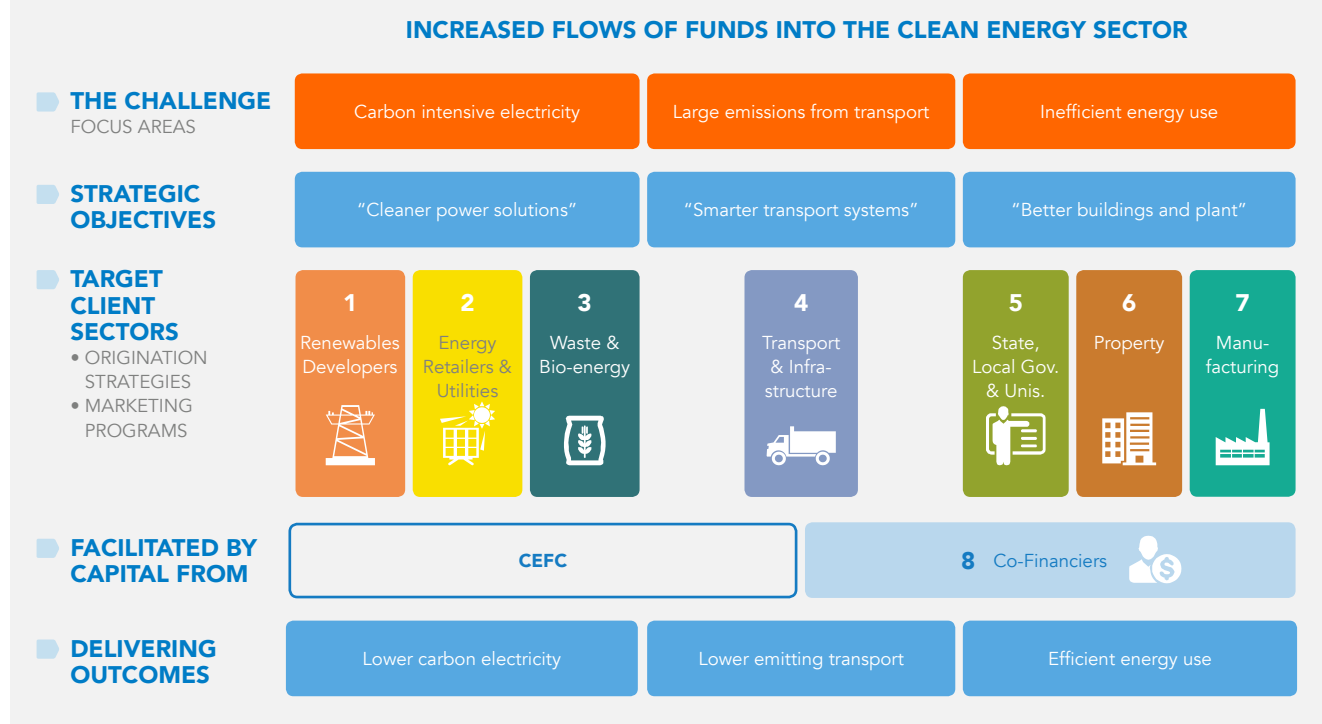
Under the CEFC Act, the CEFC is to invest in renewable energy, low emissions and energy efficiency technologies. The Corporation has three key Strategic Objectives that broadly align with these eligible investible technologies:

- **Cleaner power solutions:** this strategic focus area supports the deployment of cleaner power solutions by addressing the financing barriers that inhibit deployment of financing into the various renewable energy technologies.
- **Smarter transport systems:** this strategic focus area seeks to finance and incentivise lower emissions from the transport sector through initiatives including green vehicle fleets, fuel switching and cleaner transport infrastructure.
- **Better buildings and plant:** this strategic focus area requires the delivery of tailored financing products to address barriers inhibiting emissions reduction efforts and improved energy efficiency and productivity.

CEFC's strategic approach to delivering on the Corporation's objectives and purpose is set out in Figure 8.

The ultimate outcome of CEFC's activities which underpins the statutory objective and as expressed through the CEFC's Mission statement, is to facilitate the transition to a lower carbon economy at the lowest possible cost. In doing so, the CEFC will encourage private sector participation on commercially sustainable terms. If successful in the longer term, the CEFC will ultimately not be needed as its Mission will have been achieved.

Figure 8: **CEFC Strategic Framework**

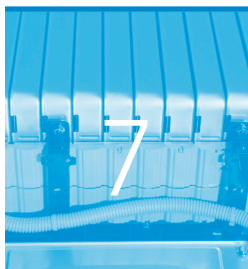




# Business Performance

The Board establishes annual Corporate KPIs that are designed to drive performance and the achievement of objectives across broad and balanced focus areas. The KPIs are aligned with KPIs set in the CEFC's Parliamentary Budget Statements. Specific measurement criteria are also established in order to objectively assess and manage performance to required outcomes.

Performance Focus Areas	KPI Descriptions	Alignment with PBS KPIs	Measurement Criteria
Financial	<b>1. Investment returns and operational expenditure</b>	Performance against portfolio benchmark return set by the Government	Portfolio benchmark return target
			Operating expenditure
Investments and operations	<b>2. Quality origination, investment and deployment</b>	Placement of funds into Australia's clean energy sector	\$ deployed
			Expected carbon abatement from projects committed to
		Investment in renewable energy, low emissions and energy efficiency technologies	Financial leverage in projects committed to
			\$ committed during the year
Stakeholders	<b>3. Strong client sector and stakeholder awareness and positive attitudes towards the CEFC</b>	Building industry capacity ('external'); and dissemination of information to industry stakeholders	Value and diversity of tangible pipeline opportunities
			Inputs: Marketing and communications activity, media reach, conferences, events, symposiums and industry events participated in
People, systems and processes	<b>4. Organisational efficiency and operational effectiveness</b>	Building industry capacity ('internal')	Outputs: Positive stakeholder awareness and knowledge
			Continue to develop the organisation with highly skilled people, efficient systems and processes for scalability as an institution
			High level of employee engagement
			Effective team behaviours
			Effective Risk Management Framework
			Key business systems installed and implemented



# Risk Oversight and Management

The Board is ultimately responsible for the performance of the CEFC. Effective risk management is a critical component of good performance management. The Board is assisted in its risk oversight by the Audit and Risk Committee of the Board, which is in turn assisted and advised by the Executive Risk Committee, the Executive Investment Committee and the Asset Management Committee.

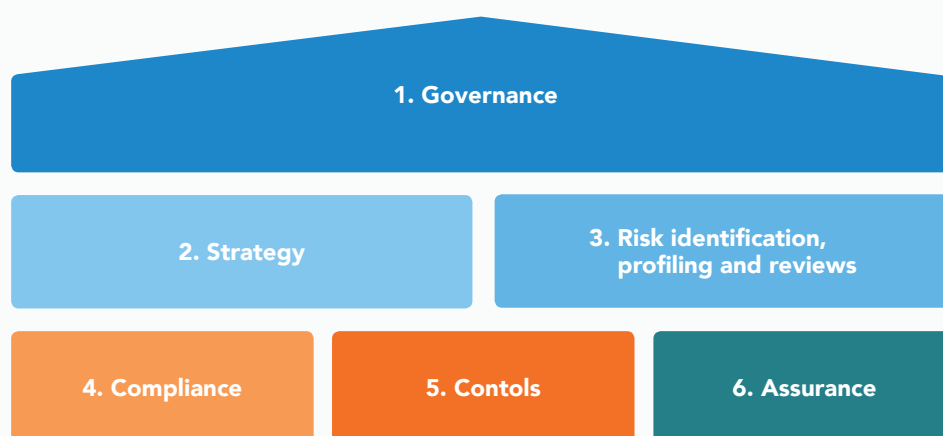
As a body whose primary activity is its investment function, the CEFC has a central focus on managing all types of investment risk. As a responsible investor of public funds, the CEFC is ever conscious that return does not come without risk and the levels of investment return should be commensurate with assumed risk. An investment strategy that is too risk-averse would not allow the CEFC to fulfil its objectives and public policy purpose. On the other hand, an approach that is too tolerant of investment risk could lead to capital losses. The CEFC recognises this reality and the CEFC Board has established an enterprise-wide Risk Management Framework to monitor and manage risks in the CEFC's investments and for the Corporation itself. The Risk Management Framework and the CEFC Investment Policies embed active management and mitigation of risks into all areas of the CEFC's investment functions and broader business operations. The portfolio benchmark return requirements under the Investment Mandate

relative to the required investment portfolio risk profile, create a tension in the delivery of the Corporation's objectives. Balancing risk, return and public policy outcomes are factors that are considered with each investment decision.

The Risk Management Framework establishes six functional pillars through which the Corporation manages risk, namely Governance; Strategy; Risk identification, profiling and reviews; Compliance; Controls and Assurance.

Governance is the key overarching function to effective risk management. The CEFC's objective in implementing good governance is to create an operating environment where sound, transparent and well-informed decision making is facilitated. Strategy and Risk identification, profiling and reviews, each determine key risk areas that, in addition to specific risk management plans, are fundamentally addressed through the supportive risk pillars of Compliance, Controls and Assurance.

Figure 9: **CEFC Risk Management Framework**





## About the CEFC

The Clean Energy Finance Corporation (CEFC) invests using a commercial approach to overcome market barriers and mobilise investment in renewable energy, energy efficiency and low emissions technologies.

Since its inception, the CEFC has committed over \$1.4 billion in finance to investments in clean energy projects valued at over \$3.5 billion.

The CEFC invests for a positive financial return, with more than 55 direct investments and 34 projects co-financed under aggregation programs. These projects help to improve energy productivity for businesses across Australia, develop local industries and generate new employment opportunities.

These CEFC investments are expected to achieve abatement of 4.2 million tonnes of CO<sub>2</sub>-e per annum with a positive net benefit to the taxpayer.

The CEFC operates under the *Clean Energy Finance Corporation Act 2012*. More information is available on our website [www.cleanenergyfinancecorp.com.au](http://www.cleanenergyfinancecorp.com.au)

# CEFC

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