Corporate Plan 2020-21

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Introduction

Statement of preparation

The Board, as the accountable authority of the Clean Energy Finance Corporation (CEFC), presents the 2020-21Corporate Plan, covering the four financial years commencing on 1 July 2020, as required under paragraph 35(1)(b) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act).

Steven Skala AO
Chair
Clean Energy Finance Corporation

Purpose

Our object, as set out in the Clean Energy Finance Corporation Act 2012 (CEFC Act) is:

"To facilitate increased flows of finance into the clean energy sector."

Ultimately, our statutory objective and purpose will be achieved through investing, directly and indirectly, in clean energy technologies, businesses and projects and through leveraging our own investment to attract private sector investment.

In order to increase the aggregate flows of finance into the clean energy sector over the longer term, among other things, it is important that we share our insights and expertise with project sponsors, co-investors, governments, other public-sector bodies and agencies, as well as the energy sector and other industry bodies.

Investment mandate focus areas

In addition to the object articulated in the CEFC Act, through the Investment Mandate, the Government has directed us to focus on reliability and security of electricity supply, the Great Barrier Reef, innovation, sustainable cities, recycling and advancing hydrogen.

Reliability and security of electricity supply

Australia's electricity system is undergoing unprecedented, rapid and transformational change. This change is necessary to deliver new sources of generation to replace retiring, older generation assets and to reduce Australia's emissions. AEMO's 2020 Integrated System Plan (2020 ISP) identifies the least cost system of the future that involves distributed energy resources, variable renewable energy, supporting dispatchable resources and power system services along with augmentation of the transmission grid. AEMO forecast this will require investment in 26 gigawatts (GW) of new grid scale renewables along with 6-19GW of new dispatchable resources and significant investment in grid infrastructure. With these investments, the electricity system can continue to meet system reliability and security needs through the transition.

Clean Energy Innovation Fund

$200 million for debt and equity investment is allocated through the Clean Energy Innovation Fund. We invest in clean energy projects and businesses that have technologies that have passed beyond the research and development stages, but are not yet established or of sufficient maturity, size or otherwise commercially ready to secure enough private sector capital. We work with ARENA in operating the Innovation Fund, leveraging their technical expertise in relation to innovative new technologies.

Reef funding program

$1 billion of investment finance over 10 years is available under the Reef Funding Program. We continue to work closely with key stakeholders in the Great Barrier Reef catchment area to support the Reef 2050 Plan. The two biggest threats to the Reef have been identified as climate change and water quality from land-based run-off. We continue to seek opportunities to invest in relevant clean energy technologies and projects that address these threats to the Great Barrier Reef.

Sustainable cities investment program

$1 billion of investment finance over 10 years is available under the Sustainable Cities Investment Program. We seek to unlock investment in clean energy projects and businesses that improve the productivity, accessibility and liveability of cities. These activities include small to large scale programs such as street lighting upgrades, commercial building and manufacturing upgrades and infrastructure that supports affordability and more efficient use of energy.

Australian recycling investment fund

$100 million of finance made available through the Australian Recycling Investment Fund to support recycling or recycled content projects utilising clean energy technologies, with a particular focus on waste plastics, paper, glass and tyres.

Advancing hydrogen fund

$300m of concessional finance made available to support the growth of a clean, innovative, safe and competitive Australian hydrogen industry. This fund will focus on projects where there is State or Territory Government financial support or policy alignment with the National Hydrogen Strategy.

In addition, we have welcomed the Government's announcement of the $1 billion Grid Reliability Fund (GRF) to be operated by the CEFC, designed to support investment in new energy generation, storage and transmission infrastructure, including eligible projects shortlisted under the Underwriting New Generation Investments (UNGI) program. However, as at the date of publication of this Corporate Plan the GRF has not yet been legislated.

Key activities and strategy

Investment approach

We adopt a commercially rigorous approach to our investment activities and manage risk prudently. Our investment approach encompasses the following elements:

Complying investments

Under the CEFC Act, we may only invest where the investment meets the complying investment criteria. This requires investments to be solely or mainly Australian-based and in clean energy technologies, businesses or projects where such clean energy technologies include renewable energy, energy efficiency or low emissions technologies.

Commercial rigour

We apply commercial rigour in our investment approach, using financial products and structures designed to address the barriers to private sector investment in emissions reduction activities. We are not a grant making organisation. We invest in a portfolio of assets that generate positive financial returns as we pursue the long-term portfolio benchmark returns, as established in the Investment Mandate. As an investor of public funds, we seek to adopt the lowest risk position that allows sound investments to proceed. However, we will adopt higher risk positions where the public policy benefits justify doing so and the returns are commensurate with the risk.

Public policy purpose

Our statutory objective is to facilitate the increased flows of finance into the clean energy sector. While we operate with an objective of financial sustainability, profit maximising is not our primary objective and we place considerable value on external benefits associated with our financing activities. Those external benefits include catalysing emissions reductions, reducing the cost of new technologies, supporting technologies and projects that positively impact on reliability and security of electricity supply, productivity gains achieved through energy efficiency, technology diversity in the energy mix, environmental and social benefits, developing capability and leveraging private sector funds into the clean energy sector. In some circumstances, we may provide concessional finance where we consider that appropriate public policy benefits are promoted through the concessionality provided.

Catalysing and crowding in

We encourage and actively seek to catalyse and "crowd in" others to invest in the clean energy sector and clean energy technologies. We work with private sector financers, project sponsors and business owners, to catalyse and leverage increased flows of finance into the clean energy sector. We do not seek to displace private sector financiers or investors, nor disrupt areas where the financial markets are functioning well. Unlocking industry investment in clean energy technologies will be critical for a smooth transition of Australia's electricity system.

More detail regarding our investment approach can be found in the CEFC Investment Policies, published on the CEFC website www.cefc.com.au.

Investment areas

Our purpose of increasing the flows of finance into the clean energy sector is directed at contributing to Australia's efforts to reduce emissions. The scale of the emissions challenge suggests Australia requires significant new investment across the economy.

The Government has released the *Technology Investment Roadmap Discussion Paper – A framework to accelerate low emissions technologies* and we are well placed to support the development and deployment of these low emission technologies.

As noted above, the Investment Mandate provides areas of focus for our investment activities, and these include a focus on reliability and security of electricity supply, the Great Barrier Reef, innovation, sustainable cities, recycling and advancing hydrogen. In addition, we are prioritising investment in activities that can have the most meaningful impact on emission reductions and facilitate a sustainable transition to a low emissions economy.

Energy use remains a significant source of emissions in the Australian economy and the electricity generation sector has a central role to play in Australia's emissions reduction efforts. AEMO's 2020 ISP highlights the electricity system is in transition with new sources of generation and complimentary infrastructure investment required to replace approximately 15GW or 63% of Australia's coal-fired fired generation that is expected to be retired by 2040. However, other sectors are also important, and our investment activities cover a broad range of technologies and sectors.

We identify the main sources of emissions in the Australian economy and align our activities to the pathways that will facilitate a lower emissions economy in the future. The pathways that guide our investment origination activities are:

1. **low carbon electricity**, through the increased deployment of clean energy technologies, including storage and other sources of dispatchable clean energy technologies;
2. **energy efficiency,** in all sectors which will play a critical role in reducing energy intensity in line with the Government's *National Energy Productivity Plan* (NEPP) that seeks to accelerate delivery of a 40 per cent improvement in Australia's energy productivity by 2030;
3. **electrification and fuel switching,** from fossil fuels to lower emissions fuel sources such as bio-fuels and hydrogen; and
4. **bio-sequestration and other emissions reductions,** including reduced waste to landfill, recycling, adoption of lower emissions materials within the supply chain and soil carbon technologies.

Strategy overview

Our business strategy is built around three key themes of ***impact****,* ***innovation*** *and* ***organisational effectiveness****. To increase our* ***impact,*** *we are maintaining our focus on investing in solutions for the electricity system in transition. This will involve supporting* ***innovative technologies****, projects and business models both in the electricity sector and in other sectors, in line with the* ***Investment Technology Roadmap.***

In line with these strategic themes we have established the following strategic objectives at the commencement of the corporate plan period which further support delivery of our purpose. These are represented in Figure 1.

Figure 1: ***Strategy overview***

Purpose

To facilitate increased flows of finance into the clean energy sector

Themes

Impact, Innovation and Organisational Effectiveness

Objectives

- **Demonstrate entrepreneurship and catalyse** investment in **innovation** and the roll-out of (emerging & evolving) technologies, **consistent with our Investment Mandate.**
- Be **financially sustainable** and maintain an investment portfolio that, over the longer term, facilitates **emissions reductions** and generates **positive returns within risk appetite.**
- **Increase investment** in clean energy **technologies** and **infrastructure**.
- Increase **private sector capital** flowing to the Australian clean energy sector and **attract new investor classes** into the sector.
- Demonstrate **leadership** across the clean energy sector and positively contribute and adapt to **Australia's COVID-19 situation.**

Figure 2: ***Objectives and key activities***

Objective	Key activities
Demonstrate entrepreneurship and **catalyse investment** in innovation and the roll-out of (emerging & evolving) technologies, consistent with our Investment Mandate.	• Utilising our sector expertise to support the technology driven approach of Government. • Catalyse investment in innovation and the roll-out of technologies. • Increase our focus on entrepreneurship.
Be **financially sustainable** and maintain an investment portfolio that, over the longer term, facilitates emissions reductions and generates positive returns within risk appetite.	• Actively manage the investment portfolio to adapt to challenging market conditions and industry developments and in so doing, manage risks. • Target investment returns across the portfolio in line with the benchmark rates of return, as set out in the Investment Mandate, while meeting our purpose of increasing the flows of finance into the clean energy sector. • Actively manage revenues and expenses to deliver our free cash flows from operations (after implied government cost of funds) and our adjusted operating result targets.
Increase **investment in clean energy** technologies and infrastructure.	• Continue to invest across the Australian economy in renewable energy, energy efficiency and low emissions technologies. • Originate opportunities and invest in transactions consistent with the focus areas under the Investment Mandate. • Continue to invest in renewable energy generation (including wind, solar and waste-to-energy) and complementary dispatchable resources, informed by the 2020 ISP, that supports reliable and secure electricity supply. • Invest in the projects and initiatives that facilitate the electricity grid's transition to a lower emissions energy market.
Increase **private sector capital** flowing to the Australian clean energy sector and attract new investor classes into the sector.	• Leverage and influence third party invested capital to pursue increased emission reductions. • Continue to expand the sources of capital invested into the clean energy sector including superannuation funds, domestic and international funds, insurance groups and family offices.

Demonstrate **leadership** across the clean energy sector and positively contribute and adapt to **Australia's COVID-19 situation**.	• Engage proactively with the Government and relevant bodies (e.g. AEMC, AEMO, ARENA, CER, NCCC & State Governments) in assisting with a post pandemic recovery including related infrastructure, housing and manufacturing. • Develop and execute revised marketing and communications plans to maintain a high level of engagement in light of ongoing physical distancing measures. • Maintain employee engagement and wellbeing, noting the challenges arising from the COVID-19 Pandemic.

Operating context

Investment portfolio

At the commencement of the plan period, being 1 July 2020, and since our inception in 2012 we have made lifetime investment commitments of $8 billion to projects with a total value of $27 billion.

In the 2019-20 financial year we made investment commitments of more than $1 billion, supporting 23 clean energy investments with a combined value of $4.2 billion. Our finance extended to new areas of the economy, delivering Australia's first dedicated green bond fund, our first green home loan, and a material uplift in the capacity of Australia's largest battery in South Australia.

New investment commitments of just over $13 million in three cleantech innovators, as well as increased investment of $3.4 million in a further two Innovation Fund portfolio companies to accelerate their growth.

We provided more than $187 million of wholesale finance to support ~6,700 smaller-scale investments in clean energy projects, including in agribusiness, property and transport.

These new investment commitments in 2019-20 are targeting more than one million tonnes of emission reductions annually.

Our investment activity has continued through the COVID-19 pandemic. In the second half of 2019-20, as the economy tightened, we committed $380 million in finance to seven transactions in the six month period, working closely with project proponents and co-investors to bring projects to financial close in a timely manner.

Figure 3: ***CEFC investment impact: the numbers***

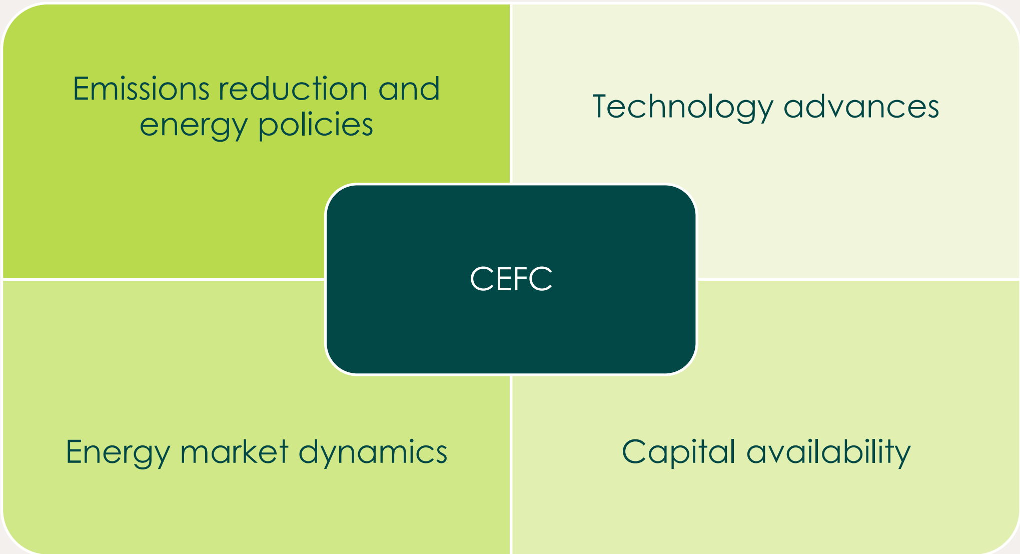
	2019-20	Lifetime*
CEFC commitments	>$1b	$8b
Transactions financed	23	~200
Transaction value	$4.24b	$27.3b
Leverage	>$3: $1	~$2.30: $1
Smaller-scale transactions: financed	~6,700	~18,000
Smaller-scale transactions: total value	$187m	$1.27b
Finance deployed	$937m	$6.03b
Finance repaid	$942m	$1.66b

**Lifetime commitments since the CEFC began investing in 2012*

Environment

The COVID-19 Pandemic is influencing the operating environment both in terms of how we are operating - with remote working continuing in some states, and in terms of the economic environment in which we invest. Our operating environment is strongly influenced by four key external factors. As the environment changes and evolves, these can be expected to impact our performance.

Figure 4: ***Operating environment influencers***



Emissions reduction and energy policies

Investment in the clean energy sector and demand for finance to facilitate that investment is influenced by policies at Commonwealth, State, Territory and Local Government levels, particularly at the confluence of emissions reduction, energy and the environmental policies, all of which have a strong influence on our operating environment. The Commonwealth, along with some States, Territories and Local Governments have established emissions reduction targets and are developing policies and other incentives to achieve those targets. The Renewable Energy Target (RET), the Climate Solutions Fund (CSF), the National Energy Productivity Plan (NEPP), the Underwriting New Generation Investment (UNGI) and the National Hydrogen Strategy are key national level policies that encourage investment in energy and/or emissions reduction. Changes in policy settings will influence our operating environment.

Technology advances

The Technology Investment Roadmap Discussion Paper has highlighted the importance of investment in low emissions technologies both in their development and deployment, as part of the global response to climate change.

The Technology Investment Roadmap identifies technologies across all sectors, including electricity, built environment, transport, industry, agriculture and land. Advancement of technologies in these areas, including reductions in their cost will impact demand for our finance.

Advancements in storage technologies and associated distributed energy resource technologies have continued to accelerate over recent years and while we expect this trend to continue over the longer term, there is heightened uncertainty as to how the COVID-19 Pandemic will impact this in the short term.

Energy market dynamics

Energy market dynamics strongly influence our activities given our role as a sector specific investor in renewable energy, energy efficiency and low emissions technologies. Market dynamics, including the availability, reliability and cost of supply, as well as the volume and profile of demand, all contribute to energy prices in the spot and forward energy markets which ultimately drive the cost of electricity for businesses and consumers.

At the consumer level, when energy prices are higher, there is a stronger financial incentive to invest in energy efficiency or distributed energy resources, such as roof top solar and storage. As a consequence, this reduces the levels of grid demand for energy.

The 2020 ISP, highlights that the energy transition is being driven both by the need to reduce emissions and the need to develop a modern electricity system to replace existing fossil fuel generation that is expected to retire over coming decades.

Maintaining an internationally competitive energy system is a priority for all governments. We have an important role to play in supporting the energy system transition, in working with governments, industry, project sponsors and private sector financiers to provide the finance required. We expect the transition will continue to drive demand for finance and expertise in the clean energy sector over the plan period.

Capital availability

Renewable energy, energy efficiency and low emissions technology projects typically require a high proportion of up-front capital investment. The availability of capital to finance the development and deployment of these technologies is a key enabler to Australia's clean energy transition.

The COVID-19 Pandemic represents the largest shock to the global economy in many decades. The full impact and timeframes of that impact globally and here in Australia remain highly uncertain. This will continue to influence the availability of capital for investment over the near term.

The ability of largescale storage, generation, and associated grid infrastructure projects to attract finance in the absence of long-term contracted revenue streams remains a key challenge to attracting the private sector capital necessary to deliver the volume of investment required.

Investor appetite and the availability of private sector capital also impacts on the cost of the capital of both debt and equity. Where there is ample supply to meet demand, returns on investment will be lower than at times when there is insufficient supply of capital relative to demand.

Given the volume of investment that is likely to be required to finance the energy transition, we expect demand for both private sector and CEFC finance to remain strong during the plan period.

Capability

Our ability to deliver on our strategic objectives is heavily reliant on the quality and skills of our people, enabled by secure and efficient business systems.

People and culture

We are a financial services and investment business and the quality of our people is critical to the effectiveness and efficiency of our operations. To originate transactions, manage assets and the risk associated with investing, we must enable our people to grow and develop.

Our People & Culture Strategy underpins the development, engagement and alignment of our people during and beyond the Plan period. Employee engagement and alignment was in the top decile of the survey population in the most recent survey conducted - a very strong result. In the near term, while the COVID-19 Pandemic continues to impact on our working arrangements, we will continue our heightened focus on staff wellbeing.

Our values of impact, collaboration, integrity and innovation will continue to guide our people and the way that we engage with all our clients and our various stakeholders.

Increases in employee numbers have and will continue to be commensurate with the level of investment activity and revenues that we generate, to ensure we remain financially sustainable over the Plan period and beyond.

Business systems

We are continuing to evolve our business systems and processes to ensure they are fit for purpose for the years ahead. Over recent years, we have shifted to a cloud first approach to business systems. This transition has helped mitigate business continuity risk and enabled the organisation to continue delivering services during the ongoing COVID-19 Pandemic as the workforce moved to remote working. In some states, we have been able to reopen offices with some employees working remotely while others have returned to office work.

During the Plan period we will need to continue to invest in business processes and systems, particularly in the areas of collaboration spaces for projects, the automation of workflows for increased efficiency and business intelligence. This will be supported by an ongoing program of work to further improve the maturity of our cyber security.

Risk oversight and management

The CEFC Board is ultimately responsible for the overall performance of the business, including oversight of risk management. To assist in risk oversight, the Board has established an Audit and Risk Committee which is in turn assisted by an Executive Risk Committee, an Executive Investment Committee, a Joint Investment Committee (with ARENA) for the Clean Energy Innovation Fund and an Asset Management Committee.

The Board has established an enterprise-wide Risk Management Framework to monitor and manage all areas of risk that our business faces, including strategic, investment and financial risks, operational risks and regulatory risks. We employ a "three lines of defence model" where the front line is responsible for risk, supported and challenged by the (second line) independent risk function and the (third line) internal audit function.

Consistent with section 68 of the CEFC Act, the Risk Management Framework sets out the manner in which risk is managed for the CEFC's investments and for the Corporation itself. Further, the Board has articulated its appetite for risk through the Risk Appetite Statement that guides the organisation's risk-taking activities.

The CEFC does not accept risks that compromise the integrity of the organisation and we require our people to behave ethically. We have appropriate tolerance for the risks necessary to deliver on our statutory and strategic objectives.

Risk Culture

Establishing and maintain a culture where risk management is valued and promoted throughout the organisation is a critical enabler of effective risk management.

Our Values and the Code of Conduct and Ethics set the standards of behaviour we require of our people. We promote a risk aware culture where:

- our people are required to conduct themselves in a manner consistent with the highest professional and ethical standards
- we consistently consider "should we" do things and not just "can we" do things
- our incentive and reward systems are structured to encourage behaviour consistent with our risk appetite and do not reward excessive risk taking
- we empower our people to the full extent of their abilities and we hold them accountable for their actions
- we seek to apply leading practices in identifying, assessing, managing and pricing risk
- we invest in our risk management capabilities, including implementing cost-effective controls.

Investment Risk

With respect to investment risk, we have a Credit Risk team that reviews and assesses credit and other risks associated with each proposed investment, independent of the investment origination team.

The Credit Risk team provides advice to the Executive Investment Committee, the Joint Investment Committee and the Board on transaction level risks, as well as to the Asset Management Committee and the Audit and Risk Committee on investment portfolio matters.

The Risk Management Framework, together with the CEFC Investment Policies, embeds active management and mitigation of risks into all areas of our investment functions, portfolio management and broader business operations.

The Risk Appetite Statement that is set by the Board, is implemented throughout the business by establishing risk limits and risk indicators that are monitored and regularly reported. These cover areas including, but not limited to, sector-specific risks, equity risk, technology risk and interest rate risk.

Performance

Key performance indicators aligned with our strategic objectives have been established by the Board and performance against these indicators is monitored quarterly.

Performance criteria and targets

Objective	Performance measure and 2020-21 target
Demonstrate entrepreneurship and catalyse investment in innovation and the roll-out of (emerging & evolving) technologies, consistent with our Investment Mandate.	Evidence of investment in innovation and the focus areas under the Investment Mandate, notably the Advancing Hydrogen Fund, security and reliability of the grid and the Australian Recycling Investment Fund.
Be financially sustainable and maintain an investment portfolio that, over the longer term, facilitates emissions reductions and generates positive returns within risk appetite.	Achieve Free Cash Flows from Operations (FCFO) after implied costs of government funding of $20 million. Achieve a total adjusted[1] Operating Result of $90 million.
	Actively manage the portfolio and demonstrate sound navigation through heightened uncertainty. Evidence that comparable elements of the portfolio (e.g. Project Finance in renewables) compare favourably with the market.
Increase investment in clean energy technologies and infrastructure.	Provide $0.8 billion of investment commitments to renewable energy, energy efficiency and low emission technology transactions.
	Evidence of supporting the electricity grid's transition to a lower emissions energy market.
	0.45 million tonnes per annum of estimated emission reductions from projects and activities funded by new investment commitments
Increase private sector capital flowing to the Australian clean energy sector and attract new investor classes into the sector.	Achieve private sector leverage of $2 for every $1 of capital invested by CEFC.
	Evidence that CEFC has attracted new private sector finance, including superannuation funds, domestic and international funds, insurance groups and family offices.
Demonstrate leadership across the clean energy sector and positively contribute and adapt to Australia's COVID-19 situation.	Be productive, available and support existing and prospective clients, and key stakeholders.
	Maintain employee engagement and wellbeing.
	Evidence of the CEFC's participation in a post pandemic recovery.

With the high degree of uncertainty surrounding the ongoing impact of COVID-19, specific targets have not yet been established for the financial years beyond 2020-21.

[1] Adjusted operating result = statutory operating result, adjusted for (1) GRF and Innovation Fund revaluations, (2) concessionality charges and unwinds, (3) bond revaluations.