Australian Government

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Corporate Plan 2022-23

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Introduction

Statement of preparation

The Board, as the accountable authority of the Clean Energy Finance Corporation (CEFC), presents the 2022-23 Corporate Plan, covering the four financial years commencing on 1 July 2022, 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 purpose, set out in section 3 of *the Clean Energy Finance Corporation Act 2012* (CEFC Act) is:

***"To facilitate increased flows of finance into the clean energy sector."*[1]**

About us

The CEFC is a specialist investor, at the centre of efforts to help deliver on Australia's ambitions for a thriving, low emissions future. With a strong investment track record, we're addressing our toughest emissions challenges, filling market gaps and collaborating with investors, innovators and industry leaders. The CEFC invests on behalf of the Australian Government, with a strong commitment to deliver a positive return for taxpayers across our portfolio.

Ultimately, our purpose will be achieved through investing, directly and indirectly, in clean energy technologies, businesses and projects that deliver emission reductions, whilst leveraging our own investments with additional investment from the private sector.

Our investments

At the commencement of the plan period, being 1 July 2022, and since our inception in 2012 we have made lifetime investment commitments of $10.76 billion which together with institutional investors, business, industry and clean tech innovators, has catalysed $37.15 billion in investment in Australia's low emissions economy.

2021-22 was another year of sustained investment activity, with commitments of $1.45 billion to 30 June 2022 touching all areas of the clean energy economy, from vital grid infrastructure to substantial work in the manufacturing sector and in backing Australia's emerging hydrogen and cleantech sectors.

At 1 July 2022, the CEFC had access to $4.57 billion in ongoing investment capital, in addition to future returns from existing investments, having drawn a net $5.43 billion from its original $10 billion funding allocation.

[1] At the date of publication, the Government has introduced legislation to expand the purpose under the CEFC Act as follows: *"To facilitate increased flows of finance into the clean energy sector and to facilitate the achievement of Australia's greenhouse gas emissions reduction targets."*

Figure 1: ***CEFC investment snapshot: 30 June 2022***

	2020-21	2021-22	Lifetime*
CEFC commitments	$1.37b	$1.45b	$10.76b
Transactions financed	22*	29*	~265
Transaction value	$5.05b	$4.79b	$37.15b
Leverage	$2.70: $1.00	$2.30: $1.00	$2.42: $1.00
Capital deployed	$1.35b	$1.77b	$9.15b
Capital repaid/returned	$823m	$837m	$3.32b

*Excludes follow-on commitments to existing portfolio companies

To 30 June 2022, the CEFC had drawn a net $5.43 billion from its original $10 billion funding allocation from the Australian Government, including $6.46 billion drawn from, and $1.03 billion returned to, the CEFC Special Account.

Strategy, activities and performance measures

Strategy

Our strategy is to accelerate investment in Australia's transition to net zero emissions. We invest to lead the market, operating with commercial rigour to address some of Australia's toughest emissions challenges.

Our strategy is informed by the three key factors:

1. The CEFC Act and Investment Mandate
2. Australia's emissions reduction challenges
3. Market opportunities to support the transition to net zero

We operate within the parameters established by the CEFC Act and the Investment Mandate. Operating within those parameters, we identify the main sources of emissions in the Australian economy and align our activities with the pathways and opportunities that will facilitate a lower emissions economy and the transition to net zero.

Our investment approach is flexible and responsive to the evolving markets within which we operate. We will step back from sectors when private investment is operating effectively and at scale to meet the investment task, but we will step in to fill gaps when the private sector is absent or where our participation helps leverages or accelerate private sector investment in the net zero transition.

Our finance (both debt and equity) is leveraged with private sector investment across a diverse range of activities. The transition to net zero emissions requires the deployment of known, proven technologies at scale, along with the ongoing development of new technologies.

Figure 2: ***Strategy influences***

CEFC Act and Investment Mandate

The CEFC Act sets out the parameters within which we operate and invest. As noted earlier in this Corporate Plan, the Government has introduced legislation to amend the CEFC Act, which includes expanding the CEFC's purpose:

> *"To facilitate increased flows of finance into the clean energy sector and to facilitate the achievement of Australia's greenhouse gas emissions reduction targets."*

The CEFC Act provides that the responsible Ministers may give the Board directions about the performance of the CEFC's investment function. The Investment Mandate may set out policies to be pursued by the CEFC including, but not limited to, matters of risk and return, technologies, projects and businesses that are eligible for investment, the allocation of investments between various classes of clean energy technologies and the making of investments on concessional terms. At the date of publication of this Corporate Plan, the Investment Mandate Direction in effect was issued by the previous Government on 1 May 2020.

Emissions reduction challenge

On 16 June 2022, the Australian Government lodged an updated Nationally Determined Contribution (NDC) with the United Nations Framework Convention on Climate Change (UNFCCC) which is part of Australia's obligations under the Paris Agreement. Australia has now committed to reduce emissions by 43% below 2005 levels by 2030 and has reaffirmed the commitment to net zero emissions by 2050.

The Government's *Powering Australia* policy identifies electricity, industry and carbon farming as well as transport as key areas where economic opportunities can be harnessed and emissions reductions can be achieved in pursuit of Australia's 2030 and 2050 emission reduction goals. Energy use remains the most significant source of emissions in Australia with electricity, stationary energy and transport accounting for more than 70% of Australia's emissions in 2021[2]. Reducing emissions in these areas will require increased deployment of renewable energy and storage both at utility scale and in the household. In addition, the Integrated System Plan (ISP) published by the Australian Energy Market Operator (AEMO) highlights the importance of new investments in the electricity grid to facilitate the expansion of renewable energy resources that will replace the existing, aging thermal generation plants. The Government's Rewiring the Nation agenda (part of the *Powering Australia* policy) supports the build out of this infrastructure as set out by AEMO in the ISP.

Outside of the electricity supply sector, implementation of energy efficiency technologies and practices can also play a significant role in helping to reduce energy costs and emissions in industry and in households. Further emission reductions can be achieved through electrification and fuel switching, for example, building energy efficient homes without gas heating or cooking or replacing an internal combustion engine vehicle with an electric vehicle that is charged with renewable energy.

Market opportunities to invest capital

We are an investor and we respond to market opportunities and gaps. We invest where our capital facilitates investment in clean energy technologies, businesses or projects. In addition, we use our capital to leverage private sector investment to pursue increased or accelerated emission reduction projects. However, where the private sector is delivering the required level of investment to meet Australia's emissions reduction commitments, then our role may be less significant. During the Covid 19 pandemic, we were called upon to fill investment gaps that in prior years were not evident. Australia's increased emission reduction ambition coupled with the current macro-economic settings, high commodity prices and supply chain disruptions may also drive increased demand for CEFC investment.

[2] Source: Australian Government's emissions projections 2021 (https://www.industry.gov.au/data-and-publications/australias-emissions-projections-2021)

Strategic objectives, activities and values

Our three strategic objectives set out what we must achieve to succeed in delivering our purpose and this guides our key activities, underpinned by our values.

Figure 3: ***Strategy overview***

Purpose *Why we exist*	***To facilitate increased flows of finance into the clean energy sector***		
Strategic objectives *What we must do achieve to succeed*	-1- ***Invest in clean energy technologies and enablers*** Demonstrate leadership in accelerating the clean energy transition with a strong focus on delivering the Government's climate and energy policy priorities.	-2- ***Catalyse and leverage private sector capital*** Collaborate with investors, innovators, industry leaders and regulators and catalyse increased investment Australian clean energy sector.	-3- ***Continue to be financially sustainable over the long term*** Deliver our legislated purpose at no cost to the taxpayer through financial discipline and sound risk management across the organisation.
Key activities *What we will do to deliver our objectives*	Invest in Australian clean energy technologies and businesses that will help deliver a thriving low emissions future. Work collaboratively with industry, investors and governments to deliver investments in the grid over a multi-year horizon. Support emissions reduction investments across the broader economy.	Work with other investors and industry leaders to continue leveraging private sector capital into transactions. Promote leading practice ESG standards. Further leverage our expertise, research and case studies to attract investors and broaden our impact.	Employ commercial rigour to generate positive risk adjusted returns. Actively manage the portfolio to manage risk and hold counterparties accountable for their commitments. Manage expenditure prudently, consistent with public expectations.

Our Values *How we operate*	**Impact**	**Collaboration**	**Integrity**	**Innovation**

Performance indicators and targets

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

Figure 4 outlines the quantitative and qualitative corporate performance targets established by the Board. These targets account for the increased emissions reduction ambition of the new Government, the strong community and business support for the clean energy transition but also recognise the heightened economic uncertainty attributable to global macro-economic factors.

Figure 4: ***Performance indicators and targets***

Quantitative performance indicators

Objective	Performance indicator	2022-23 targets
1-Invest in clean energy technologies and enablers	Total capital committed to clean energy technologies	$1.2b - $1.5b
2-Catalyse and leverage private sector capital	Financial leverage – ratio of private sector capital to CEFC capital[3].	$2.5: $1 - $3:0: $1
	Estimated emissions reduction per annum from new capital commitments.	0.6Mt – 1.0Mt
3-Continue to be financial sustainable over the long term	Total operating result normalised to exclude (1) concessionality, (2) loan modification charges, (3) loan and bond investment revaluations and (4) Innovation Fund investment revaluations.	$120m - $140m

Qualitative performance indicators

The Board recognises that the performance of the organisation cannot solely be evaluated through quantitative performance factors.   The Board has established the following qualitative performance factor for 2022-23:

- The extent to which the organisation demonstrates leadership in accelerating the energy transition with a strong focus on delivering the Government's climate and energy policy priorities.
- Progress on network/storage investments that will contribute to delivering the 2030 ISP step change scenario (including storage projects and anticipated and actionable network investments)

[3] Financial leverage calculation to exclude bank aggregation programs.

Investment approach

While the nature of our investments continues to evolve, an enduring characteristic is the commercial rigour of our investment approach, founded on our commitment to deliver a positive return for taxpayers across our portfolio. Our finance helps drive private sector co-investment whilst cutting emissions across the Australian economy. Our investment approach encompasses the following core elements:

Complying investments

The CEFC Act regulates the types of investments we make. We may only invest in eligible clean energy technologies (renewable energy, low emissions and energy efficiency technologies) and our investments must be solely or mainly Australian based.

Investments can include businesses and projects that develop, commercialise or use renewable energy, low emissions or energy efficiency technologies, as well as businesses that supply associated goods and services for these technologies.

The CEFC Act prohibits us from investing in a technology for carbon capture and storage (within the meaning of the National Greenhouse and Energy Reporting Act 2007), nuclear technology and nuclear power.

Public policy purpose

Our statutory objective is to facilitate the increased flows of finance into the clean energy sector. While we operate with a commitment to financial sustainability, profit maximisation is not our sole objective. Environmental, social and governance (ESG) risks form an integral part of investment analysis and we take account of the additional external benefits associated with our financing, which may include:

4. reducing the cost of new low emissions technologies
5. supporting technologies and projects that positively impact the reliability and security of electricity supply
6. achieving productivity gains through energy efficiency
7. delivering broader economic, environmental and social benefits.

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 clean energy technologies. 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 return targets, as established in the Investment Mandate.

As an investor of public funds, we seek to adopt the appropriate risk position that allows sound investments to proceed. We may adopt higher risk positions where the public policy benefits are justified and the returns are commensurate with the risk.

In some circumstances, we may provide concessional finance where we consider that public policy benefits are promoted through the concessionality provided.

Catalysing and crowding in

We encourage and actively seek to catalyse and "crowd in" additional private sector investment in the clean energy sector and clean energy technologies.

We work with institutional investors, banks, private sector non-bank lenders, 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 additional investment in clean energy technologies is critical for an Australia's transition to a low emission economy.

More details regarding our investment approach can be found in our Investment Policies on our website.

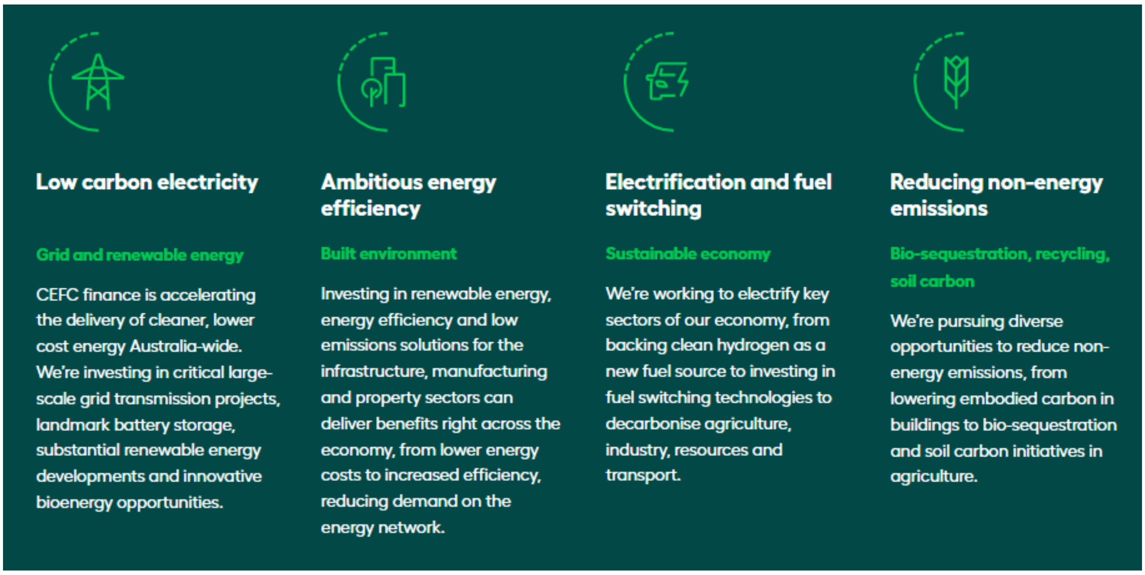
Aligned investment focus

We are committed to investments that capture the many benefits the low emissions economy can deliver, from new business opportunities to substantial efficiency gains, as well as the very critical emission reductions benefits.

Emissions reduction pathways

Our investment origination activities are informed and aligned with the pathways to decarbonisation, consistent with the policies of the Australian Government. These pathways are:

Figure 5: ***Decarbonisation pathways***



Our people have specific sector, market and technological expertise which is critical in allowing us to understand and solve the challenges being faced by clients. In the coming years we expect investments in renewable energy, storage, electricity transmission and grid infrastructure, to feature prominently in our investment activities. Modelling of the Government's Powering Australia Plan Policy indicates renewable energy penetration will grow to more than 80% by 2030. The scale of the investment task is substantial, as reflected in AEMO forecasts of a nine-fold increase in grid-scale wind and solar capacity, a three-fold lift in firming capacity and a near five-fold growth of distributed solar.

Tailored financing solutions

The mechanisms through which our finance is delivered will continue to be flexible and tailored to meet the renewable energy, energy efficiency and low emissions technology opportunities in different segments and sectors. Figure 6 reflects the broad categories of financing solutions we are delivering.

Figure 6: ***Financing solutions***

Direct investments

Our direct investments for small and large scale clean energy projects include flexible debt and equity finance, or a combination of both, tailored to individual projects.

Debt markets

We are a leading investor in Australia's emerging green bonds market, creating new options for investors, issuers and developers.

Asset finance

We work with banks and co-financiers to deliver discounted finance to businesses, farmers and manufacturers for their clean energy investments.

Investment funds

We invest in new and established investment funds co-deliver clean energy developments in agribusiness infrastructure, property and more.

Operating context

Environment

The new Government has increased Australia's 2030 emission reduction target and reaffirmed the commitment to net zero emissions. There is strong community support and motivated capital for the clean energy transition. However, there are challenges with the continuing Covid 19 Pandemic and the war in Ukraine impacting global supply chains along with rising interest rates and inflationary pressures.

We react and respond to the markets in which we operate and our activities and performance are influenced most by:

Emissions reduction and energy policies

Demand for finance is influenced by policies at Commonwealth, State, Territory and Local Government levels, particularly at the confluence of emissions reduction, energy and environmental policies. The Commonwealth, along with States and Territories and some Local Governments have established emissions reduction targets and policies. The increase in Australia's national emissions reduction target for 2030 is expected to positively influence our operating environment over the coming years.

Energy markets

The CEFC Act requires that at least half of the funds invested are invested in renewable energy technologies. Therefore, the dynamics of the energy market will continue to strongly influence our activities and performance. Energy prices impact investor appetite and the financial performance of existing assets. Wholesale electricity prices in the National Electricity Market (NEM) recorded their highest ever quarterly level in the June 2022 quarter with international and domestic factors contributing to these elevated prices.

AEMO's ISP and the *Government's Rewiring the Nation Plan* identifies the need for significant investment in transmission infrastructure, essential for the delivery of a reliable, low emissions, low cost electricity system in the future. We expect to play an important role in helping to deliver this critical investment in a timely manner.

Capital markets

In contrast with one year ago when base interest rates remained at historically low, emergency levels, interest rates in Australia and globally have been increasing rapidly as central banks respond to inflationary pressures. The increase in interest rates is expected to be positive for revenues earned from new debt financings, however, there is downside risk to the carrying value of existing equity investments as their value may be adversely impacted by increasing interest rates. We also see potential downside risk for some projects proceeding if capital costs continue to increase.

Technology

Advancements in storage technologies and associated distributed energy resource technologies have continued to accelerate over recent years. A majority of the technologies required to achieve Australia's 2030 emissions reduction target are proven and available, but they need to be deployed at scale in the 2020's. There is also a need to continue to invest in the technologies that can contribute to emissions reductions in the period beyond 2030.

Investor appetite

ESG risks, including climate change risk continues to present as key factor for investors. Businesses are increasing their focus on emissions reduction activities in their own operations and their supply chains. This presents opportunities to work with investors and businesses to drive increased investment in clean energy technologies, businesses and projects.

Capability

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

People and culture

To address the opportunities and challenges in the clean energy transition, it is imperative that we attract, develop and motivate the highest quality talent.

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

Our People & Culture Strategy facilitates the development, engagement and alignment of our people during and beyond the Plan period. Our Capability Framework provides our employees with a structured and transparent approach to career development, designed to help build capabilities for both current and future roles. For managers, the Capability Framework establishes a common language of behavioural expectations, making it easier to provide teams with specific and actionable feedback and development coaching.

The Board has recently approved a revised approach to remuneration, including the introduction of a High-Performance Incentive Plan, designed to encourage high performance, where the greatest rewards are available to the employees who contribute most to our policy and commercial outcomes and overall success.

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

Business systems and security

We will continue to invest in our business systems, infrastructure and processes to ensure they are fit for purpose, now and for the years ahead. Our plan includes further enhancement of digitised workflows, continued adoption of collaboration spaces for projects and increased data and analytics capability through the implementation and roll out of business intelligence tools. These initiatives are being overseen by the cross-functional Information Technology Steering Committee to ensure enhancements are evaluated, prioritised, and deliver value to the business.

The COVID-19 Pandemic demonstrated the business resilience benefits of an early shift to a cloud first approach to business systems. We continue to harness the benefits of both video conferencing and collaborative teams-based software, which enable our people to work across different workplaces and in a manner that works best for our business and our people. This should continue to contribute to reduced travel time and cost and a lower carbon footprint.

To complement our business systems and process improvements, we will continue our cyber security program of work including uplifting our maturity in targeted areas under the Australian Signals Directorate's Essential Eight Maturity Model. This work is ongoing and evolves every year and is overseen and supported by our Cyber Security Working Group.

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 relevant to our organisation, including strategic, investment and financial risks, operational, reputational and regulatory risks. We employ a "three lines of defence model" where the front line is responsible for managing risk within their business lines, supported and overseen by the (second line) independent risk and compliance function and the (third line) internal audit function that provides independent assurance of risk management, including the internal control environment.

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 objectives.

Risk Culture

Establishing and maintain a culture where risk management is valued and promoted throughout the organisation continues to be 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 that adheres to our risk management framework and is consistent with our risk appetite
- an inclusive and respectful culture is promoted where our people seek out new ways of solving problems while taking responsibility for the outcomes
- we invest in our risk management capabilities and seek to apply leading practices in identifying, assessing, managing and pricing risk

Investment Risk

With respect to investment risk, our Credit Risk team reviews and assesses the risks associated with each proposed investment, independent of the team originating the investment opportunity.

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.

Risk Appetite is set by the Board and is implemented throughout the business by establishing risk limits and risk indicators that are monitored and regularly reported.

Collaboration

Australia's energy system is in transition and we have an important role to play, working with governments, industry, regulators, project sponsors, businesses and private sector financiers to help bring forward investments and to provide the finance required. We have already been working collaboratively with AEMO and transmission owners to unlock investments in critical grid infrastructure that will underpin and enable further investments in clean energy projects.

We work closely with ARENA, who are represented on our Clean Energy Innovation Fund's Joint Investment Committee. In addition, we work with the Department of Climate Change, Energy, the Environment and Water, providing an investor's perspective on various initiatives. We will continue and enhance our engagement with State and Territory governments with the shared goal of delivering infrastructure and investments that contribute to emissions reduction and economic growth.

Subsidiaries

This Corporate Plan covers the activities of our two wholly owned subsidiaries, CEFC Investments Pty Ltd and Clean Energy Investment Management Pty Ltd. These subsidiaries support the CEFC's objective of increasing the flows of finance into the clean energy sector.