Clean Energy Finance Corporation Expert Review
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ANZ Submission to the Clean Energy Finance Corporation Expert Review

Dear Review Panel,

ANZ welcomes the opportunity to contribute to the Clean Energy Finance Corporation Expert Review.

ANZ is a leading banker to the power and utilities sector, which is one of our priority sectors. Within our Power & Utilities practice, ANZ has a longstanding track record in supporting renewable energy development. ANZ has been involved in over 3,000MW of onshore windfarm transactions and we have achieved a variety of 'firsts' in Australia:

- First landfill gas power project financing (1992)
- First coal mine methane power project financing (1994)
- First windfarm project financing (2002)
- First coal seam methane power project financing (2004)
- First stand-alone waste coal mine gas power project financing (2005)
- First ECA direct-funded windfarm financing in Australia (2010)
- First underwritten windfarm project financing in Australia since the Great Financial Crisis (2011)

ANZ is also a leading market maker in electricity and renewable energy certificate markets.

In banking the power and utilities sector we are mindful of issues beyond the financial viability of our clients' enterprises. These issues include:

- The importance of an efficient and reliable supply of power to the community and industry; and
- The local and global environmental impacts of the power and utilities sector.

Our responses in this letter are generally limited to our areas of expertise being financial and capital markets. Our comments generally refer to utility-scale renewable energy enterprises and the associated infrastructure.

Group Corporate Affairs

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The Market Gap and Overcoming It
As an active participant in the sector ANZ sees the following key constraints on the sustainable development of renewable energy in Australia:

A. **Access to the grid** – economic renewable resources such as wind and sunshine are often located in remote areas and developing those resources requires new transmission lines to be built to transport the power to market. Privately developed transmission lines generally need to be shared infrastructure to be economic but single users may have competing objectives, varying access to capital and independent timelines, which leaves the first mover developer of the transmission line with the risk of being stuck with a stranded uneconomic asset or an asset subject to later free-riding by competitors.

B. **Cashflow variability** – renewable resources are generally intermittent and not within the developer's control, which, when multiplied by electricity and Large-scale Generation Certificate price variability produces cashflows too risky to attract sufficient debt and equity capital to develop the projects.

C. **Access to capital** – wholesale debt markets in Australia are typically short term in nature with tenors generally in the range of 1-5 years. Renewable energy projects with useful lives well beyond this tenor (e.g. onshore wind turbines may operate for 20-25 years if properly maintained) therefore need to manage refinancing risk, a task which will become increasingly difficult in future due to (i) global capital market volatility; and (ii) growing demands for capital (e.g. ANZ research suggests that Australia's capital requirement for infrastructure could be in the order of A$600 billion over the next 6 years).

D. **Regulatory certainty** – renewable energy projects are long-term enterprises and generally reliant on regulatory mechanisms (e.g. the Renewable Energy Target) to support their financial viability. Changes to regulation which reduce support previously relied upon, and indeed the risk that future adverse changes may occur, discourage investment and penalise "well-behaved" investors.

Scope of the CEFC
In light of the constraints outlined above ANZ submits the following views for consideration:

- We believe that the CEFC should operate in a transparent, consultative manner in partnership with industry and in accordance with longstanding energy policies. These policies include balancing the security of supply, achieving cost efficiency and value for energy users achieved ideally via contestable markets, regulated monopolies for networks, and the Renewable Energy Target.

- We believe that the CEFC should achieve its return on investments in a measured and balanced way, only deploying capital when clear and objective hurdles are expected to be met and with a view to balancing its portfolio of exposures against prudent guidelines (e.g. a spread of sectors, technologies, geographies and varied positions in capital structures and financial markets).

- While innovation and adaptation to Australian market conditions will be necessary, we believe the CEFC should look to international lessons learned wherever possible.

- Depending on the solutions the CEFC chooses to bring to market, consideration should be given to the creditworthiness of the CEFC itself.

Conclusion
ANZ would be pleased to discuss the issues raised in this letter with you further. Please contact Michael Johnston, Head of Government and Regulatory Affairs by e-mail to Michael.Johnston2@anz.com or telephone 03 8654 3459.

Yours sincerely

Shane Lucas
Head of Sustainable Development