Submission by

Alternative Technology Association

on

The Clean Energy Finance Corporation

8th December 2011

By Email to: cefc@treasury.gov.au

For further information or enquiries contact:

Damien Moyse
Energy Policy Manager
ATA – Alternative Technology Association
(03) 9631 5417
E-mail: Damien.Moyse@ata.org.au

1.0 Introduction

The Alternative Technology Association (ATA) welcomes the opportunity to provide comment on the design and implementation of the *Clean Energy Finance Corporation* (CEFC).

ATA is a national, not-for-profit organisation representing consumers and communities in the renewable energy and energy efficiency marketplace. The organisation currently provides service to approximately 6,000 members nationally who are actively engaged with small, medium and large scale renewable energy projects, energy efficiency and the national electricity market.

The ATA is also Australia's largest green publisher – producing our two sustainability publications *Renew: Technology for a Sustainable Future* and *Sanctuary: Modern Green Homes*, with a current readership of approximately 520,000 nationally.

Through our state branches, networks and partnerships, the ATA works closely with communities on the ground right across Australia and is keenly aware of the growing interested in community-based renewable energy and energy efficiency projects.

2.0 Summary

The ATA believes the Clean Energy Finance Corporation (CEFC) to be a vital part of Australia's transition to a clean energy future – and one that must engage with and support a significant number of clean energy projects this decade if Australia is to meet the targets required by climate science over this timeframe and to 2050.

Implemented effectively, the CEFC could unlock significant national benefits of building a robust domestic energy industry for our future, including new manufacturing industries, new export opportunities and tens of thousands of new jobs mostly in rural and regional areas, all with the outcome of reducing our dependence on increasingly scarce fossil fuels

Analysis by the Australian Conservation Foundation (ACF) estimates that Australia needs to invest approximately $100 billion in low-carbon assets in the coming decade in order to meet only a 5% emissions reduction target.[1] While this level of investment is beyond the capacity of government in isolation, the CEFC could provide a mechanism to leverage substantial levels of private investment for this critical transformation.

[1] Australian Conservation Foundation (2010), *Funding the Transition to a Clean Energy Economy.* Available at: http://www.acfonline.org.au/uploads/res/Funding_the_Transition_to_a_Clean_Economy_-_An_ACF_report.pdf

2.1 Current State of Play of Renewables in Australia

Renewable energy is on the rise as an electricity generation source in Australia. Nationally, we have a 20% Renewable Energy Target (RET) to be delivered by 2020. By 2011, almost half this target was achieved, with just under 10% of Australia's electricity generation being delivered by renewables[2].

Despite this momentum, there are aspects of Australian energy policy, and its associated community and political discourse that are actively working against the renewable energy sector, including ongoing barriers to the development of renewable at all scales within the National Electricity Market Rules and operations.

In spite of the weight of evidence that Australia needs to move towards a clean energy future, there remains a level of resistance towards some forms of renewable energy. ATA believes that much of this resistance stems from a lack of understanding and/or distrust by parts of the Australian community and energy industry of the technical and social concerns associated with large scale renewable energy projects.

2.2 The Need for Community Energy

It is in this context that ATA sees a critical role for the development of *Community Energy* (CE) projects – typically community owned, smaller to medium scale projects (e.g. in the tens of kilowatts to ten megawatt range) that offer significantly less 'development intrusion' into local communities, and allow for a higher degree of engagement by local communities with renewable energy.

In turn, these CE projects would assist to expand the social licence for renewables to operate, and have positive effects on local and state policies for renewables and climate change. CE projects will often use conventional, commercially available technology, but can also be a 'test-bed' for emerging technology options and innovative financing arrangements.

Smaller to medium scale CE projects also promote the evolution of NEM practices with regards to distributed generation, and take advantage of the significant opportunities that exist with respect to energy networks and the wholesale energy market.

On this basis, the ATA asserts that the CE sector warrants specific attention in the design and implementation of the CEFC, as it will underpin community understanding of, and support for, clean energy. In particular, the ATA recommends that the CEFC:

1. Specifically acknowledge Community Energy as a part of the package;
2. Does not establish a minimum threshold for investment or project capacity that is beyond the size and scope of Community Energy projects;
3. Make provision for and allocate funds to Community Energy projects that are at the early stages of development.

[2] Clean Energy Council, 2011. *Clean Energy Australia Report*. Available at: http://www.cleanenergycouncil.org.au/cec/resourcecentre/reports.html

3.0 Principles for Investment Decisions

3.1 Overcome Market Failure

The ATA believes that a fundamental principle upon which the CEFC should operate is that the CEFC will bring forward the deployment of renewable energy and energy efficiency projects that would not otherwise have occurred under current market arrangements.

There are clear policy and political risks associated with the CEFC directly investing in projects that are currently achievable under the RET, state-based renewable energy incentives, or state or potential future national energy efficiency policies. To do so would increase the cost of project delivery, and place both the CEFC and existing mechanisms at risk of inefficiency.

Proponents should therefore be required to demonstrate through evidence how their projects are not achievable under current market conditions (for example due to high project risk or other market failures) in order to qualify for CEFC support.

3.2 Relationship to Other Policy Mechanisms

The ATA acknowledges that the policy delineation between the mandate of the CEFC and existing market mechanisms such as the RET will be a significant challenge.

Some stakeholders may call for CEFC funded projects to be 'additional' to the RET and/or other policy mechanisms. ATA are of the view however, that the result of excluding CEFC funding recipients from accessing the RET would be a significant under-subscription to the CEFC, thereby seriously limiting its effectiveness.

Pre-commercial, emerging and higher levellised cost technologies will remain unviable if they are unable to also access the RET market, as the value of wholesale energy alone for these projects will not justify that investment. This will be the case, irrespective of the funding source, until the affordability of these technologies reaches such a point where the RET market coupled with the wholesale electricity value is sufficient to incentivise these technologies.

Effective additionality under this approach could not be achieved without a significant increase of the annual RET targets, or similar approach, something that ATA does not consider achievable in the short term.

On this basis, the ATA are of the view that it is important that CEFC funded projects are able to trade Large Generation Certificates (LGCs) under the RET – where those projects can demonstrate that they are not currently achievable under existing market conditions, as discussed in 3.1 above.

3.3 Social Licence to Operate & Project Diversity

The ATA believes another key principle for the CEFC s the social licence to operate.

To create broad-based support for renewable energy development within communities across Australia, those communities need to understand and become familiar with the technology and with the local benefits offered with respect to employment, local abatement and community dialogue around renewables and climate change.

The ATA see this as a significant opportunity for the CEFC in supporting less capital intensive, community scale projects that can act as a 'test bed' for emerging technology options and innovative financing arrangements.

A pipeline of small, diverse and geographically dispersed projects from the commencement of the CEFC would also provide a lower risk approach towards the deployment of projects, including technologies or ownership models that have achieved some degree of success internationally, but as yet are still relatively new or subject to external barriers in Australia.

4.0 Opportunities for CEFC Partnerships

Over the past 30 years, the ATA has worked with hundreds of Local Governments, community groups, local business and other interested groups and individuals to assist and understand the potential for communities to play a role in carbon abatement through local energy projects.

Throughout this time, never has the level of interest in CE projects been as strong as it is now. With increasing awareness of the issue of climate change, and with rising energy prices, communities are increasingly looking for ways to be proactive in making a practical contribution to the problem of energy and carbon, and to shield themselves against ever increasing utility bills, delivered by an energy market that has largely been unresponsive to consumer needs.

As such, the ATA sees enormous opportunity for the CEFC to partner with local communities to deliver low risk, innovative CE projects that broaden the base of support for renewable energy in Australia and evolve our technical and financial skills in project delivery.

5.0 Catalysing Funds from Financial Institutions

5.1 Early Stage Equity Investment

Prospective equity investors are likely to be conservative in nature and whilst modest funds may be available from local investors, local governments and regional development authorities, these groups typically have insufficient funds to finance the entire development phase. On this basis, we believe there is a role for the CEFC to contribute early stage equity investment into CE projects.

By way of example, where a community organisation decides to develop a small wind farm, they are likely to be required to meet costs of up to $250K, often over 3 or more years, before a suitable site is found, assessed, and all permissions are granted so they can proceed with the project.

As there may be a number of subject sites assessed to get to this stage and only one will be selected for the final project, the early development of each site carries a high risk; however the overall likelihood of successfully finding a suitable site is high.

It is at these early stages that project proponents struggle to find sufficient funding in spite of the likelihood that this development work will eventually yield a project of over $15M in value and will raise sufficient returns to justify the initial $250K outlay in development costs at all of these sites.

There are dozens of organisations at this early stage in Australia today, and investing in these endeavours would be an effect way to leverage significant investment from these communities.

5.2 Debt Financing

Raising debt finance from a bank is difficult for all scales of renewable energy projects, particularly without a PPA in place. With PPA's being difficult to obtain for CE scale projects due to the relative scale of energy purchases made by large retailers, the CEFC could take on the role of providing a loan to a project without a PPA.

By providing senior or subordinate financing to CE projects, the CEFC could positively affect the risk profile of these projects, unlocking capital from more traditional funding sources as well as increasing project size to access economies of scale.

5.3 Loan Guarantees

As an alternative to debt financing, a loan guarantee would be an effective way of unlocking debt financing for CE projects.

5.4 Power Purchase Agreements

As noted above, it is challenging for CE projects to obtain a PPA of adequate value. The lack of certainty on the value of electricity sold is a barrier to raising equity and thus it is almost impossible for CE projects to secure debt financing. The CEFC could catalyse the flow of funds to CE projects by providing a fixed price PPA. This would afford a reduction of risks for equity and debt finance providers, unlocking funding for CE projects.

5.5 Hedge funds

As an alternative to 5.4 above, the CEFC could provide hedging services to allow community energy projects to sell energy directly on the spot market while providing some certainty of return. If diversified across a range of projects over a period of time, this could be achieved at little or no net cost to CEFC.

6.0 How the CEFC fits with other Clean Energy Initiatives

6.1 Revenue Gap for Higher Cost Projects

Much of the informal discussion to date surrounding the future role of the CEFC has been in the context of large solar or other higher levellised cost renewable energy projects – with the CEFC being seen as a potential 'catalyst' for leveraging significant investment into these projects.

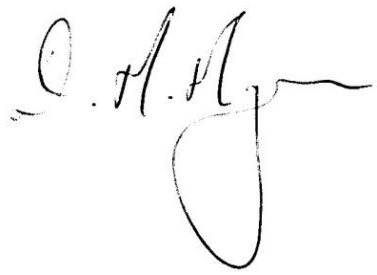
The ATA remains sceptical as to how the CEFC may catalyse investment into higher cost technologies given current market arrangements and a range of other factors. Current RET market conditions suggest that the remaining certificate oversupply will depress LGC prices and continue to stall investment until 2015. In this context, the best case scenario for a current project proponent is a wholesale price plus Large Generation Certificate (LGC) price that returns a value of energy in the range of $90 – $110 MWh.

ATA's understanding is that the CEFC is being put forward as a model for co-investment in projects, or to provide financial instruments that lower project risk – as opposed to a one off grant provider or other type of revenue support. Whilst co-investment or risk instruments may assist a project proponent to overcome capital, bank finance and other start-up barriers, the ATA questions how the required additional long term revenue will be met to deploy higher levellised cost projects – e.g. in the order of $150 – $300/MWh.

7.0 Further Contact

Thank you for the opportunity to provide comment to this process and please do not hesitate to contact us at Damien.Moyse@ata.org.au or on (03) 9631 5417.

Yours sincerely



Damien Moyse
Energy Projects and Policy Manager