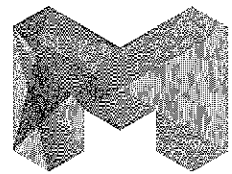


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CITY OF MELBOURNE

Ms Jillian Broadbent  
Clean Energy Finance Corporation  
Expert Review

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## **Clean Energy Finance Corporation - Expert Review**

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Dear Ms Broadbent,

Thank you for the opportunity to submit our comments regarding the establishment of the Australian Clean Energy Finance Corporation. The City of Melbourne (CoM) recognises that supporting the finance of energy efficiency and renewable energy is a key step in Australia's transition to a low carbon economy.

### **CEFC's role**

CoM sees the role of the CEFC to facilitate investment consisting of two key areas; support infrastructure investment and support emerging technologies. CoM believes there should be a focus on projects which, with seed financing, can achieve large-scale transformational change. Carefully select projects that are viable and have limited risk, but are limited by other factors, i.e. the program shouldn't prop up non-viable projects

#### **Support infrastructure-**

Provide finance for infrastructure which would support emerging sectors. This could include sectors which are constrained by the lack of enabling infrastructure, such as transmission lines to major emerging renewable energy sites (eg. wave power), or heat transmission pipes for district energy systems.

Allow for investment in infrastructure which are viable but have long payback periods and would have difficulty attracting finance at current rates.

#### **Supporting emerging technologies-**

Investment in technologies or initiatives which are not commercial now, but a clear case can be made to demonstrate their financial viability in the future.

Support the implementation of technologies which are financially viable but carry long payback periods. E.g., provide loan guarantees or discounted loans to minimise risk and establish a history of financial viability for potential investors in the future.

Through the appropriate establishment of the CEFC, CoM would like to see increased investment in precinct-scale sustainable infrastructure (energy, water, waste, ICT, green spaces and transport) and a more economical model to facilitate the upgrade to existing infrastructure and energy systems.

CoM would also like to see an increase in district heating and cooling systems including investment in heat transmission infrastructure to enable the development of such systems and enhanced deployment of energy efficiency technology in commercial and residential buildings.

### **Additional Principles**

CoM recognises that financial viability can not be the only decision making principle used to ensure CEFC's decisions achieve optimum outcomes. Principles which CoM suggests are considered include:

- 1) **Large Scale Transformational Change-** CEFC should support projects which have the potential to catalyse large-scale transformational change in clean energy development and uptake;
- 2) **Emissions Reduction-** CEFC should support projects which show the greatest abatement potential;
- 3) **Limited financial viability-** CEFC should support projects which are viable but which would be unlikely to attract finance at commercial rates. Such projects should be prioritised over projects that have the capacity to attract commercial finance and which would be viable repaying loans on commercial terms.
- 4) **Demonstration-** CEFC should support projects which demonstrate leadership, through emissions reduction.

### **Partnership Opportunities**

CEFC can enhance the outcomes of its initiatives and investment decisions through partnering with other organisations who are working in this space. The partnership opportunities CoM sees for CEFC can be split into three groups:

- 1) **Local Councils-** The CEFC could partner with local councils to support the development of a distributed energy system in Melbourne. CEFC could also partner with the City of Melbourne to support 1200 Building signatories who are not able to participate in the Environmental Upgrade Agreement (EUA) program. An Environmental Upgrade Agreement (EUA) is a mechanism by which a building owner borrows from a financial institution, such as a bank, and pays back the loan via a rates charge places on the property by the local Council. Currently an EUA can only be applied to rate-paying properties. Community and not-for-profit institutions do not pay Council rates and are therefore unable to access the concessional EUA financing.
- 2) **Financial Institutions-** CEFC should partner with existing financial institutions to ensure that the knowledge in energy efficient and renewable energy technologies is developed it is shared with organisations who will eventually be offering finance in this space. For financial institutions to move into this space in the future they will require the knowledge to make investment decisions. This partnership could be facilitated through organisations such as the United Nations Principles for Responsible Investment (UNPRI). There may also be opportunities for CEFC to partner with commercial finance institutions to spread the risk of investments and reduce borrowing rates by offering finance at lower rates than private lenders.
- 3) **Energy retailers-** CEFC has the opportunity to partner with energy retailers and other billing service providers through pay-as-you-save (on bill financing) schemes.

### **Other limiting factors**

There are a variety of other factors which influence the ability of an organisation to deploy energy efficient or renewable energy technology. Some of the factors which CoM believes should be considered in making investment decisions are:

- Uncertainty in Government policy & regulation
- Planning scheme limitations such as heritage overlays must be considered.
- The governance structure of the energy systems inhibits investment in upgrading existing infrastructure, as there is no financial or non-financial benefit returned to asset owner. For example, investing in decentralised energy systems benefits the community and environment, but there is long payback period, low return on investment and uncertainty created by not having guaranteed energy demand (due to the free energy market with readily accessible cheaper alternative from grid).
- Projects which need to be developed over time and scaled up face barriers when operating at sub-optimal scale in the initial phases of development – eg. district energy systems.

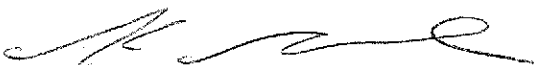
It is important that the CEFC links effectively with other Federal Government organisations and bodies. Under the Clean Energy Future Legislation, a number of organisations will need to be established. It will be essential to provide clarification of the roles of various government programs to allow for businesses to understand the intention and connection between the various programs.

The CEFC could support state base programs promoting uptake of solar PV, solar hot water and other renewable technologies (eg. feed-in tariffs; subsidies, white certificate schemes). This could be through pay-as-you-save (on bill financing) partnerships with energy retailers, or other indirect loan schemes.

There is a role for government and public financing entities to invest in district energy (heat transmission) infrastructure to enable the development of district energy systems. This reduces the up-front investment cost faced by potential district energy developers enabling such systems to be developed in a modular fashion and scaled up as demand grows. Agreements can be reached with district energy system developers guaranteeing the incremental purchase of distribution piping once the district systems reach viable scale.

Again, thank you for the opportunity to submit our comments regarding the establishment of this important corporation. The City of Melbourne (CoM) sees great value addressing financial barriers to clean energy technologies, and we are eager to have a valuable working relationship with the CEFC.

Yours sincerely



**Krista Milne**  
Manager, Sustainability