Exigency

Exigency Management Pty Ltd.

Tel +613 9828 2528
Web www.exigency.com.au

Ms Jillian Broadbent AO
Chair, Expert Review Panel
Clean Energy Finance Corporation

Dear Ms Broadbent

Submission by Exigency Management Pty Ltd

Exigency (www.exigency.com.au) is an independent energy and carbon market advisory firm whose directors have additional hands on experience in financial markets and venture capital.

Exigency makes this submission in the interests of assisting the CEFC to identify viable clean energy solutions from the myriad technologies, projects and sponsors who will inevitably be attracted to the Clean Energy Finance Corporation "honey pot".

In summary, it is our view that rather than allocate funding capital, the CEFC would best serve taxpayers by contracting for the greenhouse abatement delivered by projects and technologies that meet pre-determined assessment criteria. In this way, the CEFC would avoid moral hazard, conflicts with conventionally provided capital and minimize exposure of taxpayer funds to commercial/technological risk.

This concept is examined in course of addressing the Review questions as follows:

1. How do you expect the CEFC to facilitate investment?

   Exigency anticipates that CEFC would offer a price per tonne of carbon abatement *delivered* as against an agreed baseline. This would be via a straightforward carbon purchase agreement, or alternatively via a carbon option payment for more uncertain projects. In the latter case, the option premium would provide development funds, in return for a call on carbon abatement at an agreed price, as the technology moves into commercial production.

   In this way, a contract with the CEFC would encourage private capital, rather than standing in its place.

2. Are there principles beyond financial viability that could be used to prioritise investments, such as emissions impact or demonstration affect?

   The principle of emissions impact that is embodied in the contract structure would begin to address current misalignment of climate policies – which often use proxies for greenhouse abatement, potentially leading to inefficient allocation of capital – eg wind farms being located on low emissions intensity grids.

   Beyond this, the CEFC will need to devise a range of selection criteria which of themselves may be limiting or contain inherent conflicts. Exigency is well versed in this area, having established selection criteria for renewable technologies and greenhouse abatement initiatives.

3. What are the opportunities for the CEFC to partner with other organisations to deliver its objectives?

To some extent, CEFC should remain independent of and agnostic towards providers of private capital. Potential links with research organisations, such as CSIRO, could be established to create pathways from R&D to commercialization although this would require strict governance oversight.

4. How could the CEFC catalyse the flow of funds from financial institutions?

   By contracting for outputs, much as a power purchase agreement or a long term contract for RECs does, a CEFC contract would provide investor certainty with respect to a part of the future revenue stream available from the project/technology. This would be backed by a AAA rated counterparty (ie the Commonwealth), for a specified volume and period.

   As a direct consequence of this approach, private capital would bear the risk of loss: the tax payer would not have to pay for outputs that could not be delivered due to default.

   One of the pitfalls that may be avoided by the approach we have suggested is the ownership of intellectual property. In our view, typical Commonwealth contract terms may be unattractive and actually inhibit access to private capital. Under our proposed approach, CEFC would only be interested in the abatement outputs and not in ownership per se, except, potentially accessing intellectual property under default conditions.

5. What experiences have firms in the clean energy sector had with trying to obtain finance; have term, cost or availability of funds been the inhibitor?

   In our experience, capital for financially viable projects is not an issue, although term (eg payback) is an inhibitor. The larger issue is access to development capital for commercialization – where capital is either unforthcoming or at a cost that is unacceptable to the sponsor

6. What non-financial factors inhibit clean energy projects?

   The number one issue for clean energy projects is access to energy infrastructure (such as electricity grids) on reasonable terms. It is our view that the CEFC should be capable of seeking rule changes and/or negotiating on behalf a portfolio of projects to facilitate grid access.

7. Are there special factors that inhibit energy efficiency projects?

   The main factor in our view is pay-back period, which inhibits investment relative to other capital projects. Whilst this may be mitigated to some extent by the imposition of a carbon penalty price, we envisage that nevertheless, meritorious energy efficiency projects will either not proceed, or be lost through importation from non-carbon priced economies, without a party, such as the CEFC, being willing to stand in the market for the energy efficiency outcomes over the longer term.

   Paradoxically, well-intentioned interventions such as NABERS may be the cause of sub-optimal energy efficiency outcomes by focusing on compliance inputs, rather than outputs (ie actual energy consumption in the built environment). By focusing on outputs, the CEFC could correct such regulatory shortcomings.

   In our experience of energy efficiency also, there is often a disconnect between the beneficiary of the project and the funder of it, and it is sometimes difficult to recoup the outlay through conventional revenue streams.

8. How do you see the CEFC fitting with other government initiatives on clean energy?

One of the major failures of state and federal government climate policies over recent years has been insufficient focus on $/tonnes CO2-e delivered. Our proposed approach substantially corrects this.

Exigency considers that considerable work is needed to reduce overlapping clean energy policies and eliminate inefficient ones. Whilst this should not be the responsibility of the CEFC, nevertheless, the CEFC should not focus on technologies and projects that can be addressed through existing programmes, This should be made explicit in detailed pre-selection criteria and during pre-commitment due diligence.

Comment on Terms of Reference (4)

"In the context of the proposed operating mandate, assess how the CEFC will interact with other Australian Government bodies and initiatives, including the Australian Renewable Energy Agency and Low Carbon Australia. Where appropriate, recommend a path for transitioning from the current arrangements to arrangements which streamline support for cost-effective carbon reduction".

Exigency Approach

In essence, CEFC should be complementary to the other agencies and initiatives, in so far as the other programmes should address "shovel ready" projects comprising proven technologies, whereas the CEFC should focus on commercialization and at the margin, proven technologies whose payback period is longer than the market will fund.

We envisage the CEFC becoming a pioneer of long-term contracts for carbon, a mechanism which could eventually replace MRET – which otherwise will potentially misallocate capital to projects whose marginal carbon abatement is small or negative.

Concluding Remarks

Exigency anticipates that most submissions will argue for the provision of "green loans" or "soft capital". We see such approaches as flawed, because of moral hazard and conflicts between the interests of private and taxpayer - provided capital.

Whilst we have provided only brief details of our proposed approach here, we believe they are of sufficient merit to be developed into a robust framework. Exigency would be pleased to discuss this in more detail with the Panel, at its discretion.

Yours Sincerely

Stuart Allinson

Adrian Palmer