Clean Energy Finance Corporation
Expert Review Panel

Email: cefc@treasury.gov.au

8 December 2011

Dear Madam / Sir,

FRV Services Australia (FRV) welcomes the opportunity to comment on the structure and activities of the Clean Energy Finance Corporation (CEFC).

FRV is a leading international developer of utility scale solar projects with experience in photovoltaic and concentrated solar technologies. FRV have been fortunate to be selected by the Commonwealth Government, along with our consortium partners, to develop the 150MW Moree Solar Farm project under the Solar Flagships program.

FRV has extensive experience in the successful development, construction and financing of over AUD1.5billion of solar projects in Europe and the United States and is currently developing a much larger portfolio of projects globally including within Australia.

Further information regarding FRV's projects can be found at www.frv.com

In response to the *CEFC Expert Review Request for Submissions* FRV firstly offers comment on its experience relevant to the Terms of Reference, followed by consideration of the questions raised in the Request for Submission.

FRV experience

FRV has successfully funded over $1.5billion of solar projects globally to date. We have secured non-recourse project funding by working cooperatively with financial institutions to identify and mitigate technology and project risks to ensure that technically and commercially viable projects can proceed without undue additional requirements from financiers. In our experience financiers have proven to be sensible and rigorous in their assessment of risks.

We have found that the term of debt finance arrangements will often necessitate re-financing during project life which increases the risk to equity holders in the project sometimes resulting in projects not proceeding.

FRV has found that equity partners are very interested in renewable energy for investment in projects and technologies that are or have a real prospect of technical viability in near to mid-term and financial viability in longer term.

Response to Questions

Scope of the CEFC

FRV urges the Expert Review to mandate CEFC to focus its resources where there is the greatest likelihood of protection of those resources and a modest return being achieved to then be deployed to further investment, thus sustaining support into the future without additional public funding being required.

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There are clearly opportunities for CEFC to provide equity, debt and/or financial support to a variety of technologies, however FRV urges the Expert Panel to ensure that rigorous evaluation of technology risk is completed by CEFC to ensure that there is a clear and visible path to commercialisation so that the environmental benefit of CEFC's contribution is realised – at a minimum, eventually.

The market gap and overcoming it

FRV has observed some difficulties in government's providing direct debt or debt guarantees and observe that it in some cases it does not encourage commercial financiers to educate themselves regarding technologies and projects, they simply rely on the guarantees offered by government (in the case of debt guarantees) to manage their risk and can in some cases be less rigorous in their own assessment of projects. This leads to a significantly greater risk to the security of the government funds. Direct provision of debt also leads commercial lenders to take a "wait and see" approach to technologies, allowing government to take the initial risks before examining technologies they may otherwise be approached to finance.

FRV considers that financing of renewable energy projects with a clear path to commercialisation and financial viability is readily achievable via commercial arrangements, in fact, PV projects have attracted more than $ 50 billion of debt worldwide under non recourse schemes which shows that the technology is proven and reliable to raise debt without governmental support. However, there are some areas where valuable assistance can be provided to even proven technologies such as photovoltaic solar projects at utility scale.

One area of value would be to offer a junior debt tranche or loan guarantee for projects in later years (such as years 9-25) for projects, this would allow owners of renewable energy projects to secure longer term finance agreements and mitigate the mid-life re-financing risk for projects, whilst at the same time ensuring that commercial lenders complete due diligence and risk assessment for funding provided in initial years. Currently there is little liquidity in the market for debt beyond 9 years term for even the most commercially viable of projects.

Interaction with other clean energy initiatives

FRV considers there is considerable opportunity for the CEFC to operate in tandem with initiatives such as ARENA to overcome current hurdles to the deployment of renewable energy technologies that are not currently commercially viable due to lower cost technologies.

This should be utilised to drive down the cost of technologies through both the acceleration of deployment and learning that occurs with implementation at scale.

It is proven that deployment drives efficiency and solar PV is one such clear example. The education of the Australian contractor market coupled with falling technology costs, financing support as described above from CEFC and support from ARENA initiatives (for example "synthetic" Power Purchase Agreements - PPA) would certainly rapidly accelerate the deployment of utility scale PV projects in Australia by independent power producers – resulting in deferred or avoided transmission upgrade costs (due to the ability of PV to generate close to consumption without the environmental impact of rotating machinery), reduced need for peaking generation (due to the generation profile of PV largely matching peak consumption periods) which still emits carbon at 70% intensity to that of coal and at a relatively modest cost to CEFC and agencies such ARENA.

The single greatest hurdle to renewable energy investment in Australia is the illiquid PPA market (as has been the case since long before the proliferation of small scale REC's).

Control of the deployment of the Renewable Energy Target sits squarely with a small number of retailers whose only – reasonable - concern is to meet their obligations at the lowest cost (to the RETAILER but not to the retail customer overall, in considering all aspects of the retail price including transmission and distribution costs) without consideration of benefits beyond their business'.

In substantially not participating in the market for long term power purchase agreements with third party renewable project developers, the retailers effectively prevent the finance of renewable energy projects. This can be overcome by government initiatives to create a "synthetic" power purchase agreement which could effectively set a "floor" in the price developers receive for the energy and environmental products (such as LGC's) for an extended contract period. Any value received in selling those products in the spot market (or even under bi-lateral agreements) could be shared between the Agency offering the "synthetic" PPA (eg CEFC or ARENA) and the developer after the Agency had recovered its cost in offering the "floor".

Coupled with the extended tenure in finance arrangements suggested above, FRV considers this would result in considerable immediate investment in renewable projects beyond only windfarms, allowing substantial "learning" in industry for technologies beyond wind and ultimately to unsupported commercial investment. The benefits that would also flow in reduced transmission costs and need for gas fired "peaking" generation has the benefit of reduced electricity cost at a retail level.

Conclusion

FRV would urge the Expert Panel to ensure investment in projects that are technically viable or have a clear known path to technical viability as a core assessment criteria and secondly, have a path to commercial viability as the Expert Panel progresses towards formulating recommendations, thus ensuring the enduring value of the very welcome investment the Commonwealth Government is making in the CEFC.

Should you have any questions in relation to FRV's submission, please contact myself or Steve Jackson on 02 8257 4752.

Yours sincerely,

Andrea Fontana
Country Manager - Australia