

# Submission to the Clean Energy Finance Corporation Expert Review

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## Opening remarks

Greenpeace Australia Pacific is pleased to be making a submission into the Clean Energy Finance Corporation Expert Review.

Greenpeace welcomes the passing of the Clean Energy Future legislation and the positive step it represents towards a decarbonisation of our economy, as well as a transition from a fossil fuel-based to renewable energy based domestic energy sector. The Clean Energy Finance Corporation (CEFC), as part of the package of measures introduced, is particularly welcome.

However, the Clean Energy Future package Clean Energy Finance Corporation are not change in and of themselves. The mechanisms and actual change achieved will depend on the level of ambition and effectiveness of their implementation.

Greenpeace believes that the level of ambition in the Clean Energy Future package remains woefully insufficient to drive the changes required in our energy sector, and that this will impact upon the ability of its instruments – such as the CEFC – to perform. That limitation noted, the CEFC is asking some important questions to ensure it operates as efficiently as possible.

We welcome the opportunity to discuss these matters further with an appropriate representative of the CEFC.

## About Greenpeace

Greenpeace is an independent global organisation campaigning to change attitudes and behaviour, to protect and conserve the environment for future generations. Established in 1971, we now have a presence in more than 40 countries and around 2.8 million supporters worldwide. Greenpeace Australia was founded in 1977 and joined with the Pacific region in 1998. Today, Greenpeace Australia Pacific has over 70,000 supporters.

## State of play on renewables in Australia

According to the Clean Energy Council, renewable energy supplied only 8.67% of Australia's power in 2010<sup>1</sup>. Most of this was met with already established hydro energy, with wind power supplying just 2% and solar power less than 1%. The Clean Energy Council's 2011 review - launched at the climate

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<sup>1</sup> Clean Energy Australia 2010, Clean Energy Council.

<http://www.cleanenergycouncil.org.au/dms/cec/reports/2010/Clean-Energy-Australia-2010/Clean%20Energy%20Australia%202010.pdf>

change talks in Durban, South Africa – indicates that renewables' share of Australian electricity generation has grown by almost one percentage point over the past year, up to 9.64 per cent.<sup>2</sup> By comparison, in 2010 renewable energy provided 17% of the electricity generated in Germany, 18% of China's generated electricity and 32% in Spain<sup>3</sup>.

While the 20% target for renewable energy power generation in Australia is still expected to be more or less achieved, a mountain of evidence shows that Australia could achieve much faster and more significant uptake of renewable energy, with associated benefits such as faster reduction in carbon pollution, greater attraction of investment and a larger, more sustainable workforce. The Greenpeace Energy [R]evolution scenario is one such piece of evidence and we submit it to you as an attachment to this submission. It shows that it is possible for Australia to meet 74% of its power demand with renewable energy in 2024, while creating 54,000 jobs and putting Australia on track to halve its carbon pollution by 2020<sup>4</sup>.

Unfortunately, the low level of ambition contained in the Clean Energy Future package (the 5% emissions reductions target), means that we will make little progress beyond that already expected towards a clean energy economy in Australia. For example, solar thermal energy is expected to supply 0-0.5% of Australia's power by 2020 and 3-4% by mid century<sup>5</sup>. This essentially forecasts the failure of the Solar Flagships program and suggests that less than 2 gigawatts of solar thermal capacity will be installed in Australia over the coming four decades. For countries with equal or fewer renewable energy resources to be outstripping Australia in this vital area is unacceptable.

The role of the CEFC should be to use its unique position to drive much greater ambition and move Australia from the small growth in renewable energy in Australia that is predicted towards the major progress towards clean energy that it is possible to achieve.

Enabling the CEFC to act as early as possible

There is a huge appetite in Australia to build renewable energy projects, should the financial and policy support be in place for them. The Solar Flagships Program, which is currently progressing one photovoltaic project and one solar thermal project, is a good example of this appetite, as 52 applications were made under the program<sup>6</sup>.

We urge the CEFC to be in a position to support renewable energy projects as soon as funds become available through revenue generated from the carbon price.

To do this the Federal Government will need to guarantee that the CEFC receives the revenue it has been allocated and the CEFC will need to ensure that as soon as the legislation comes into effect

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<sup>2</sup> <http://www.theage.com.au/national/renewables-produce-10-of-power-supply-20111205-1ofga.html#ixzz1foqGwotl>

<sup>3</sup> REN21 Renewables 2011 Global Status Report. [http://bit.ly/REN21\\_GSR2011](http://bit.ly/REN21_GSR2011)

<sup>4</sup> Greenpeace Australia Pacific, 2012, Steps to an Energy [R]evolution. <http://www.greenpeace.org.au/climate/assets/docs/energyrev2010/energyrev2010-summary.pdf>

<sup>5</sup> Australian Treasury, 2011, Carbon Price Modelling, Chart 5.20. [http://www.treasury.gov.au/carbonpricemodelling/content/chart\\_table\\_data/chapter5/Chart\\_5.20\\_update.xlsx](http://www.treasury.gov.au/carbonpricemodelling/content/chart_table_data/chapter5/Chart_5.20_update.xlsx)

<sup>6</sup> Department of Resources, Energy and Tourism website, accessed 5 December 2011. <http://www.ret.gov.au/energy/clean/cei/sfp/round-one/Pages/round-1.aspx>

from 1 July 2013 it can begin to provide financial support to projects. This, in turn, will require that grant guidelines and assessment processes are in place before the legislation takes effect.

#### Which projects to support and how

No two renewable energy proposals will be the same. The term “renewable energy” covers technologies and resources such as solar, wind, hydro, biomass, geothermal and ocean. Within these terms comes ever more differentiation. Renewable energy resources differ from one location to another, as do other matters that affect siting, such as distance to load centres and transmission networks. The costs to build renewable energy power plants and to generate electricity from one source to another will also differ.

As such a one-size fits all policy support will be inappropriate if the objective is to develop a broad range of renewable energy technologies. In addition, ad hoc measures that are not part of a clearly articulated strategy risk doing more damage than good - investor confidence and certainty has previously been undermined by poor policy development and implementation.

Instead, Greenpeace advocates that the Clean Energy Finance Corporation adopt a suite of measures by which renewable energy projects can be supported. Such measures should include power purchase agreements or off-take agreements, loans, loan guarantees and equity partnerships. While it will be important for the CEFC to gain experience in supporting projects through several of these measures in order to provide support as efficiently in the long-term, the CEFC should be open to any form of financial support for any project, and welcome suggestions from project operators.

Regarding the projects that will require support, Greenpeace believes that a number of criteria should be applied to determine the appropriateness of a project for funding:

- Carbon Emissions intensity less than 0.2 kg/MWh with the capacity to reduce to 0.1 kg/MWh by 2050, based on Garnaut’s projection for a 550ppm scenario.<sup>7</sup>
- Capacity for project to demonstrate and publish learnings that can be applied across a broader sector of industry.
- Ability of project to act as pioneer for other similar projects to be delivered.
- Extent to which project can accelerate industry development, leading to a faster overall uptake of renewable energy.
- Ability of project to lower costs of future projects from the same sector.
- Project is of commercial scale

#### Leveraging private investment and achieving returns

A CEFC that is operating to its best possible efficiency should leverage as much private finance for every dollar invested as possible. This is likely to only come with experience and after several years of trying numerous approaches to supporting renewable energy projects. As far as Greenpeace is

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<sup>7</sup> Garnaut R 2008, The Garnaut Climate Change Review, Figure 20.11 page 487

concerned, what matters most is to see major renewable energy projects established as soon as possible.

Greenpeace understands that the CEFC intends to make a return on investments and appreciates the value of this in terms of incentivising the selection of projects that are more likely to be financially viable. We would caution against being fixated on investment returns from the earliest projects that are supported. Renewable energy is a long-term investment. With the potential to eliminate the largest proportion of carbon pollution on the planet, we need to give renewable energy every chance of succeeding. Also from a financial perspective, deep investment in an industry where US\$395 billion per year is expected to be invested globally by 2020<sup>8</sup> is worth the CEFC being involved in, taking risks, and learning from industries' experiences as it progresses through stages of development.

Internal research by Greenpeace suggests that the likely ratio of private to public finance for a project ranges broadly, from 3:1 to upwards of 10:1. The ratio depends heavily on factors such as the risk allowed with each project and certainty provided to industry, as well as the mechanism chosen. Similarly to our earlier comment about not being fixated in the early stages on investment return, Greenpeace urges the CEFC to not be hung up on attracting the most private finance for each dollar of public finance in the earliest stages. Rather, the CEFC should view itself as a body capable of experimenting with projects, mixes of technologies and formulas in order for the private sector to avoid such risks.

Projects that are chosen should nevertheless present the best possible cases for support, satisfying the selection criteria listed earlier in this submission and offering the greatest potential to build up capacity and drive down cost for the renewable energy industry.

#### The interaction of the CEFC with other policy mechanisms

Currently existing policy initiatives to support renewable energy at both a state and federal level are vital to the development of the renewable energy industry. In fact, with the carbon price signal insufficient to drive investment directly to renewable energy, it is policies such as the Mandatory Renewable Energy Target which are expected to drive the uptake of renewable energy to meet 20% of Australia's electricity demand in 2020.

The CEFC has an opportunity to drive Australia's renewable energy industry beyond the mediocre targets currently set and further towards what the country's renewable energy sector can actually achieve. This will be achieved by the CEFC being complementary and additional to, rather than a replacement of or overlapping with, existing renewable energy support schemes.

Certainty over regulatory and investment conditions is essential for strong industry development and renewable energy is no different. After years of delays and amendment to the expansion of the mandatory renewable energy target, then further amendments to compensate for the removal of solar rebates and the creation of the SRES, it is important for the industry to enjoy a sustained period of time where there are no major changes to policies that act as their support mechanisms.

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<sup>8</sup> Bloomberg, 16 November 2011, Clean energy investment may double to \$395 billion 2020. <http://www.businessweek.com/news/2011-11-16/clean-energy-investment-may-double-to-395-billion-2020.html>

Greenpeace therefore urges that all currently existing renewable energy support mechanisms remain in place at both a federal and state level. The CEFC can operate as part of a suite of measures available to the renewable energy industry, but project operators must choose whether to apply for support through the CEFC, or to utilise another (or several, where a combination of other programs is permissible) mechanism for support.

#### Governance

For the CEFC to be as effective as possible it must remain independent from government and be guaranteed a revenue stream at least five years in advance.

The management and board of the CEFC should reflect a broad range of expertise that enables development of an effective methodology for how the corporation will act to support projects, as well as for the assessment and management of individual projects. Experience from the banking, venture capital, funds management, renewable energy industry, and broader energy sector should be drawn upon. However, to maintain the integrity of the CEFC's mandate, representatives should have a history of clear support for renewable energy.

For further comment, please contact:

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