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Clean Energy Finance Corporation
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**Clean Energy Finance Corporation Review
Submission from Ocean Power Technologies Australasia and Victorian Wave Partners**

Introduction

On 10 July 2011 the Australian Government announced that it will establish a \$10 billion commercially oriented Clean Energy Finance Corporation (CEFC) as part of its Clean Energy Future Package.

The objective of the CEFC is to overcome capital market barriers that hinder the financing, commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies.

The CEFC review panel is seeking written submissions from stakeholders and their experiences on the key themes for the review:

- Scope for the operations of the CEFC
- Market gap in financing low emissions technologies
- How this gap in financing could be overcome
- How the CEFC could work with other government and market organisations

Context

Ocean Power Technologies (Australasia) Pty Ltd (OPTA) is the majority owned subsidiary of Ocean Power Technologies, Inc (OPT). Woodside Energy is a 12% shareholder in OPTA.

OPT is a publicly traded company listed on the NASDAQ Global Market and has a network of strategic partners and suppliers around the world. Major centres of activity and strategic partners include Japan (with Mitsui Engineering & Shipbuilding Co Ltd), the US (with the US Navy, the US Department of Energy and Lockheed Martin), Australia (with Leighton Contractors), and the UK (with UK Government's Technology Strategy Board) and Europe (with Iberdrola and the European Union).

OPT is widely recognized as a leading developer of both grid-connected and off-grid wave-energy systems, benefiting from 15 years of in-ocean experience. OPT's PowerBuoy® technology produces predictable grid connectible power, has a high capacity factor, is robust, environmentally benign, and at volume production will compete economically with other renewable energy sources and fossil fuel. Modular design means OPT wave farms are scalable and the small footprint allows for flexibility in location. Applications of the off-grid or autonomous PowerBuoy have demonstrated that the PowerBuoy

can also be used for communications, maritime surveillance and deep water applications in remote locations.

Victorian Wave Partners (VWP) is a Special Purpose Entity created by Leighton Contractors and OPT Australasia to develop and operate a 19MW demonstration wave energy project to be built in three phases off the coast of Victoria near the city of Portland.

The capital cost for the 19MW demonstration wave energy project is currently estimated to be A\$221.55 million and VWP has been awarded A\$66.46 million grant from the Federal Government of Australia in support of this development. The award is one of 4 renewable energy projects approved by the Federal Government after considering over 40 applications, and is the sole wave energy awardee.

VWP is seeking funding for the balance of the project expenditure from various sources including:

- Grants from the Victorian State government
- Project financing (including debt and equity)

CEFC Proposal

OPTA welcomes and applauds the Australian Government's initiative to establish the Clean Energy Finance Corporation (CEFC) with the objective of overcoming capital market barriers, which hinder the financing, commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies.

OPTA acknowledges that the CEFC:

- Is not intending to compete directly with the private sector in the provision of financing to these businesses, but act as a catalyst to private investment which is currently not available and thereby contribute to reducing carbon emissions and cleaner energy.
- Will not provide grants and is intended to be commercially oriented and make a positive return on its investments.
- Be able to make investments in businesses and projects in the clean energy sector with the objective of facilitating the flow of funds into the commercialisation and deployment of clean energy technologies.
- May need to form partnerships with other organisations on projects and investments.

CEFC Questions

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

There are additional financial risks associated with renewable technologies, which increase investment uncertainty for the finance industry. The global financial crisis has made it more difficult for renewable energy companies (particularly those at the early stages of development) to source finance, which is impeding development in Australia.

Fundamentally there is an expectation that CEFC can facilitate investment in renewable technologies by ameliorating those risks through reducing or transferring risk by its direct investment and support of the industry.

Whilst the CEFC has stated that it will not provide grants and is intended to be commercially oriented and make a positive return on its investments, it needs to recognise that it needs to position itself such

that its debt-based investments are low interest bearing, otherwise it will not be effective. Also, for any equity-based investments by the CEFC, the Internal Rate of Return targets should be modest.

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

There needs to be a number of key principles beyond financial viability to prioritise investment opportunities through a gating and assessment process including:

- Safety of the operation of the technology
- Low impact on the environment – flora, fauna, community, visual, footprint, etc.
- Robustness of the technology – experience in the ocean (for wave energy projects), development stage, technology leader, etc.
- Personnel skill and experience level
- Ability to deliver the project
- Risk management
- Strategic partnerships that can reduce project risk
- A technology which will be a major producer of manufacturing jobs in Australia
- An assessment of the impact on carbon emissions – or the potential diffusion of the technology

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

There are many opportunities to partner with other organisations as evidenced by OPT with its strategy to align itself with world class companies that complement OPT's expertise in its development of wave energy technology.

The CEFC should consider partnerships with:

- Technology providers such as OPT Australasia
- Joint ventures such VWP where actual advanced demonstration energy projects are planned within Australia
- Manufacturing companies that need to re-equip or expand to meet the demands of the technology
- Private sector funding institutions with renewable energy funds

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

The flow of funds from financial institutions will only eventuate if the CEFC is seen to actively support and invest in renewable energy such that the risk is allocated over a number of investors, including the CEFC.

Initiatives may include:

- Loan guarantees to reduce the cost of capital to build a project
- Participating in equity raisings
- Insuring the interest component of project-specific bonds.
- Funding or insuring performance guarantees

Renewable energy assets will have to be funded with a wide range of debt and equity capital accessed through a wide range of structures, from grants, renewable energy funds to joint ventures.

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?

Renewable energy as a sector must access more capital than ever before, at a time when investment needs for other mining and energy infrastructure are booming, and just as funding capacity from banks, corporates and capital markets is the lowest it has been in the past decade.

Issues encountered by clean energy technology developers include requirements for performance guarantees, cost of capital which reflects high perceived technology risk, and short-term Government support programs whose continuation cannot be relied upon during the life of a demonstration project.

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

The non-financial factors inhibiting the wave energy projects include:

- New technology not understood, and conservative approach to innovation
- Political will is tempered by employment and energy security concerns
- Legacy energy policies and regulation that favour fossil fuels
- Entrenched existing supply chains and commercial arrangements
- Lack of economies of scale
- Administrative and regulatory constraints, and fragmented policy – eg funding from one government department and opposition/disinterest from another

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

Please see the special factors outlined in the response to the above question.

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

The predominantly commercial approach (tempered by the unique circumstances of the developing renewable energy industry) proposed by CEFC should ensure there is little overlap with existing programs. It would be expected that if a government-supported project meets CEFC guidelines there should be no impediment to accessing CEFC programs.

We trust the foregoing submission provides an understanding of the issues facing the renewable energy industry from the perspective of OPTA and VWP and would welcome the opportunity to make representation on a personal level should the opportunity arise.

Yours faithfully,

Gilbert George
Director OPTA