



Clean Energy Finance Corporation Investment Mandate Direction 2016

We, GREG HUNT, Minister for the Environment, and MATHIAS HUBERT PAUL CORMANN, Minister for Finance, give this direction under subsection 64(1) of the *Clean Energy Finance Corporation Act 2012*.

Dated 5 May 2016

GREG HUNT
Minister for the Environment

MATHIAS HUBERT PAUL CORMANN
Minister for Finance

Part 1 Preliminary

1. Name of Direction

This direction is the *Clean Energy Finance Corporation Investment Mandate Direction 2016*.

2. Commencement

This direction commences on the day after it is registered.

Note: Section 42 of the *Legislation Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act and section 9 of the *Legislation (Exemptions and Other Matters) Regulation 2015*. Part 6 of that Act (which deals with the sunset of legislative instruments) does not apply to this instrument: see section 54 of that Act and section 11 of the *Legislation (Exemptions and Other Matters) Regulation 2015*.

3. Authority

This direction is made under subsection 64(1) of the *Clean Energy Finance Corporation Act 2012*.

4. Definitions

In this direction:

Act means the *Clean Energy Finance Corporation Act 2012*.

ARENA, Board, clean energy technologies, Corporation, investment function and *responsible Ministers* have the same meaning as in the Act.

Clean Energy Finance Corporation Special Account means the account established by section 45 of the Act.

Clean Energy Innovation Fund means the Clean Energy Innovation Fund referred to in subsection 14(1).

5. Purpose of this direction

The purpose of this direction is to give guidance to the Board in relation to the performance of the Corporation's investment function. The Corporation is required under section 58 of the Act to invest in clean energy technologies subject to its other obligations under the Act and any directions given by the responsible Ministers under subsection 64(1) of the Act.

Part 2 Direction

6. Introduction

The Corporation is a mechanism to help mobilise investment in renewable energy, low-emissions and energy efficiency projects and technologies in Australia, as well as manufacturing businesses and services that produce the required inputs. The Corporation will invest at the demonstration, commercialisation and deployment stages of innovation. The Corporation has been established to finance Australia's clean energy sector using financial products and structures to address the barriers inhibiting investment.

The intention of the Corporation is to apply commercial rigour when making its investment decisions. The Corporation will have regard to its potential effect on other market participants when considering investment proposals. In line with its policy intent, the Corporation should have regard to positive externalities and public policy outcomes when making investment decisions and when determining the extent of any concessionality for an investment.

7. Portfolio Benchmark Return

This direction includes two benchmark return rates. In relation to all investments other than those made under subsection 14(1), the Board is to target an average return of the five-year Australian Government bond rate + 3 to +4 per cent per annum over the medium to long term as the benchmark return of the portfolio. Performance against this benchmark will be measured before operating expenses.

For the benchmark return for the Clean Energy Innovation Fund, refer to subsection 14(1).

8. Portfolio Risk

In targeting the portfolio benchmark return and operating with a commercial approach, the Corporation must, for all investments other than those made under subsection 14(1), seek to develop a portfolio across the spectrum of clean energy technologies that in aggregate has an acceptable but not excessive level of risk, having regard to the terms of the Act and the focus on particular areas identified in section 13 below.

Within six months of the date of this direction the Board should agree a suitable investment risk evaluation process to assess the risk, and should advise the responsible Ministers of the process chosen.

The Board is to periodically review its investment practices for the purposes of managing the risk of the portfolio over time and must advise the responsible Ministers of specific measures taken in this regard.

For a direction on risk in relation to the Clean Energy Innovation Fund, refer to subsection 14(1).

9. Limits on Concessionality

The Corporation must limit the amount of concessionality it provides in any one financial year to \$300 million.

Concessionality reflects the mark-to-market valuation of loans made that financial year and should be measured as the difference between the present value of each loan at market rates and the present value of each loan at the given concessional rate.

10. Limits on Guarantees

Guarantees pose a particular risk to the Commonwealth's balance sheet and, as such, restrictions on their use are appropriate and the Corporation should seek to avoid their use where possible. The Corporation must ensure that all guarantees are limited and quantifiable.

At no time may the total potential liability under outstanding guarantees exceed the amount of the uncommitted balance of the Clean Energy Finance Corporation Special Account. The Corporation must also ensure the total value of guarantees at any time does not exceed 5 per cent of the total amount that has been credited to the Clean Energy Finance Corporation Special Account under section 46 of the Act.

11. Application of Australian Industry Participation Plans

Australian Industry Participation (AIP) Plans must apply to projects that the Corporation invests in, in accordance with the Government's AIP Plan policy.

12. Corporation must consider impacts from its investment strategy

In undertaking its investment activities, the Corporation must consider the potential effect on other market participants and the efficient operation of the Australian financial and energy markets.

The Corporation must not act in a way that is likely to cause damage to the Australian Government's reputation.

13. Focus areas for the Corporation's activities

In relation to all investments other than those made under subsection 14(1), the Corporation must include a focus on supporting emerging and innovative renewable energy technologies and energy efficiency technologies, such as large scale solar, storage associated with large and small-scale solar, offshore wind technologies, and energy efficiency technologies for the built environment.

This direction does not require the Corporation to divest investments that were in place prior to the commencement of this direction.

14. Other directions

(1) Clean Energy Innovation Fund:

The Corporation shall make available up to \$100 million a year, from 2016-17 to 2025-26, for debt and equity investment in emerging clean energy technology projects and businesses that involve technologies that have passed beyond the research and

development stages but are not yet established or of sufficient maturity, size or otherwise commercially ready to attract sufficient private sector investment.

In considering investment proposals under the Clean Energy Innovation Fund, the Corporation shall consider and take into account the advice of ARENA as to:

- a) whether the proposal is recommended for support under the Fund;
- b) the technical and commercial feasibility of the project technology; and
- c) the competitive environment of businesses seeking to deploy the technology.

In relation to investments made for the purposes of the Clean Energy Innovation Fund, the Board is to target an average return of at least the five-year Australian Government bond rate +1 per cent per annum over the medium to long term as the benchmark return of the Clean Energy Innovation Fund. Performance against this benchmark will be measured before operating expenses.

In targeting the benchmark return for the Clean Energy Innovation Fund and operating with a commercial approach, the Corporation must seek to develop a portfolio that in aggregate has an acceptable but not excessive level of risk, having regard to the terms of the Act and the focus on particular areas identified in this subsection.

The level of risk deemed acceptable by the Corporation may be higher for the Clean Energy Innovation Fund than for the Clean Energy Finance Corporation portfolio. This would reflect the differences in the types of investments being made for the purposes of the Clean Energy Innovation Fund.

Within six months of the date of this direction the Board should, in consultation with ARENA, agree a suitable investment risk evaluation process to assess the Clean Energy Innovation Fund risk, and should advise the responsible Ministers of the process chosen.

The Board, in consultation with ARENA, is to periodically review its investment practices for the purposes of managing the risk of the Clean Energy Innovation Fund portfolio over time and must advise the responsible Ministers of specific measures taken in this regard.

- (2) The direction in subsection (1) does not require the Corporation to divest investments that were in place prior to the commencement of those directions.

15. Corporate Governance

In performing its investment function, the Corporation must have regard to Australian best practice in determining its approach to corporate governance principles.

The Corporation must develop policies with regard to environmental, social and governance issues.

16. Repeal of Previous Direction

The *Clean Energy Finance Corporation Investment Mandate Direction 2015 (No.2)* made on 3 December 2015 is repealed.