

## **EXPLANATORY STATEMENT**

Issued by authority of the Minister for Climate Change and Energy and the Minister for Finance

*Clean Energy Finance Corporation Act 2012*

*Clean Energy Finance Corporation Investment Mandate Direction 2023*

Under the *Clean Energy Finance Corporation Act 2012* (the Act), the role of the Clean Energy Finance Corporation (the Corporation) is to facilitate increased flows of finance into the clean energy sector and to facilitate the achievement of Australia’s greenhouse gas emissions reduction targets. The Corporation performs this role through making investments that attract private sector finance. The Corporation works with strategic co-financing partners to catalyse flows of money to support projects that help to reduce Australia’s greenhouse gas emissions.

Under the Act, the Board of the Corporation (the Board) is responsible for ensuring the proper, efficient and effective performance of the Corporation. This responsibility is subject to any restrictions placed on the Corporation by the Act. In addition, the responsible Ministers for the purposes of the Act may issue one or more directions to the Board under subsection 64(1) of the Act. Directions issued in this manner are known collectively as the Corporation’s “Investment Mandate”.

The Board makes individual investment decisions independently of the Government. The purpose of the Investment Mandate is to provide a mechanism for the Government to articulate its broad expectations of how the Corporation invests and is managed by the Board.

The *Clean Energy Finance Corporation Investment Mandate Direction 2023* (the 2023 Mandate) repeals and replaces the *Clean Energy Finance Corporation Investment Mandate 2020*. The 2023 Mandate reflects the Government’s resolve to urgently step-up action to tackle climate change by implementing new policies across the economy to drive the transformation of our energy systems to net zero. Further, it supports the new commitments Australia has made in its Nationally Determined Contribution under Article 4 of the Paris Agreement to achieve net zero emissions by 2050<sup>1</sup>. It provides new directions relating to Rewiring the Nation, the Powering Australia Technology Fund and the Household Energy Upgrades Fund as well as a reduction in the target rate of return for the General Portfolio.

The 2023 Mandate also removes directions relating to the Sustainable Cities Investment Program, the Reef Funding Program and the Australian Recycling Investment Fund. The Board will still be able to support projects that contribute to the policy objectives of these funds but will be able to do so in a more efficient manner via the General Portfolio.

Details of the 2023 Mandate are outlined in Attachment A.

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<sup>1</sup> <https://unfccc.int/NDCREG>

Pursuant to section 66 of the Act, the responsible Ministers consulted the Board during the preparation of the 2023 Mandate. The Board's response, which the Ministers subsequently considered, is tabled and publicly available.

The following additional statutory pre-conditions have been met in relation to the 2023 Mandate:

- The responsible Ministers considered the object of the Act, and any other matters they considered relevant, in preparing the 2023 Mandate<sup>2</sup>.
- The 2023 Mandate is consistent with the Act and does not directly or indirectly require the Board to make (or not to make) a particular investment<sup>3</sup>.

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<sup>2</sup> See subsection 64(2) of the Act.

<sup>3</sup> See section 65 of the Act.

**Details of the 2023 Mandate**

**Part 1 – Preliminary**

Section 1 – Name of Direction

Section 1 provides that the name of the 2023 Mandate is the *Clean Energy Finance Corporation Investment Mandate Direction 2023*.

Section 2 – Commencement

Section 2 provides that the 2023 Mandate commences the day after it is registered on the Federal Register of Legislation.

A note to section 2 clarifies that the 2023 Mandate is exempt from Parliamentary disallowance and will not automatically expire (or “sunset”) at the completion of a prescribed period of time.

*Exemption from Disallowance*

As written directions from the responsible Ministers to a body (the Board), investment mandates are exempt from disallowance under item 2 of the table at section 9 of the *Legislation (Exemptions and Other Matters) Regulation 2015*, which provides that ‘an instrument that is a direction by a Minister to any person or body’ is a class of instruments that is not subject to disallowance.

The Act provides an appropriate level of parliamentary and public scrutiny by requiring the responsible Ministers to consult the Board before issuing an investment mandate, with any submission to be considered by the responsible Ministers and tabled in both houses of the Parliament (section 66 of the Act refers). This requirement ensures that the Parliament is informed of any matters raised by the Board with respect to proposed investment mandates. The investment mandate will be published on the Federal Register of Legislation, along with any submission on the draft investment mandate by the Board. Additional avenues for Parliamentary scrutiny include Senate Estimates and the Corporation’s PGPA Act reporting and annual report requirements (see sections 73 and 74 of the Act).

*Exemption from Sunsetting*

As per section 54 of the *Legislation Act 2003* and section 11 of the *Legislation (Exemptions and Other Matters) Regulation 2015*, the investment mandate is not subject to sunsetting as it is a ministerial direction to a person or body (the Board).

While the Government may need to update the investment mandate from time to time (for example, in response to urgent or unforeseen events, or to reflect evolving investment or policy considerations), an investment mandate is generally issued with

the expectation that it will be in place over the medium to longer term. Exemption from sunseting provides for an ongoing investment mandate until such a time that the Government considers it necessary to amend the investment mandate or issue a new investment mandate. Additionally, the investment mandate may comprise multiple different directions issued at different times. The exemption from sunseting ensures that the directions remain coherent, regardless of when specific directions were issued.

### Section 3 – Authority

Section 3 provides that the 2023 Mandate is made under subsection 64(1) of the Act.

### Section 4 – Definitions

Section 4 sets out definitions for terms used in the 2023 Mandate. A note to section 4 confirms that other terms bear the meanings found in the Act.

## **Part 2 – Direction**

### Section 5 – Purpose

Section 5 provides guidance to the Board in relation to the performance of the Corporation’s investment function, as established in section 58 of the Act and shaped elsewhere in the Act.

It tasks the Board to deliver on the object of the Act through:

- (a) the Rewiring the Nation Fund; and
- (b) Specialised Investment Funds (the Advancing Hydrogen Fund, Clean Energy Innovation Fund, Powering Australia Technology Fund and Household Energy Upgrades Fund); and
- (c) General Portfolio investments.

Effective 14 September 2022, the CEFC’s objects were amended to include “and to facilitate the achievement of Australia’s greenhouse gas emissions reduction targets” following passage of the *Climate Change Act 2022* and the *Climate Change (Consequential Amendments) Act 2022*.

The Corporation’s investments will contribute to Australia’s greenhouse gas emissions reduction targets as set out in Australia’s Nationally Determined Contributions communicated in accordance with Article 4 of the Paris Agreement – which currently targets the cutting of emissions by 43 per cent by 2030 (compared with 2005) and reaching net zero by 2050.

The Corporation will also contribute to the target of achieving 82 per cent renewable electricity in Australia’s electricity grids by 2030.

The Rewiring the Nation Fund will facilitate the acceleration and delivery of critical transmission (and other) infrastructure that supports the energy transformation across Australia. These investments will support the connection of more renewable energy

generation to the grid and employment opportunities, particularly in regional Australia.

### Section 6 – Investment factors – General

Section 6 sets out investment factors that the Board must consider.

For the General Portfolio, it is expected the Board will apply commercial rigour when making its investment decisions. By adopting a commercial approach, it is expected that the Board will invest responsibly and manage risk so it is financially self-sufficient and target achievement of the benchmark return for the General Portfolio (set out in section 7).

As a Government entity and a responsible investor, the Board has a duty to consider its potential impact on other market participants when making investment decisions. In line with its public policy intent, the Board should also consider positive externalities when making any investment decisions.

Specific investment factors for each of the Sub Funds are set out in sections 15 and 16.

### Section 7 – Benchmark rate of return – General Portfolio

Section 7 sets out the benchmark rate of return the Board must target for the General Portfolio. Specific targets for each of the Sub Funds are set out in sections 15 and 16.

The rate of return target is an average return of the 5-year Australian Government bond rate<sup>4</sup> +2 per cent to +3 per cent per annum over the medium to long term<sup>5</sup>.

For each investment subject to this target, an individual reference rate will first be calculated using the 5-year Australian Government bond rate applicable at the time, then adding 2 per cent to 3 per cent per annum. The benchmark return will then be determined by taking the series of individual reference rates for each investment and weighting them for each individual investment.

Performance against the target will be measured before operating expenses and concession charges and will be published in the Corporation's annual report. The Corporation will follow the Australian Accounting Standards<sup>6</sup>, where applicable, in measuring its return and determining any impairment, except in the case of concessional loans and equity investments, where the measurement should exclude any impairment or mark-to-market adjustments resulting from any concessional component.

The investment mandate has been updated to provide more detail on the treatment of the concessional component of investments when measuring performance against the

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<sup>4</sup> The 5-year Australian Government bond rate is the average bond rate as published by the Reserve Bank of Australia for the 15-day period immediately preceding the date a binding investment agreement is executed.

<sup>5</sup> <https://www.australiangovernmentbonds.gov.au/>

<sup>6</sup> <https://www.aasb.gov.au/pronouncements/accounting-standards/>

benchmark. The updated wording, which reflects the existing approach taken by the Corporation, was included to provide more explicit and clear guidance in the investment mandate. This new wording also appears in the benchmark rate of return sections for Rewiring the Nation (section 15) and the Specialist Investment Funds (section 16).

The target is expected to be earned across the General Portfolio over the medium to long term. Individual investments could be made with expected individual returns above or below the target benchmark return.

The benchmark rate of return for the General Portfolio has been reduced relative to the previous Investment Mandate, from an average return of 3 per cent to 4 per cent above the 5-year Australian Government bond rate per annum, to an average of 2 per cent to 3 per cent above the 5-year Australian Government bond rate per annum, over the medium to long term. This change is being made to enhance the ability of the Corporation to achieve its overall public policy objectives for the General Portfolio, on behalf of the Government and the Australian taxpayer.

A reduced rate of return is consistent with the Corporation's expanded object. *The Climate Change (Consequential Amendments) Act 2022* expanded the object in section 3 of the Act to facilitate the achievement of Australia's greenhouse gas emissions reduction targets. This requires the Corporation to consider an additional public policy factor when making investments, which may further limit the range of investments available to the Corporation. A reduced rate of return setting will help the Corporation to invest in alignment with its expanded object. The previous rate was set in 2016 and was not considered to be achievable in the context of the overall policy objectives of the Corporation.

The Government will undertake a review of the Corporation's General Portfolio benchmark rate of return within three years.

Proponents should not expect to be able to access the Corporation's funds at the target benchmark return rate. The Board shall apply commercial rigour in assessing all General Portfolio investments. The actual return the Board seeks for any given investment will be a risk-adjusted return reflecting the individual characteristics of specific projects, the need to cover the operating expenses of the Corporation, the requirement to target the benchmark return on a portfolio basis and other relevant factors.

The Government is conscious of the risks inherent in investing in a large portfolio of financial assets. It acknowledges that in practice this will involve some short-term volatility in the Corporation's returns, including the possibility of losses in some years and that the probability of losses will be higher for the Rewiring the Nation Fund and the Specialist Investment Funds, as compared to the General Portfolio, in accordance with their specific risk settings (as described in sections 15 and 16, respectively).

The Government is committed to developing the clean energy sector over the long-term and the 2023 Mandate therefore maintains medium to long-term portfolio performance measures for the Corporation.

## Section 8 – General Portfolio risk

Section 8 provides that in targeting the benchmark return referred to in section 7, the overall level of risk of the General Portfolio must be acceptable but not excessive, having regard to the terms of the Act and the focus on areas identified in section 14 of the 2023 Mandate.

The section also provides that the Board must review its risk management practices for the General portfolio periodically, to ensure risk management is actively monitored, and keep the responsible Ministers appropriately informed.

## Section 9 – Limits on concessionality

Section 9 sets out limits on concessionality for all investments other than Rewiring the Nation Fund and Household Energy Upgrades Fund investments. Directions on concessionality for Rewiring the Nation Fund and Household Energy Upgrades Fund investments are set out in sections 15 and 16.

To ensure that the Board can facilitate the flow of finance, it is empowered to use a wide range of investment tools. This includes providing concessional loans where necessary. A concessional loan is a loan provided on more favourable terms than the borrower could obtain in the marketplace. Since concessional loans have a negative impact on the fiscal balance, the Board is limited to providing \$300 million of concessionality in any one financial year, except in relation to Rewiring the Nation Fund and Household Energy Upgrades Fund investments.

Concessions may be provided in various forms but will typically take the form of lower-than-market interest rates, longer loan maturity or additional/longer or more flexible grace periods before the payment of the principal and/or interest is due. Concessionality should be measured as the difference between the present value of a loan provided at the concessional rate and the present value of a loan provided at the appropriate market rate.

The market rate is the prevailing rate of interest the borrowing entity would be subject to in the market for a similar instrument (in terms of currency, term, type of interest rate and other factors) with a similar credit rating. Where the terms are not currently available, an estimation of the likely cost will need to be made. A standard bank lending rate would need to be adjusted to take into consideration the risks associated with the borrower.

As the Corporation will provide loans where there may not be an explicit market rate, this will be a matter of judgement for the Board. The Board is expected to maintain a robust system that is used to determine the appropriate rate, including looking at loans for similar instruments in terms of tenor and risk.

The Department of Finance's *Resource Management Guide No. 115: Accounting for concessional loans*<sup>7</sup> provides further information on calculating the amount of concessionality as well as worked examples.

### Section 10 – Limits on guarantees

Section 10 sets out limits on the use of guarantees.

Guarantees are arrangements to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Under the Australian Government reporting framework, guarantees are to be accounted for in accordance with the Australian Accounting Standards<sup>8</sup>.

Guarantees pose a particular risk to the Commonwealth's balance sheet and can have unexpected consequences when called. As such, the Board should avoid their use wherever possible, except in relation to Rewiring the Nation.

There are no limits on guarantees for projects under the Rewiring the Nation Fund (other than a requirement under paragraph 10(b) to ensure each such guarantee is limited and quantifiable and as specified in section 69 of the Act).

Where guarantees are to be used, the 2023 Mandate requires them to be limited in nature and quantifiable. Section 69 of the Act requires that the value of the Corporation's outstanding guarantees must not exceed the uncommitted balance of the Corporation's special account<sup>9</sup> (the Account). The 2023 Mandate additionally ensures that the value of guarantees (other than guarantees in relation to the Rewiring the Nation Fund) at any time does not exceed 5 per cent of the total amount credited to the Account under section 46 of the Act for purposes other than the Rewiring the Nation Fund.

### Section 11 – Application of policies to support Australian industry

Section 11 provides that the Corporation must accord with the Government's Australian Industry Participation (AIP) Plan Policy.

The Corporation provides significant support to projects in Australia. The application of AIP Plans to investments made by the Corporation recognises the importance of developing Australia's sovereign capacity to deploy clean energy technologies and supports resilient clean energy supply chains. The policy is aimed at increasing opportunities for capable and competitive Australian small and medium sized enterprises to participate in major projects.

An AIP Plan details how a project proponent will provide full, fair and reasonable opportunity to Australian industry to participate in a project. This applies to any subcontracting or purchasing opportunities that may be available. AIP Plans do not

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<sup>7</sup> Available at <https://www.finance.gov.au/sites/default/files/2020-02/RMG%20115-accounting-for-concessional-loans.pdf>

<sup>8</sup> <https://www.aasb.gov.au/pronouncements/accounting-standards/>

<sup>9</sup> As established by section 45 of the Act.



mandate the use of Australian industry, but rather aim to provide Australian industry with the opportunity to demonstrate their capabilities and capacity.

Further details on AIP Plans are available at <https://www.industry.gov.au/regulation-and-standards/australian-industry-participation>.

The government expects the Corporation to consult with the Department of Finance in relation to the application of the Buy Australian Plan. It is expected that the Corporation will consult on relevant investment policies or strategies, rather than specific decisions or issues in relation to particular investments.

The Buy Australian Plan aims to improve the way government contracts works and build domestic industry capability. Further details on the Buy Australian Plan are available at <https://www.finance.gov.au/business/buyaustralianplan>.

In addition to these specific considerations, the Corporation is also directed to encourage the increased use of local content in the deployment of clean energy technologies. This is intended to maximise the jobs opportunities from clean energy investment and support social licence for the net zero economic transformation.

#### Section 12 – Medium to long term outlook for its investment strategy

Section 12 sets out the Government’s expectation that the Board will take a medium to long term outlook when setting the Corporation’s investment strategy. This will help align the investment strategy with Australia’s medium and long term climate change targets and energy market transformation plans.

#### Section 13 – Board must not damage the Australian Government’s reputation

Section 13 provides that, as a statutory authority operated by the Commonwealth, the Board has a responsibility to act in a way that is not likely to cause damage to the Australian Government’s reputation.

#### Section 14 – Focus areas for the Corporation’s activities

Section 14 strongly encourages the Board to prioritise investments that:

- unlock greater penetration of renewable energy and accelerate decarbonisation of Australia’s electricity grid, to support Australia’s greenhouse gas emissions reduction targets, while considering the reliability and security of electricity supply;
- support the deployment of clean energy technologies in Australian industry;
- support the development of clean energy manufacturing and processing capabilities in Australia;
- support technologies and projects to assist Safeguard Mechanism facilities to reduce their emissions, consistent with Australia’s national trajectory to net zero and while supporting their international competitiveness;

- support greater uptake of clean energy technology measures in existing residential dwellings.

These investment priorities are consistent with the substantial and rigorous suite of new policies announced by the Government to reduce emissions through the Powering Australia<sup>10</sup> agenda. This includes support for technologies and projects which alleviate renewable energy supply chain pressures, address vulnerabilities in national capabilities, develop sovereign capacity, and support recycling and resource recovery.

The focus areas for the Corporation's activities outlined in this section will work to deliver on the Government's greenhouse gas emissions reduction commitments made as a part of Australia's recently updated Nationally Determined Contribution under Article 4 of the Paris Agreement to achieve net zero emissions by 2050<sup>11</sup>.

Additionally, section 14 directs the Board to seek out investments that support the Government's Reef 2050 Long-Term Sustainability Plan<sup>12</sup> and the National Waste Policy Action Plan 2019<sup>13</sup>.

### Section 15 – Rewiring the Nation Fund

Section 15 provides direction and investment settings for the Rewiring the Nation Fund. It establishes the Corporation as the main financing arm of the Government's Rewiring the Nation commitment. The fund will invest in projects consistent with the broader Rewiring the Nation objectives.

Rewiring the Nation is a commitment of \$20 billion in low-cost finance to rebuild, modernise and strengthen Australia's electricity grids.

Section 15 requires the Board to make available, for Rewiring the Nation Fund purposes, \$19 billion. This reflects the amounts provided to the Corporation for the purposes of the Rewiring the Nation Fund (including the amount agreed in the *Treasury Laws Amendment (2022 Measures No.4) Act 2022*).

Rewiring the Nation will invest in projects that support grid transformation, such as projects listed in the Australian Energy Market Operator's Integrated System Plan (ISP)<sup>14</sup> and in consultation with state and territory government's network planning agencies. This investment will facilitate the connection of additional renewable energy generation and storage nationwide.

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<sup>10</sup> <https://www.energy.gov.au/government-priorities/australias-energy-strategies-and-frameworks/powering-australia>

<sup>11</sup> <https://unfccc.int/NDCREG>

<sup>12</sup> <https://www.dceew.gov.au/parks-heritage/great-barrier-reef/protecting/reef-2050-plan>

<sup>13</sup> <https://www.dceew.gov.au/environment/protection/waste/publications/national-waste-policy-action-plan>

<sup>14</sup> <https://aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2022-integrated-system-plan-isp>

Investments are expected to include debt, equity or hybrids to ensure delivery of projects needed to support the electricity transformation in the long-term interests of electricity consumers consistent with the National Electricity Objective<sup>15</sup>.

Transmission is critical to the energy transformation. Rewiring the Nation's investments in transmission are expected to lower the cost of new transmission projects and accelerate their delivery, reducing the risks and associated costs of delay to consumers and the economy. The investments will enable more renewables and more storage to be connected to the grid, facilitating Australia's achievement of Australia's emissions reduction targets.

Rewiring the Nation will be implemented through a partnership between the Corporation and the Rewiring the Nation Office (RTNO) in the Department of Climate Change, Energy, the Environment and Water. A Rewiring the Nation Advisory Committee has been established through which the Board may seek and consider the advice of the RTNO, the Australian Energy Market Operator and/or the Australian Energy Infrastructure Commissioner in respect of the Corporation's activities relevant to the Rewiring the Nation Fund.

Construction of actionable ISP projects, as well as projects that are capable of modernising Australia's grid and that aid in the energy transformation, will encourage Australian workers to build in-demand skills, create regional jobs and support regional communities and businesses, help reduce costs of manufacturing, and support economic growth. This will position Australia to become a renewable energy superpower. The Commonwealth is committed, through the RTNO, to engaging with the regional and rural communities that will be most affected by the proposed changes, to support the social licence for any ongoing development of electricity infrastructure.

### *Rate of Return*

The Board is to target a rate of return sufficient to at least cover the Corporation's costs of the Rewiring the Nation functions over the medium to long term. This setting supports the policy objectives of Rewiring the Nation and allows the Board flexibility in negotiations. This setting will enable the Corporation to pursue the most advantageous commercial outcome achievable on behalf of the Government and the Australian taxpayer, in the context of the objectives of the Rewiring the Nation commitment.

The Corporation will follow the Australian Accounting Standards, where applicable, in measuring its return, except in the case of concessional loans and equity investments, where the measurement of the corporation's return should exclude any impairment or mark-to-market adjustments resulting from any concessional component.

### *Risk*

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<sup>15</sup> <https://www.aemc.gov.au/regulation/neo>

In targeting the benchmark return for Rewiring the Nation Fund, the Board must seek to develop a portfolio that has an acceptable level of risk, having regard to the terms of the Act and the policy objectives of Rewiring the Nation.

Rewiring the Nation Fund investments may increase the Corporation's overall exposure to risk as the scale, concentration and nature of these investments may have a higher risk profile. The portfolio risk for Rewiring the Nation reflects the scale and criticality of delivery of these projects, the intent to provide benefits to consumers, and connection of renewables to the network. The level of risk (including, without limitation, concentration risks and regulatory risks) deemed acceptable by the Board may be higher for the Rewiring the Nation Fund than for the General Portfolio and the Specialised Investment Funds for these reasons.

The Board must periodically review its investment risk management practices for Rewiring the Nation Fund and must advise the responsible Ministers of specific measures taken in this regard.

### *Concessionality*

The Board is not limited in the amount of concessional financing it may deploy for the purposes of Rewiring the Nation. The Board will apply concessionality appropriately in line with its risk and return settings for the Rewiring the Nation Fund. This concessionality setting is critical to enable the Corporation to deliver on the policy objectives of Rewiring the Nation and enable grid upgrades to be delivered at least cost to consumers.

### Section 16 – Specialised Investment Funds

Section 16 provides direction and investment settings for the Specialised Investment Funds: the Clean Energy Innovation Fund, Advancing Hydrogen Fund, Powering Australia Technology Fund and Household Energy Upgrades Fund.

#### (1) Clean Energy Innovation Fund

The Board shall make available up to \$200 million for investments in projects and businesses that:

- have 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 enough private sector capital.

Funding under the Clean Energy Innovation Fund (CEIF) should be targeted at projects and businesses that are not sufficiently mature, large or otherwise commercially ready to secure funding through the Corporation's General Portfolio.

The Board will work with the Australian Renewable Energy Agency (ARENA) in delivering the CEIF; in particular, ARENA will provide advice on the technical and commercial feasibility of prospective projects and technologies and the competitive environment of businesses seeking to deploy the relevant technology. The Board will

take this advice and ARENA's overall recommendation on whether to fund a proposal into account when making a CEIF investment decision. Examples may include technologies that support large-scale solar with storage, offshore energy, biofuels and smart grids.

## (2) Advancing Hydrogen Fund

The Board shall make available up to \$300 million in concessional finance to support the growth of a clean, innovative, safe and competitive Australian hydrogen industry.

The Advancing Hydrogen Fund (AHF) is intended to align with the objectives of Australia's National Hydrogen Strategy<sup>16</sup>.

The AHF will focus on projects where there is State or Territory Government financial support or policy alignment with the National Hydrogen Strategy.

The types of projects to be prioritised under the AHF include those that support the National Hydrogen Strategy and focus on:

- (a) advancing hydrogen production projects (for example: hydrogen and hydrogen carrier production facilities);
- (b) developing export and domestic hydrogen supply chains, including hydrogen export industry infrastructure (for example: liquefaction infrastructure to support export);
- (c) establishing hydrogen hubs (for example: integrating hydrogen production and end user sectors in a locality); and
- (d) other projects that assist in building domestic demand for hydrogen (for example: enabling hydrogen to be used for industrial feedstocks and heating, blending hydrogen into gas networks, and using hydrogen for long-distance or heavy-duty transport).

The Board must take into account the advice of the Department of Climate Change, Energy, the Environment and Water on policy alignment to the National Hydrogen Strategy and in regard to the above investment factors.

## (3) Powering Australia Technology Fund

Subsection 16(3) provides direction for the Powering Australia Technology Fund (PATF).

The PATF will be a \$500 million sub-fund for early stage and expansion capital investments, to support the growth or expansion of clean technology projects, businesses and/or entities (of any form including, without limitation, companies and funds) to facilitate the development, commercialisation or take up of clean energy technologies.

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<sup>16</sup> <https://www.dcceew.gov.au/energy/publications/australias-national-hydrogen-strategy>

The PATF is designed to fill a gap in the Australian market for clean energy, technology-focussed entities which are considered higher risk to finance. Growth capital can help expand the ability of these businesses and entities to scale up and assist commercialisation of the technologies.

The Board must aim to leverage at least the equivalent amount of the funds provided for the purposes of PATF (ie \$500 million) from the private sector.

#### (4) Household Energy Upgrades Fund

Subsection 16(4) provides direction for the Household Energy Upgrades Fund (HEUF).

The direction requires the Board to make available up to \$1 billion of funding for concessional finance to support loans to incentivise the uptake of clean energy technology measures (which may include but are not limited to: modern energy efficient appliances; better insulation and draft sealing; and/or battery-ready solar PV) for existing residential dwellings and knock down rebuild projects that exceed national construction code requirements, prioritising those in lower categories of energy performance.

The HEUF is designed to support Australian financial institutions to establish credible green consumer loan programs. These programs will be informed by government and industry bodies in relation to technologies that deliver significant long term energy improvement, sustainable finance frameworks and set up in such a way that the outcomes will be able to be eventually funded in the green capital markets. The HEUF will help establish minimum standards, using new and existing tools and government policies, for Australia's green consumer loans for retrofits with respect to technical specifications, impact reporting and data collection.

The HEUF aims to encourage the building sector and related supply chains to gradually build to deliver upgrades at scale due to a lift in retrofits, appliance sales and construction activity.

By working to develop and embed new market standards HEUF aims to support wholesale investors in Australia's green consumer loan debt issuances.

The Board must aim to leverage at least the equivalent amount of the funds provided for the purposes of HEUF from the private sector.

The Board, in relation to all investments made for the purposes of HEUF, may deploy the amount of concessionality it deems required in order to achieve the Government's objectives and to provide concessional loans to incentivise uptake of clean energy technology measures for residential dwellings. The Board will only apply concessionality in line with its risk and return settings and to optimise impact in line with the Government objectives for the HEUF. This concessionality setting is critical to enable the Corporation to deliver on the policy objectives of HEUF.

The Government expects the Corporation to collaborate with the Department of Climate Change, Energy, the Environment and Water in relation to the design and development of the HEUF.

The section also clarifies that investments under the HEUF are to commence from a date agreed between the Board and the nominated Minister.

### *Specialised Investment Funds – Benchmark rate of return*

In relation to CEIF, AHF and PATF investments, the Board is to target an average return of at least the 5-year bond rate +1 per cent per annum over the medium to long term.

In relation to HEUF investments, the Board is to target an average return of at least the 5-year bond rate +0.5 per cent per annum over the medium to long term.

For each investment in this category, an individual reference rate will first be calculated using the 5-year Australian Government bond rate applicable at the time +1 per cent (for CEIF, AHF and PATF investments) or +0.5 per cent (for HEUF investments) per annum. The benchmark return for relevant investments will then be determined by taking the series of individual reference rates for each investment and weighting them for each individual investment.

Performance against the benchmark return for relevant investments will be measured before operating expenses and concession charges, and will be published in the Corporation's annual report, which is available on the Corporation's website.

The Board will follow the Australian Accounting Standards<sup>17</sup> where applicable in measuring its return and determining any impairment, except in the case of concessional loans and equity investments, where the measurement should exclude any impairment or mark to market adjustments resulting from any concessional component.

The benchmark return is a target expected to be earned across the portfolio of relevant investments over the medium to long term. Individual investments could be made with expected individual returns above or below the benchmark return.

Proponents should not expect to be able to access the Corporation's funding at the benchmark return rate. The Board shall apply commercial rigour in assessing all investments. The actual return the Board seeks for any given investment will be a risk-adjusted return reflecting the individual characteristics of specific projects, the need to cover the operating expenses of the Corporation, the requirement to target the benchmark return, and other relevant factors.

### *Specialised Investment Funds – Risk*

In targeting the benchmark return for the CEIF, AHF PATF and HEUF investments, the Board must seek to develop a relevant portfolio that has an acceptable but not excessive level of risk. The Board must also have regard to the terms of the Act and the focus areas of the Specialised Investment Funds and the associated investments that would otherwise not be ready to attract Corporation support under the General Portfolio. The focus areas prescribed for the CEIF, AHF, PATF and HEUF may increase the Corporation's overall exposure to credit (and other) risks as these technologies may have a higher risk profile than more mature technologies.

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<sup>17</sup> <https://www.aasb.gov.au/pronouncements/accounting-standards/>

The Board must periodically review its investment risk management practices for the CEIF (in consultation with ARENA), AHF, PATF and HEUF and must advise the responsible Ministers of specific measures taken in this regard.

### *Repeal of Funding Programs*

The Government has removed the Sustainable Cities Investment Program, the Reef Funding Program and the Australian Recycling Investment Fund from the 2023 Mandate.

These funds restricted the Corporation to certain investment areas without providing adjusted return or risk requirements, which inhibited the efficient function of the Corporation. Repealing these funds therefore allows the Corporation to better deliver on its objectives and focus areas.

The Board is still able to support projects consistent with the policy objectives of these programs through its General Portfolio. The Board has been directed to continue to seek out investments that support the Government's Reef 2050 Long-Term Sustainability Plan<sup>18</sup> and the National Waste Policy Action Plan 2019<sup>19</sup>.

The establishment and repeal of the above funds does not mean the Board must divest any of its current investments. The Board will consider new elements of this direction in relation to new investments only.

### Section 17 – Sub-Fund Accounting

Section 17 specifies additional provisions for the Sub-Funds in sections 15 and 16. Specifically, subsection 17(1) clarifies that the monetary amounts set for each Sub-Fund do not limit the Corporation's investments in these areas, however additional investments over those amounts do not qualify for modified risk or return settings. Subsection 17(2) allows for investments which were made before the creation of a Sub-Fund to be classified as an investment under the relevant Sub-Fund if it meets the appropriate criteria.

### Section 18 – Reporting Outcomes

Section 18 requires the Corporation to report annually on the non-financial outcomes of all its investments, including those under each Sub-Fund. This would go beyond standard financial and investment return reporting to include measuring and reporting on clean energy outcomes achieved, as well as measuring and reporting of co-benefits achieved and the development of emerging businesses and technologies. This reporting should also include at the program level the disaggregate value of concessions given for each of the General Portfolio and Sub-Funds. The Corporation's annual reports are published on the Corporation's website.

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<sup>18</sup> <https://www.dcceew.gov.au/parks-heritage/great-barrier-reef/long-term-sustainability-plan>

<sup>19</sup> <https://www.dcceew.gov.au/environment/protection/waste/publications/national-waste-policy-action-plan>



## Section 19 – Corporate Governance

Section 19 provides that, in undertaking its investment function, the Board must act consistently with, and establish policies in relation to, Australian best practice corporate governance. In particular, the Government expects the Board's policies to include details of the Corporation's approach to environmental, social and governance issues, and its First Nations investment screening procedures.

These policies should be publicly available on the Corporation's website.

In addition to the directions in section 19, the government is signalling to the Corporation that it will be directed in a future Investment Mandate to consult with the Department of Climate Change, Energy, the Environment, and Water in relation to the implementation of the First Nations Clean Energy Strategy, once finalised.

In August 2022, Australian Energy Ministers across all jurisdictions agreed to work with First Nations Australians to co-design a First Nations Clean Energy Strategy. The Strategy will help ensure First Nations Australians have a greater say in the priorities for the National Energy Transformation Partnership and participate in the design, development and implementation of clean energy policies and programs. The Strategy will also identify priority reforms and areas for future investment to improve support and unlock opportunities for First Nations Australians in the transition to net-zero. It will be expected that the Corporation will consult on relevant investment policies or strategies, rather than specific decisions or issues in relation to particular investments.

Further details on the First Nations Clean Energy Strategy are available at <https://www.energy.gov.au/government-priorities/energy-and-climate-change-ministerial-council/priorities/national-energy-transformation-partnership/first-nations-clean-energy-strategy>

## Section 20 –Environmental and social impact considerations

Section 20 provides that, where practical, the Board should consider particular environmental and social implications of investment decisions. In line with Australia's national waste policy<sup>20</sup> the Board is encouraged to develop investment policies which prioritise avoiding, reducing, reusing and recycling waste over other options. The Board should also consider the sustainability of bioenergy feedstocks, including avoiding adverse impacts on native forests.

Additionally, the Board should take into account that social licence is essential for the success of clean energy technologies and projects. In addition to the impact on communities and stakeholders, projects and technologies that do not secure social licence attract a greater risk of delay, disruption and cost increases. Relevantly, the Corporation also needs to consider that the provision of local employment opportunities in the delivery of clean energy technologies is a priority for the

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<sup>20</sup> <https://www.dcceew.gov.au/environment/protection/waste/how-we-manage-waste/national-waste-policy>

Australian Government. This includes direct local employment in clean energy projects and indirect employment through local content (see also section 11).

### Section 21 – Collaboration and Cooperation

Section 21 provides that the Board should, where practical and appropriate, seek to cooperate and collaborate with other government entities that support investment in clean energy technologies.

The direction to collaborate and cooperate is intended to promote effective investment in clean energy technologies through enhanced knowledge sharing and mitigating any potential duplication of activities across entities. The direction is also intended to encourage coordination between entities where there is overlap across the clean energy sector.

### Section 22 – Obligation to invest at least half of funds in renewable energy technologies

Section 22 further provides that, irrespective of the directions of the 2023 Mandate, the Board may take whatever action it deems necessary to comply with subsection 58(3) of the Act, which requires the Board to maintain at a minimum 50 per cent of the Corporation's investments in renewable energy technologies.

### Section 23 – Repeal of previous direction

Section 23 of the Act provides that the 2023 Mandate replaces and repeals the Board's previous Investment Mandate<sup>21</sup>. The power to repeal a previous Investment Mandate is implied in the power of the responsible Ministers under subsection 64(1) of the Act to issue new Investment Mandates to the Board<sup>22</sup>.

Section 23 of the Act confirms that the repeal of previous directions and the making of a new direction does not require the Corporation to divest investments or to make investments that are not complying investments.

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<sup>21</sup> The *Clean Energy Finance Corporation Investment Mandate Direction 2020*.

<sup>22</sup> Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument.