Clean Energy Finance Corporation Investment Mandate Direction 2023

We, CHRIS BOWEN, Minister for Climate Change and Energy, and KATY GALLAGHER, Minister for Finance, give this direction under subsection 64(1) of the *Clean Energy Finance Corporation Act 2012*.

Dated 20th July 2023

CHRIS BOWEN	KATY GALLAGHER
Minister for Climate Change and Energy	Minister for Finance

Part 1 Preliminary

1. Name of Direction

This direction is the *Clean Energy Finance Corporation Investment Mandate Direction 2023*.

2. Commencement

This direction commences on the day after it is registered on the Federal Register of Legislation.

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 4 of Chapter 3 of that Act (which deals with the sunsetting 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 Act.

4. Definitions

In this direction:

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

Advancing Hydrogen Fund means the fund referred to in subsection 16(2) of this direction.

Clean Energy Innovation Fund means the fund referred to in subsection 16(1) of this direction.

General Portfolio means investments other than those referred to in sections 15 and 16.

Household Energy Upgrades Fund means the fund referred to in subsection 16(4) of this direction.

Powering Australia Technology Fund means the fund referred to in subsection 16(3) of this direction.

Rewiring the Nation Fund means the fund referred to in section 15 of this direction.

Specialised Investment Fund means each of the Advancing Hydrogen Fund, Clean Energy Innovation Fund, Powering Australia Technology Fund and Household Energy Upgrades Fund referred to in section 16 of this direction.

Sub-Funds means each Specialised Investment Fund and the Rewiring the Nation Fund.

Note: Unless the contrary intention appears, words and expressions used in this direction have the same meaning as they have, from time to time, in the Act: see subsection 14(1)(b) of the *Legislation Act 2003*.

Part 2 Direction

5. Purpose

The Board must perform its investment function to deliver on the object of the Act, namely to facilitate increased flows of finance into the clean energy sector and to facilitate the achievement of Australia's greenhouse gas emissions reduction targets. This includes:

(a) investing in businesses or projects for the development or commercialisation of, or in relation to the use of, clean energy technologies; and

(b) investing in businesses that supply goods or services needed to develop or commercialise, or needed for use in, clean energy technologies; and

(c) giving guarantees in accordance with section 69 of the Act.

The facilitation of the object includes supporting activities and projects that may not otherwise proceed or bringing forward these activities or projects. The investments covered by paragraph (b) have particular importance for supporting resilient clean energy supply chains and enhancing sovereign capacity to deliver on both short and long term emissions reduction targets.

This direction tasks the Board to deliver on this purpose through:

(a) the Rewiring the Nation Fund; and

(b) Specialised Investment Funds; and

(c) General Portfolio investments.

Together with other Commonwealth, State and Territory policies and programs, the Corporation's investments will contribute to both Australia's greenhouse gas emissions reduction targets and the target of achieving 82 per cent renewable electricity in Australia's electricity grids by 2030. These investments to facilitate a clean energy economy will also deliver enhanced employment opportunities, particularly in regional Australia.

6. Investment factors – General

Consistent with the obligation to deliver on the object of the Act, the Board must have regard to positive externalities and public policy outcomes for all investments.

For the General Portfolio, the Board must, when making investment decisions:

(a) apply commercial rigour; and

(b) have regard to the potential effect of the proposed investment on other market participants.

Note: The investment factors for each Sub-Fund are set out in sections 15 and 16 of this direction.

7. Benchmark rate of return – General Portfolio

For the General Portfolio, the Board must target an average return of at least the 5-year Australian Government bond rate + 2 per cent to + 3 per cent per annum over the medium to long term as the benchmark return. Performance against this benchmark will be measured before operating expenses and any concession charges, such as impairment or mark-to-market adjustments resulting from any concessional component.

Note: The benchmark return for each Sub-Fund is set out in sections 15 and 16 of this direction.

8. General Portfolio risk

For the General Portfolio, in targeting the benchmark return specified in section 7 of this direction and operating with a commercial approach, the Board must seek to develop a General 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 14 of this direction.

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

Note: The directions on risk for each Sub-Fund is set out in sections 15 and 16 of this direction.

9. Limits on concessionality

Except in relation to the Rewiring the Nation Fund and the Household Energy Upgrades Fund, the Board must limit the amount of concessionality it provides in any 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.

Note: The direction on concessionality in relation to the Rewiring the Nation Fund and the Household Energy Upgrades Fund are set out in sections 15 and 16 of this direction.

10. Limits on guarantees

The Board must:

(a) except in relation to the Rewiring the Nation Fund, avoid the use of guarantees where possible; and

(b) ensure that all guarantees are limited and quantifiable; and

(c) ensure the total value of all outstanding 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 that has been credited to the Account under section 46 of the Act for purposes other than the Rewiring the Nation Fund.

11. Application of policies to support Australian industry

Australian Industry Participation (AIP) Plans must apply to projects that the Corporation invests in, in accordance with the Government's AIP Plan policy and recognising the importance of increased sovereign capacity to the deployment of clean energy technologies and resilient clean energy supply chains.

The Corporation must also:

(a) consult with the Department of Finance in relation to the application of the Government's Buy Australian Plan; and

(b) where practical, encourage the increased use of local content in the deployment of clean energy technologies.

12. Medium to long term outlook for its investment strategy

The Board must take a medium to long term outlook when setting the investment strategy for the Corporation.

13. Board must not damage the Australian Government's reputation

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

14. Focus areas for the Corporation's activities

The Board must focus on clean energy technologies and financial products and structures that work to support Australia's greenhouse gas emissions reduction targets. In doing so the Board is strongly encouraged to prioritise investments that:

(a) unlock greater penetration of renewable energy and accelerate decarbonisation of Australia's electricity grid, while considering the potential impacts on reliability and security of electricity supply;

(b) support the deployment of clean energy technologies in Australian industry;

(c) support the development of clean energy manufacturing and processing capabilities in Australia;

(d) 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;

(e) support greater uptake of clean energy technology measures in residential dwellings.

In addition to these focus areas, the Board should continue to seek out investments into:

(f) clean energy projects and businesses that support delivery of the Government's Reef 2050 Long-Term Sustainability Plan; and

(g) recycling or recycled content projects utilising clean energy technologies, with a particular focus on projects that promote National Waste Policy Action Plan 2019 targets and/or drive the use of recycled content, including waste plastics, paper, glass and tyres.

15. Rewiring the Nation Fund

Funding

The Board shall make available up to $19 billion for investments in projects that rebuild, modernise and strengthen Australia's electricity grids and energy systems. This is expected to be primarily achieved through investment in electricity transmission projects.

Investment factors

Consistent with the obligation to deliver on the object of the Act, the Board must have regard to positive externalities and public policy outcomes for its investments.

In considering investment proposals for the Rewiring the Nation Fund, the Board must take into account the following:

(a) whether the proposal supports the development or acceleration of an Integrated System Plan project or other electricity transmission project identified by the Board which satisfies or otherwise supports paragraphs (b) or (c);

(b) whether the proposal supports the development or acceleration of a project required to enhance long duration grid storage, enhance electricity distribution network infrastructure (including distributed energy resources), or enhance electricity grid infrastructure to support a hydrogen hub or offshore electricity project;

(c) whether the proposal otherwise serves to reduce the greenhouse gas emissions, or supports or strengthens the security, reliability and affordability, of Australia's electricity grids (including demand management projects).

The Board may seek and consider the advice of the Rewiring the Nation Office, 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. In particular, the Board may take into account advice from the Rewiring the Nation Office as to whether the nominated Minister and relevant State or Territory Energy Ministers, according to where the project is located, consider the project a priority for the delivery of Australia's greenhouse gas emissions reduction targets and relevant State or Territory targets.

The Board must consider opportunities to enhance benefits to electricity consumers from its Rewiring the Nation investments and the renewable energy generation facilitated by those investments.

Benchmark rate of return

In relation to investments made for the purposes of the Rewiring the Nation Fund, the Board must target an average return of at least the Corporation's cost of the Rewiring the Nation functions over the medium to long term. Performance against this benchmark will be measured before any concession charges, such as impairment or mark-to-market adjustments resulting from any concessional component.

Risk level

In targeting the benchmark return for the Rewiring the Nation Fund and operating with a commercial approach (in the context of the objectives of the Rewiring the Nation policy), the Board must seek to develop a portfolio that in aggregate has an acceptable 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 (including, without limitation, any relevant individual risk and the overall risk level) deemed acceptable by the Board may be higher for the Rewiring the Nation Fund than for the General Portfolio and the Specialised Investment Funds. This reflects the differences in the types of investments (and the associated risks, including, without limitation, concentration risks and regulatory risks) being made for the purposes of the Rewiring the Nation Fund.

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

Limits on concessionality

The Board, in relation to all investments made for the purposes of the Rewiring the Nation Fund, may deploy the amount of concessionality it deems required in order to achieve the Government's objectives in respect of the Rewiring the Nation policy.

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.

16. Specialised Investment Funds

(1) Clean Energy Innovation Fund:

Funding

The Board shall make available up to $200 million for investments 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.

Investment factors

Consistent with the obligation to deliver on the object of the Act, the Board must have regard to positive externalities and public policy outcomes for its investments.

In considering investment proposals under the Clean Energy Innovation Fund, the Board must take into account the advice of ARENA as to:

(a) whether the proposal is recommended for support under the Fund; and

(b) the technical and commercial feasibility of the project technology; and

(c) the competitive environment of businesses seeking to deploy the technology.

Benchmark rate of return

In relation to investments made for the purposes of the Clean Energy Innovation Fund, the Board must target an average return of at least the 5-year Australian Government bond rate +1 per cent per annum over the medium to long term. Performance against this benchmark will be measured before operating expenses and any concession charges, such as impairment or mark-to-market adjustments resulting from any concessional component.

Risk level

In targeting the benchmark return for the Clean Energy Innovation Fund and operating with a commercial approach, the Board 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 Board may be higher for the Clean Energy Innovation Fund than for the General Portfolio. This reflects the differences in the types of investments being made for the purposes of the Clean Energy Innovation Fund.

The Board, in consultation with ARENA, must 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) Advancing Hydrogen Fund:

Funding

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

Investment factors

Consistent with the obligation to deliver on the object of the Act, the Board must have regard to positive externalities and public policy outcomes for its investments.

In considering investment proposals under the Advancing Hydrogen Fund, the Board shall prioritise projects that promote the objectives of the National Hydrogen Strategy and that focus on 1 or more of the following:

(a) advancing hydrogen production projects;

(b) developing export and domestic hydrogen supply chains, including hydrogen export industry infrastructure;

(c) establishing hydrogen hubs;

(d) other projects that assist in building domestic demand for hydrogen.

The Board must take into account the advice of the Department when considering these factors.

Benchmark rate of return

In relation to investments made for the purposes of the Advancing Hydrogen Fund, the Board must target an average return of at least the 5-year Australian Government bond rate +1 per cent per annum over the medium to long term. Performance against this benchmark will be measured before operating expenses and any concession charges, such as impairment or mark-to-market adjustments resulting from any concessional component.

Risk level

In targeting the benchmark return for the Advancing Hydrogen Fund and operating with a commercial approach, the Board 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 Board may be higher for the Advancing Hydrogen Fund than for the General Portfolio. This reflects the differences in the types of investments being made for the purposes of the Advancing Hydrogen Fund. The Board must periodically review its investment practices for the purposes of managing the risk of the Advancing Hydrogen Fund portfolio over time and must advise the responsible Ministers of specific measures taken in this regard.

(3) Powering Australia Technology Fund:

Funding

The Board shall make available up to $500 million for investments to support the growth or expansion of clean energy 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.

The Board must aim to leverage at least $500 million from the private sector across the portfolio of investments made under this fund.

Investment factors

Consistent with the obligation to deliver on the object of the Act, the Board must have regard to positive externalities and public policy outcomes for its investments.

In considering investment proposals under the Powering Australia Technology Fund, the Board shall prioritise projects that support the growth or expansion of clean energy 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.

Benchmark rate of return

In relation to investments made for the purposes of the Powering Australia Technology Fund, the Board must target an average return of at least the 5-year Australian

Government bond rate +1 per cent per annum over the medium to long term. Performance against this benchmark will be measured before operating expenses and any concession charges, such as impairment or mark-to-market adjustments resulting from any concessional component.

Risk level

In targeting the benchmark return for the Powering Australia Technology Fund and operating with a commercial approach, the Board 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 Board may be higher for the Powering Australia Technology Fund than for the General Portfolio. This reflects the differences in the types of investments being made for the purposes of the Powering Australia Technology Fund, which will focus on earlier stage technologies and projects. The Board must periodically review its investment practices for the purposes of managing the risk of the Powering Australia Technology Fund portfolio over time and must advise the responsible Ministers of specific measures taken in this regard.

(4) Household Energy Upgrades Fund:

Funding

The Board:

(a) shall, from the date agreed between the Board and the nominated Minister, make available up to $1 billion (the ***Household Energy Upgrades Funding Amount***) for concessional finance to support the private sector to provide concessional loans to incentivise the uptake of clean energy technology measures for residential dwellings;

(b) must aim to leverage at least an amount equal to the Household Energy Upgrades Funding Amount from the private sector across the portfolio of investments made under this fund.

Investment factors

Consistent with the obligation to deliver on the object of the Act, the Board must have regard to positive externalities and public policy outcomes for its investments.

The Fund must support clean energy technology measures for existing residential dwellings and knock down rebuild projects that exceed the then current national construction code requirements, prioritising those in lower categories of energy performance. The design eligibility criteria shall exclude high value properties, on the basis owners are more likely to be in a stronger position to self-finance relevant upgrades and the housing stock is likely to have higher levels of clean energy technology integration.

No Household Energy Upgrades Fund investment shall have a repayment or termination date (or otherwise involve an anticipated repayment or return of capital from a counterparty to the Corporation, howsoever described in the relevant investment documentation) later than the date being 10 years from the Household Energy Upgrades Fund commencement date described in subsection 16(4)(a) of this direction.

Benchmark rate of return

In relation to investments made for the purposes of the Household Energy Upgrades Fund, the Board must target an average return of at least the 5-year Australian Government bond rate +0.5 per cent per annum over the medium to long term. Performance against this benchmark will be measured before operating expenses and any concession charges, such as impairment or mark-to-market adjustments resulting from any concessional component.

Risk level

In targeting the benchmark return for the Household Energy Upgrades Fund and operating with a commercial approach, the Board 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 Board may be higher for the Household Energy Upgrades Fund than for the General Portfolio. This reflects the differences in the types of investments being made for the purposes of the Household Energy Upgrades Fund.

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

Limits on concessionality

The Board, in relation to all investments made for the purposes of the Household Energy Upgrades Fund, may deploy the amount of concessionality it deems required in order to provide concessional loans to incentivise uptake of clean energy technology measures for residential dwellings. The Board will only apply concessionality in line with the risk and return settings and to optimise impact in line with the Government's objectives for the Household Energy Upgrades Fund. 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.

17. Sub-Fund accounting

(1) The monetary amounts specified for each Sub-Fund do not limit the Corporation's investments in the areas of the Sub-Funds, although only investments up to the amounts specified in respect of the Sub-Funds benefit from their respective benchmark rate of return and risk level arrangements.

(2) To the extent the Corporation makes (or has made) an investment which could qualify as an investment in respect of any Sub-Fund, from amounts made available before the relevant funding (including new funding) is credited to the Account in respect of the relevant Sub-Fund, the Board may treat that investment (including, without limitation, in respect of the relevant benchmark rate of return and risk level arrangements) as an investment made in respect of the relevant Sub-Fund.

18. Reporting Outcomes

The non-financial outcomes of all the Corporation's investments, including those under each Sub-Fund, must be included in the Corporation's annual report.

The Corporation, in meeting its requirements under paragraph 74(1)(d) of the Act, should provide for each program the disaggregate value of concessions given for each of the General Portfolio and Sub-Funds.

19. Corporate Governance

The Board must have regard to Australian best practice in determining its approach to corporate governance principles.

The Board must develop policies with regard to environmental, social and governance issues and First Nations investment screening procedures. The policies should be published on the Corporation's website.

20. Environmental and social impact considerations

In assessing its investments, the Corporation should, where practical, take into account that:

(a) social licence for the deployment of clean energy technologies is essential to their success; and

(b) the provision of local employment opportunities in the delivery of clean energy technologies is a priority for the Australian Government; and

(c) projects in the waste sector should demonstrably adhere to the accepted waste hierarchy policies, to avoid, reduce, reuse and recycle waste; and

(d) bioenergy projects should source sustainable feedstocks, including avoiding adverse impacts on native forests.

21. Collaboration and Cooperation

The Board should, where practical and appropriate, in order to facilitate the Corporation's investment functions, seek to cooperate and collaborate with other Commonwealth entities and any State and Territory entities that are also able to support investments in clean energy technologies.

Commonwealth entities include, but are not limited to the following:

(a) The Australian Renewable Energy Agency;

(b) The Northern Australia Infrastructure Facility;

(c) The Export Finance Australia;

(d) The National Housing Finance and Investment Corporation (or once established, Housing Australia);

(e) The Regional Investment Corporation;

(f) The National Reconstruction Fund (once established);

(g) The Net Zero Economy Agency.

22. Obligation to invest at least half of funds in renewable energy technologies

Irrespective of any other provision of this direction, the Board may take whatever action it deems required in respect of its investment and portfolio management activities to ensure compliance by the Corporation with subsection 58(3) of the Act.

23. Repeal of Previous Direction

The *Clean Energy Finance Corporation Investment Mandate Direction 2020* is repealed.

However, this repeal and making of this direction does not require the Corporation to divest investments that were in place before the commencement of this direction or to make investments that are not complying investments.

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