Clean Energy Finance Corporation Investment Mandate Direction 2020

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

Dated 1 May 2020

ANGUS TAYLOR	MATHIAS PAUL HUBERT CORMANN
Minister for Energy and Emissions Reduction	Minister for Finance

Part 1 Preliminary

1. Name of Direction

This direction is the *Clean Energy Finance Corporation Investment Mandate Direction 2020*.

2. Commencement

This direction commences on the day after it is signed.

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 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 *Clean Energy Finance Corporation Act 2012*.

4. Definitions

In this direction:

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

Advancing Hydrogen Fund means the Advancing Hydrogen Fund referred to in subsection 14(5) of this direction.

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

Australian Recycling Investment Fund means the Australian Recycling Investment Fund referred to in subsection 14(4) of this direction.

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) of this direction.

Sustainable Cities Investment Program means the Sustainable Cities Investment Program referred to in subsection 14(2) of this direction.

Reef Funding Program means the Reef Funding Program referred to in subsection 14(3) of this direction.

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 Corporation should 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 three benchmark return rates. In relation to all investments other than those made under subsections 14(1) and 14(5) of this direction, 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 Corporation's core portfolio. Performance against this benchmark will be measured before operating expenses and excludes those investments made under subsections 14(1) and 14(5).

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 subsections 14(1) and 14(5), 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.

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.

Note: The direction on risk in relation to the Clean Energy Innovation Fund is set out in subsection 14(1) of this direction and direction on risk in relation to the Advancing Hydrogen Fund is set out in subsection 14(5) of this direction.

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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

The Corporation must include in its investment activities a focus on technologies and financial products as part of the development of a market for firming intermittent sources of renewable energy generation, as well as supporting emerging and innovative clean energy technologies.

In supporting clean energy technologies, the Corporation is strongly encouraged to prioritise investments that support reliability and security of electricity supply. The Corporation will also take into consideration the potential effect on reliability and security of supply when evaluating renewable energy generation investment proposals, and if commercially feasible, consider investment in proposals that support reliability or security of supply.

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:

Funding

The Corporation shall make available up to $200 million 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.

Investment proposals – factors to consider

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; 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 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.

Risk level

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.

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) Sustainable Cities Investment Program:

The Corporation shall make available up to $1 billion of investment finance over 10 years for a Sustainable Cities Investment Program. This Program will invest in clean energy projects and businesses that provide productivity, accessibility and liveability benefits for cities.

(3) Reef Funding Program:

The Corporation shall make available up to $1 billion of investment finance over 10 years for clean energy projects and businesses that support delivery of the Government's Reef 2050 plan.

(4) Australian Recycling Investment Fund:

The Corporation shall make available up to $100 million for an Australian Recycling Investment Fund to support recycling or recycled content projects utilising clean energy technologies, with a particular focus on waste plastics, paper, glass and tyres.

(5) Advancing Hydrogen Fund:

Funding

The Corporation 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 proposals – factors to consider

In considering investment proposals under the Advancing Hydrogen Fund, the Corporation shall prioritise projects that promote the objectives of the National Hydrogen Strategy and that focus on one 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 Corporation must consider and take into account the advice of the Department when making these project considerations.

Benchmark rate of return

In relation to investments made for the purposes of the Advancing Hydrogen 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. Performance against this benchmark will be measured before operating expenses.

Risk level

In targeting the benchmark return for the Advancing Hydrogen Fund and operating with a commercial approach, the Corporation must seek to develop a portfolio that in

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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 Advancing Hydrogen 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 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.

(6) The directions in subsections (1)-(5) do not require the Corporation to divest investments that were in place prior to the commencement of those directions, or to make new investments that are not complying investments.

15. Reporting Outcomes

The Corporation must, as part of its annual report, report on the non-financial outcomes of all its investments, including those under subsections 14(1)-(5).

16. 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.

17. Repeal of Previous Direction

The *Clean Energy Finance Corporation Investment Mandate Direction 2019* is repealed.

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