

# AUSTRALIAN GOVERNMENT ANNOUNCES CREATION OF CLEAN ENERGY INNOVATION FUND

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Legal Briefings - By **Gerard Pike** and **Matthew Selth**

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The Australian Government has announced the establishment of a \$A1 billion Clean Energy Innovation Fund (**CEIF**).

- The CEIF will invest debt, equity, or debt and equity in emerging clean energy technologies that have moved beyond the research and development stage but that are not yet commercially ready to attract sufficient private sector capital.
- The Australian Renewable Energy Agency (**ARENA**) will continue to manage its existing grants and deliver the \$A100 million large-scale solar round of funding. Following delivery of the large-scale solar funding, ARENA will move to funding through the CEIF.
- It is expected that funding from the Clean Energy Finance Corporation (**CEFC**) will remain unchanged.
- Target projects for the CEIF will include large-scale solar with storage, off-shore energy, biofuels and smart grids.

## BACKGROUND

On 23 March 2016 the Australian Government announced the establishment of a \$A1 billion fund - the CEIF - to invest in emerging clean energy technologies. It is proposed that the CEIF will be jointly managed by ARENA and CEFC.

The fund is to provide funding for clean energy projects with the purpose of assisting emerging clean energy technologies to progress from demonstration to commercial deployment.

The CEIF's investments are to target a profitable return and may be in the form of debt, equity, or a combination of debt and equity. The initial target rate of return will be set at 1 per cent above the government bond rate.

## **IMPACT ON EXISTING ARENA AND CEFC FUNDING ARRANGEMENTS**

The Government has stated that, upon creation of the CEIF, ARENA will continue to manage its existing portfolio of grants and deliver the \$A100 million large-scale solar round of funding it already has underway.

ARENA's large-scale solar round is a competitive process in which ARENA has invited applications for it to fund large-scale solar projects. The aim of the competitive round is to support further scale and cost reduction in Australia's large-scale solar industry. A total of 22 projects with a combined capacity of 766 MW have been short listed. Full applications for the funding are due by 15 June 2016. ARENA has allocated \$100 million for grants to successful applicants.

Once ARENA's current large-scale solar round is completed and capital grants have been issued to the successful applicants, the Government has indicated that ARENA will shift from a grant based role to funding through the CEIF.

The status of grants for projects that received ARENA board approval, but had not reached Financial Close as at the date of the Government's announcement, is not clear. However, the wording of the joint statement of the Prime Minister and Minister for the Environment, which uses the same words as above - 'continue to manage its existing portfolio of grants' - suggests that ARENA funding for these projects will continue.

It is expected that CEFC's existing debt facilities will also be unaffected.

## **OPPORTUNITIES FOR FUTURE DEVELOPMENT**

Following the CEIF's commencement, the Government has stated that both ARENA and the CEFC will be involved in coordinating the CEIF's investments. ARENA will develop and provide technical review of proposals. The CEFC will apply its investment expertise in considering investment approval. Both ARENA and the CEFC will jointly provide ongoing management of CEIF projects.

The \$A1 billion for the CEIF will be drawn from the CEFC's existing \$10 billion allocation and made available over a 10 year period, with \$A100 million available each year. The Government, through the responsible minister, will direct the CEFC to make these funds available for the CEIF. It will also update CEFC's mandate to enable the CEIF to make investments on a day to day basis.

ARENA's involvement will similarly be facilitated by Ministerial direction, although what happens to ARENA's long term capital grants budget - which will cease to be applied - is dependent on the passage of Commonwealth legislation.

The Government has indicated that the CEIF will focus on projects that use technologies which, while established, lack the size and maturity needed to attract sufficient equity for development.

The types of projects that the Government has suggested may be the subject of early CEIF investment include large-scale solar with storage, off-shore energy, biofuels and smart grids.

The CEIF is scheduled to commence in July 2016.

## KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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