

Loan Guarantees for Renewable Energy

THE
GREENS



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A vibrant and growing renewable energy sector will benefit all Australians. This sector will lead our transformation towards a zero carbon economy, addressing the impacts of climate change and creating new jobs and manufacturing opportunities. Most importantly, it will ensure that we have a secure, sustainable supply of electricity for future generations based on renewable resources for supply.

The Greens are determined to support the rapid and managed growth of the renewable energy sector. Investment in renewable energy in Australia is proportionately much lower than in other advanced economies, in spite of the fact that Australia has outstanding and significant quantities of renewable energy resources to exploit. To overcome the barrier of accessing finance the Greens will introduce a loan guarantee scheme for large scale renewable energy projects.

The Greens plan for a rapid transformation to 100% renewable energy contains four key elements to maximise the growth of the renewable energy sector:

a) 100% renewable energy plan – a strategic plan for Australia to exploit its renewable energy potential.

Right now, the development of renewable electricity infrastructure is uncoordinated and directionless. To ensure the most cost effective approach is taken to achieving the goal of 100% renewable energy, the Greens policy tasks Infrastructure Australia with:

1. mapping the renewable energy resource areas of Australia;
2. bringing all levels of government, transmission and distribution authorities, retailers, the Australian Electricity Market Operator (AEMO), local communities and renewable energy developers together in consultation; and
3. as part of a total holistic generation plan, creating renewable energy development zones based on the mapped areas, with streamlined approval processes and funding connection of the zones to the electricity grid.

Loan Guarantees for Renewable Energy



Infrastructure Australia's role is to manage the expenditure of the Building Australia Fund, which started with a \$20 billion grant in 2008. The Greens believe there are strong grounds to spend a significant portion of the Building Australia Fund on electricity grid infrastructure, not just for emerging technologies but also for wind energy for example.

b) A Renewable Energy Target of 100% with no less than 30% by 2020

The renewable energy generators need to be able to sell the electricity at a fair price which reflects social, environmental and long term benefits associated with green energy and to cover their costs and provide appropriate returns to project investors. The Greens seek to achieve this with a higher Renewable Energy Target (30 per cent by 2020), supported by a national 'gross' feed-in tariff for emerging technologies.

c) A grant program to assist in the development of large-scale renewable energy projects

A grant program is needed to help meet the costs of an array of special and one-time costs associated with developing a first time large-scale renewable energy project. These special costs include everything from planning and permitting approvals, through to transmission grid augmentation, and can typically total one third of the total project costs. The existing Solar Flagships program seeks to provide this sort of support, however, to date this program has been mismanaged and is at risk of not delivering major new green field deployments of large scale solar generation plants in the near term. Most recently this program has been raided to support the Government's highly dubious 'Cash for Clunkers' program.

d) A Renewable Energy Loan Guarantee Scheme

Renewable energy companies need to be able to raise finance and a loan guarantee scheme provides the mechanism for this.

Renewable Energy Loan Guarantee Scheme

Loan guarantees to help renewable energy investors raise finance, especially for "first of a kind" solar thermal, geothermal and very large scale photovoltaic projects, have become particularly critical since the global financial crisis. These schemes are proving successful for renewable energy projects in the United States in particular. They are already used in Australia in a range of other sectors, for example Export Finance Guarantees.

Loan Guarantees for Renewable Energy



While loan guarantees involves the Government taking on financial risk, the advantages of loan guarantees include that they stimulate the economy and create both construction and manufacturing jobs. They leverage private investment and innovation, and introduce banks to new ventures which increases the likelihood of them lending to similar projects later without the government guarantee.

Given that the Government's Solar Flagships program is unlikely to deliver a fleet of large scale solar thermal plants that will be economically viable for the long term, the Greens will:

- a) bolster grant funding available to the renewable energy sector by combining the funding allocated to the (yet to be announced) Round Two of the Solar Flagships program (approximately \$750m) and the recently announced \$1 billion 'Connecting Renewables' initiative, to make available a total of \$1.75 billion of Commonwealth grants.
- b) complement this grant funding with a loan guarantee scheme with loan guarantees and loan funds available up to a total of \$5 billion.

Together this would generate approximately \$6.75 billion of funding that can then be leveraged with equity and other debt for a total renewable investment of at least \$8.0 billion. Depending on the technology supported, this would be sufficient for least 2,000 MW of renewable energy generation capacity, based on current profiles of large scale solar thermal projects.

The Loan Guarantee Scheme would be modelled on the successful US Department of Energy loan guarantee program - the DOE 1703 program. It provides a loan for 100% of project debt from the Federal Financing Bank of the US Dept of Treasury.

The US Department of Energy has a second loan guarantee program - known as the DOE 1705 program - which is administered by banks, with just 80% of the loan amount being

guaranteed by the US DOE. However, experts indicate that in the current world financial climate, it is proving impossible for solar projects to get loans of more than 10 years with the 1705 program. Consequently, the 1705 program has stagnated and is generally regarded as unworkable for emerging technologies. While there may be some appeal to a 1705-type program because of the risk sharing, the program design is unlikely to be attractive to investors in emerging technology. This is why the Greens Renewable Energy Loan Guarantee Scheme adopts the DOE 1703 program model of 100% guaranteed and provided loans.

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The Greens Renewable Energy Loan Guarantee Scheme would be:

- open to emerging large scale renewable energy generation technologies including geothermal, solar thermal, solar photovoltaic and ocean energy;
- available only for projects larger than 100 MW in capacity as a single configuration at a single site that meet certain efficiency and economic criteria;
- open to applications to be submitted and evaluated over a two year period commencing later in 2010; and
- managed jointly by the Department of Treasury and Finance, the Department of Resources, Energy and Tourism and the Department of Climate Change and Energy Efficiency.