

# FINANCING CLEAN ENERGY FOR LOCAL GOVERNMENT

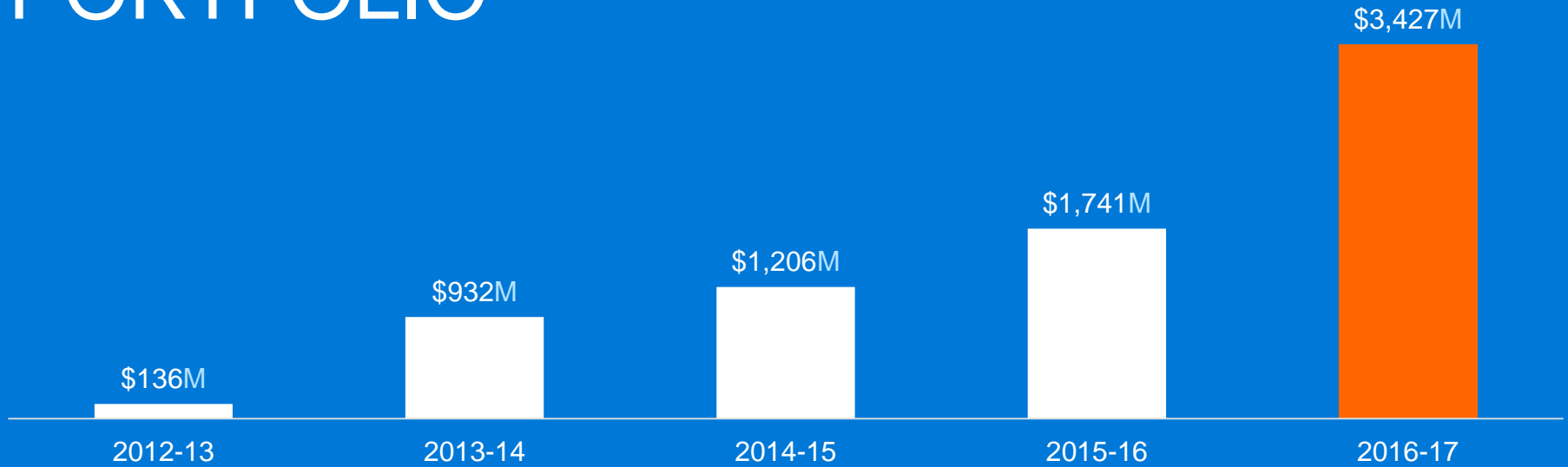
PRESENTED BY: MELANIE MADDERS  
18 OCTOBER 2017



# CEFC MISSION

To accelerate **Australia's transformation** towards a more **competitive economy** in a carbon constrained world, by acting as a **catalyst to increase investment in emission reduction.**

# CEFC INVESTMENT PORTFOLIO



**\$3.4B**

of current investment commitments\*



**79** direct projects since inception

in project value

**\$11B**



**7** co-finance and aggregation programs that have delivered over **\$250m** in finance to more than **2,000** smaller projects and businesses across Australia

\*After allowing for new investments in each year, minus loans fully amortised, repaid or exited, and expired or cancelled undrawn commitments, at June 30 2017

# INVESTING IN THE DECARBONISATION PATHWAYS

## CEFC INVESTMENT COMMITMENTS FY17



Renewables, retailers,  
network service providers

**\$844M**

CEFC

**\$3.3B**

TOTAL PROJECT VALUE



Property, infrastructure,  
manufacturing, agriculture

**\$1.1B**

CEFC

**\$2.8B**

TOTAL PROJECT VALUE



Transport

**\$102M**

CEFC

**\$382M**

TOTAL PROJECT VALUE

ESTIMATED ANNUAL ABATEMENT **5M** TCO<sub>2-e</sub>

# INVESTING ACROSS THE ECONOMY

Low carbon  
electricity



Large  
scale solar



Wind



Waste, bioenergy  
and agriculture



Grid and storage  
solutions

Energy  
efficiency

Transport

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Energy  
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Local  
govt and  
universities



Community  
housing



Property



Infrastructure



Manufacturing  
and industry



Agriculture

Transport

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Property



Infrastructure



Manufacturing  
and industry



Agriculture

Transport



Biofuels



Vehicles

# Clean energy opportunities for local government

A market report by the  
Clean Energy Finance Corporation

June 2016

Councils are **major providers of infrastructure and services** and face material (and rising) energy costs

Councils can **generate renewable energy locally** and **improve the energy efficiency of council facilities and services**

Investing in clean energy allows councils to **renew their infrastructure, save energy costs, and meet sustainability objectives**





# CEFC FINANCE FOR LOCAL GOVERNMENT

Finance for eligible projects across renewable energy, energy efficiency and low emissions technologies

Loans for a single project or a program of works

Finance can be drawn over a three-year availability period

Groups of councils can enter into joint financing agreements for eligible projects

Competitive fixed-rate longer-dated senior debt, up to 10 years

A straightforward approval process with simple loan documentation



CITY OF  
MELBOURNE

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LOWER  
OPERATING  
COSTS, REDUCED  
CARBON  
FOOTPRINTS  
BETTER BUILT  
ASSETS

**CEFC** | TRANSFORMING  
CLEAN ENERGY  
INVESTMENT

THINXTRA

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WORLD-LEADING  
**LPWAN TECHNOLOGY**  
TO UNLOCK  
AUSTRALIAN POTENTIAL  
IN THE  
**INTERNET OF THINGS**

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CLEAN ENERGY  
INVESTMENT

**CEFC**  
CLEAN ENERGY FINANCE CORP



# ASSESSING CLEAN ENERGY INVESTMENTS

Scope the requirements



- What are the project objectives (risk/cost profile)?
- Over what time period are you constructing (or installing) the assets?
- What is the investment being used to procure?

Understand the costs



- What are the capex costs?
- What are the cost savings from the project?
- What are the costs that are driving the project economics?

Assess the financing options available



- Cash Funded - using capital reserves to fund capex
- Debt Finance – loan to fund capex
- Operational Cost Solution – pay an “all-in” cost to provide capex and service

Budget Considerations



- Capex and Opex Budgets – a “whole of life” cost approach
- Budget certainty – known cost / budget allocation
- Competing projects – allocation of capital and investment priority

# WHY USE DEBT?

<b>CAPITAL FUNDING</b>	Debt provides the upfront capital funding, and stretches the repayment out over a period of years
<b>CASHFLOW NEUTRAL</b>	Debt (P+I) often repaid from the forecast cost savings
<b>HISTORICALLY LOW BASE RATES</b>	Good time to take advantage of debt while rates are low and can be fixed for the long term
<b>LIABILITY MATCHING</b>	Cost reduction benefits continue after the debt is repaid

# STEPS TO DEBT FINANCING



# LOCAL GOVERNMENT FINANCE PROGRAM

Availability Period	Up to 3 years - can be for a single project or a range of initiatives
Loan Term	10 years
Repayment Profile	We can consider different profiles Eg: credit foncier, sculpted, bullet/partial bullet
Interest Rate	Competitive, commercial rate based on the loan profile and counterparty Fixed at time of contractual close for the loan term
Security	Secured against general rates revenue
Information Covenants	Quarterly reporting on project progress
Negative Pledge Covenants	Covenants which require the Borrower NOT to do something.  Eg: a covenant on the level of further financial indebtedness that can be taken on by the Borrower during the term of the loan
Ranking of Security	Pari Passu with the secured creditors of the Borrower



# FINANCIERS

**There are many financiers in the market that Local Government can access depending on their preference and project requirements.**

## **Debt Lending Institutions**

- Treasury Corporations or State Funding Vehicles
- Commercial Banks
- CEFC
- CEFC Asset Financing Programs through commercial banks

## **Operational Finance Providers**

- DNSPs (streetlighting)
- EPC providers
- EV Leasing

# ASSET FINANCING PROGRAMS



## EQUIPMENT FINANCE ENERGY EFFICIENT BONUS

- 0.70% p.a. off equipment finance rate on qualifying assets for the life of the loan
- Loans up to \$5m
- Equipment loan, Hire Purchase or Finance lease options available
- Tailored repayments to suit cash flows and circumstance
- Typically \$0 deposit required up front



## ENERGY EFFICIENT EQUIPMENT FINANCE

- 0.7% p.a. discount off your standard finance rate on qualifying assets
- Loans from \$10k up to \$5m
- Flexible finance arrangements, with up to 100% financing of the cost of the equipment
- Loan terms up to 10 years
- Lending structured to match cash flow cycles



## ENERGY EFFICIENT FINANCE

- 0.70% p.a. discount on the equipment interest rate on qualifying assets
- Loans from \$15k up to \$5m
- Finance leases, commercial loans and commercial hire purchase facilities available
- Structured finance over the life expectancy of the asset
- Typically, only security over the equipment is required

*Our range of programs with co-financiers are targeted to the clean energy needs of small businesses, manufacturers and agribusinesses, as well as small-scale commercial property.*

# BARRIERS TO DEBT FUNDING

<b>ACCESS TO OTHER SOURCES OF CAPITAL</b>	<ul style="list-style-type: none"><li>• Access to cash reserves</li><li>• Targeting grant funding programs</li></ul> <p>However, there is an opportunity cost to consider – either in use of council funds (is the use economic?) or is a project being delayed or not implemented to its full potential because of limited upfront capital available?</p>
<b>WILLINGNESS TO USE DEBT FINANCE</b>	<ul style="list-style-type: none"><li>• Historically low levels of debt</li><li>• Debt is sometimes considered “bad”</li><li>• Loan obligations tend to be longer term</li></ul> <p>Using debt for “economic” projects that generate a revenue or cost saving and provides a long term asset can be a good use of debt finance</p>
<b>WHOLE OF LIFE COST ANALYSIS</b>	<ul style="list-style-type: none"><li>• Capex and Opex budgets need to be considered together – particularly for energy efficiency projects</li><li>• Life of the asset being funded by Debt – does it extend beyond debt term? Eg: solar farms that provide renewable energy generations with useful lives of c. 25 years</li></ul>
<b>PROJECT SIZE</b>	<ul style="list-style-type: none"><li>• There are costs involved with debt funding, need a certain scale to make the time an cost investment to establish a debt facility worthwhile</li><li>• For CEFC – we see this at \$5m+</li></ul>

# STREET LIGHTING UPGRADES MAKE SENSE

- Single largest source of local governments' greenhouse gas emissions
- Typically accounting for 30 to 60 per cent of council emissions

## BENEFITS OF UPGRADING

- |   |   |
|---|---|
| ✓ | Reduced energy costs                                |
| ✓ | Reduced greenhouse gas emissions                    |
| ✓ | Improved urban amenity and safety                   |
| ✓ | Smart Controls – enabling the cities for the future |
| ✓ | Reduced operating and maintenance costs             |



# FINANCING FOR STREET LIGHTING PROGRAMS

CEFC SUPPORTS AUSTRALIAN COUNCILS AND BUSINESSES TO DELIVER ON THEIR CLEAN ENERGY GOALS.

- ✓ Financing is available to provide upfront capital
- ✓ CEFC can lend to groups of councils, distributors, private sector
- ✓ Long tenor and large scale programs
- ✓ Fixed rate loans

*We will work with you to develop the loan structure for the program*



# OPPORTUNITIES FOR COUNCILS



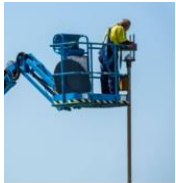
## Energy from waste

- to create an energy source from council waste, reducing both landfill and energy costs



## Rooftop solar PV on council buildings

- to provide a renewable energy source using the council's own assets



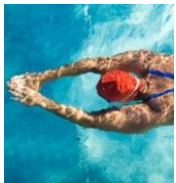
## Street lighting upgrades

– to reduce energy, operating and maintenance costs, cut greenhouse gas emissions, and improve urban amenity and safety



## Building upgrades

- to improve energy efficiency through a broad range of options, reducing energy costs



## Leisure and Aquatic Centres

- to address these high energy users, with better heating, ventilation and air conditioning solutions and renewable energy resources



## Electric and low emissions vehicles

- to lower council fuel bills at the same time as lowering emissions; can include related infrastructure such as charging stations

# CEFC CONTACTS



**Melanie Madders**

Director

@ [melanie.madders@cefc.com.au](mailto:melanie.madders@cefc.com.au)

📞 07 3188 1634

# CEFC

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**TRANSFORMING  
CLEAN ENERGY  
INVESTMENT**

**CLEAN ENERGY  
FINANCE  
CORPORATION**

t. 1300 002 332

i. +61 2 8039 0800

e. [info@cefc.com.au](mailto:info@cefc.com.au)

[cefc.com.au](http://cefc.com.au)