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TITLE: **The government's clean energy bank and the Abbott-proof fence**

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The government announcement on Tuesday that it accepts all of the recommendations of the Broadbent inquiry into the Clean Energy Finance Corporation (CEFC) is a high-water mark in the politics of perception. The commitment to spend $10 billion on renewable energy and energy efficiency helps convince the public that the government takes climate change seriously.

In reality, the CEFC is unlikely to materially affect the trajectory of Australia’s emissions and could ultimately increase the cost of "transitioning to a low carbon economy".

Australia’s emissions in 2020 are determined by the national target of 5%, which both parties share. Irrespective of what the CEFC does or doesn’t do, Australia’s emissions will be the same. In addition, the amount of renewable electricity generation in Australia is already set in legislation. Under the Renewable Energy Target (RET), we will have 20% renewables by 2020. Again, whether we spend the $10 billion or not, the amount of renewable electricity will be the same.

What then, is the point of spending all that money if it isn’t going to reduce emissions or increase the amount of renewable electricity generation? This is where things get murky.

In theory, complementary policies such as the CEFC should do one of two things: (a) realise cheap abatement opportunities that won’t be picked up by the carbon pricing scheme; or (b) accelerate the decline in the cost of low- and zero-emission technologies. If a complementary policy isn’t achieving one of these two objectives, it is wasting money.

The CEFC doesn’t appear to have been designed with these principles clearly in mind. The suggested objective of the CEFC is to "apply capital through a commercial filter to facilitate increased flows of finance into the clean energy sector thus preparing and positioning the Australian economy and industry for a cleaner energy future". While the Broadbent report makes reference to positive externalities and the need to consider them, there appears to be a view that more "clean energy" now is necessarily better.

Insufficient attention is also given to the interaction between the CEFC, carbon price and other existing complementary policies. The carbon price is supposed to be the main vehicle for reducing emissions and driving long-term change. The RET is supposed to promote a least-cost approach to the deployment of renewables. And there are multiple energy-efficiency schemes at the state level, and the Australian government is currently considering setting up its own.

There is a significant risk that the CEFC will duplicate what other programs are already doing, or corrupt their operation. For example, the CEFC will interfere with the operation of the carbon price by picking winners, potentially prematurely pushing technologies into commercialisation. It could also cannibalise the operation of the RET by pushing down the cost of renewable energy certificates, effectively punishing early movers. While the RET may not be the ideal vehicle for driving down renewable energy costs, we will now have two policy instruments -- the CEFC and the target -- potentially pulling in opposite directions.

More than anything, the great fear with the CEFC is that it will ultimately prove to be yet another under-spent, under-performing renewable/climate slush fund, as previous programs like the Greenhouse Gas Abatement Program and Low Emissions Technology Demonstration Fund were.

The CEFC will be taking a case-by-case approach to the selection of projects, where the objective is to finance near-market technologies and generate a portfolio-wide return similar to the government bond rate. Its scope is also very broad and captures a wide-array of technologies and project-types: renewables, energy-efficiency technologies, demand management technologies, combined cycle gas, hybrid fossil-fuel projects, community generation projects, transmission and storage infrastructure, and even "clean energy" manufacturing. The only explicit exclusions are carbon capture and storage, nuclear and generation technologies with an emissions intensity greater than 0.416 tCO_2-e/MWh.

With the CEFC’s breadth and flexibility comes a risk of money being inadvertently misallocated or deliberately syphoned into pet projects and technologies.

The Coalition has targeted the CEFC as one of the programs it wants to kill-off if it wins the next election. No amount of Abbott-proofing will be able to prevent this; if the Coalition has the numbers in Parliament to terminate the carbon pricing scheme, it will also have the numbers to end the CEFC.

The more immediate challenge for the government is proving that it has a clear and coherent vision of the CEFC’s role and can avoid repeating the mistakes of the past. The politics of offering something for everyone are appealing but history suggests that policies that try to be all things to all people end up delivering nothing.

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