The Auditor-General
Audit Report No.1 2012–13
Performance Audit

Administration of the Renewable Energy Demonstration Program

Department of Resources, Energy and Tourism

Australian National Audit Office

ISSN 1036–7632
ISBN 0 642 81263 2

Executive Director
Corporate Management Branch
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:
webmaster@anao.gov.au

Australian National Audit Office

Canberra ACT
21 August 2012

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Resources, Energy and Tourism with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Administration of the Renewable Energy Demonstration Program.*

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: **(02) 6203 7505**
Fax: **(02) 6203 7519**
Email: **webmaster@anao.gov.au**

ANAO audit reports and information about the ANAO are available at our internet address:

http://www.anao.gov.au

Audit Team
Donna Hanson
Ruth Cully
Eloise Lovegrove
Mark Simpson

Contents

Tables

Figures

Abbreviations

ACRE	Australian Centre for Renewable Energy
ANAO	Australian National Audit Office
ARENA	Australian Renewable Energy Agency
CEI	Clean Energy Initiative
CGGs	*Commonwealth Grant Guidelines—Policies and Principles for Grants Administration* (Financial Management Guidance 23)
CIU	Cabinet Implementation Unit
EOI	Expression of Interest
ERC	Expenditure Review Committee
FMA Act	*Financial Management and Accountability Act 1997*
GDP	Geothermal Drilling Program
The Guide	*Renewable Energy Demonstration Program—Information Guide*
IP	Intellectual Property
KPI	Key Performance Indicator
PAG	Program Administrative Guidelines
REC	Renewable Energy Committee
RET	Department of Resources, Energy and Tourism
ROI	Registration of Interest

Glossary

Australian Centre for Renewable Energy (ACRE)	The Australian Centre for Renewable Energy comprised: a statutory board; a Chief Executive Officer, who was an SES officer appointed by the Secretary of the Department of Resources, Energy and Tourism; and departmental support staff. ACRE was established to provide guidance to governments, industry and the community on renewable energy technology and to support the renewable energy industry. In October 2009, an interim ACRE board was established by the Minister, pending the appointment of a permanent board in May 2010. ARENA replaced ACRE from 1 July 2012.
Australian Renewable Energy Agency (ARENA)	The Australian Renewable Energy Agency, which was announced on 8 July 2011, was established on 1 July 2012. ARENA will assume responsibility for programs previously managed by ACRE, the Australia Solar Institute and by the Department of Resources, Energy and Tourism, as well as providing direct investment in new renewable energy projects.
Commonwealth Grant Guidelines (CGGs)	*Commonwealth Grant Guidelines–Policies and Principles for Grants Administration* (Financial Management Guidance 23) was released by the Department of Finance and Deregulation in July 2009. The purpose of the CGGs is to establish the policy framework and to articulate the Government's expectations for all departments and agencies that are subject to the *Financial Management and Accountability Act 1997* when performing duties in relation to grants administration.
Fossil fuels	Carbon-based fuels from fossil hydrocarbon deposits, including coal, oil and natural gas.
Gigawatt hour	A gigawatt hour (GWh) is a unit of energy equal to one million kilowatt hours. The output of electrical power stations is commonly measured in gigawatt hours.

Intellectual Property	Intellectual Property results from the application of someone's mind or intellect to create something new or original. Intellectual Property can exist in various forms, including an invention, a brand name or a trade secret.
Kilowatt hour	A kilowatt hour (kWh) is a unit of energy, commonly used as a billing unit for energy for consumers, equal to 3.6 megajoules. It represents 1000 watt hours.
Renewable Energy Fund	The Renewable Energy Fund was an Australian Labor Party 2007 election commitment, which later comprised the Renewable Energy Demonstration Program, Geothermal Drilling Program and the Second Generation Biofuels Research and Development Program.
Renewable energy	Renewable energy is energy sourced from the natural environment that can be replenished at a sustainable rate, equal to or greater than the rate of use. Types of renewable energy include hydro, biomass, geothermal, ocean, solar and wind.

Summary and Recommendations

Summary

Introduction

1. Governments both nationally and internationally have acknowledged that climate change, which is primarily associated with the increase in greenhouse gas concentrations in the atmosphere, has the potential to adversely impact on economic, social and environmental systems.[1]

2. In December 2007, Australia ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change, agreeing to limit annual greenhouse gas emissions to an average of 108 per cent of 1990 levels during the Kyoto period (2008 to 2012). The Australian Government has also committed to a long-term target to cut greenhouse gas emissions by 80 per cent below 2000 levels by 2050.[2]

3. There are a range of options available to reduce greenhouse gas emissions, including: energy conservation; improving energy efficiency and shifting power generation to renewable energy sources. Renewable energy has a key role in mitigating climate change, with wider benefits, including: contributions to social and economic development; energy access; secure energy supply and reducing negative impacts on the environment and health.[3] Within this context, the Australian Government has established a range of programs and initiatives aimed at mitigating the impact of climate change and promoting the use of renewable energy.

Renewable energy

4. Renewable energy is energy sourced from the natural environment that can be replenished at a sustainable rate—equal to or greater than the rate of

---

1 Greenhouse gases are linked to the use of fossil fuels for energy generation, particularly coal, oil and gas. E. Edenhofer, R. Pichs-Madruga, Y.Sokona, K. Seyboth, P. Matschoss, S. Kadner, T. Zwickel, P. Eickemeier, G. Hansen, S. Schlömer, C. von Stechow (eds.), *Summary for Policy Makers*, In: *IPCC Special Report on Renewable Energy Sources and Climate Change Mitigation*, IPCC, Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, 2011, p. 2.

2 Department of Climate Change and Energy Efficiency, *National targets* [Internet], Commonwealth of Australia, 2010, available from <http://www.climatechange.gov.au/government/reduce/national-targets.aspx> [accessed 4 April 2012].

3 E. Edenhofer, et al., op. cit., p. 3.

use—unlike fossil fuels, which have a finite supply and cannot be replenished. The generation of electricity from renewable energy does not generally involve the combustion of fossil fuels and the production of greenhouse gases.[4] Renewable energy is a cleaner energy source with less impact on the environment. However, the establishment of any new technology to generate power is potentially more expensive than existing technology. There are various stages in the development of renewable energy technology for power generation, including: research and development; pilot; demonstration; and commercialisation.

5. As a technology moves along the development continuum, the technical risk progressively declines, from high risk at the research and development stage, to low risk at the commercial stage. However, the financial risk may increase at the demonstration stage, depending on the size of the installation and level of funding required for demonstration. The expected costs of a renewable energy technology typically rise during the research, development and demonstration phases, but decline during commercial deployment.[5] As market drivers alone are not always sufficient to support an optimal innovation effort, government assistance for the renewable energy industry aims to address market failure.

6. Most of Australia's electricity is generated from fossil fuels, but the proportion generated from renewable sources is increasing. In 2009–10, Australia produced 241 566 gigawatt hours of electricity, with 91.8 per cent produced from fossil fuels[6], and 8.2 per cent from renewables, such as hydro, wind, biofuel and solar.[7] Estimated electricity generation from wind and solar energy increased in 2009–10 by 26 per cent and 78 per cent respectively.

7. The Australian Government has committed to increase the proportion of energy generated from renewable sources and to reduce dependency on non-renewable energy sources through its 20 per cent Renewable Energy

---

4 The combustion of biomass does produce greenhouse gas emissions, but in smaller amounts than it would in normal decomposition processes.

5 Commonwealth of Australia, *Draft Energy White Paper 2011: Strengthening the foundations for Australia's energy future*, Canberra 2011, p. 209.

6 In 2009–10, 75 per cent of Australia's electricity was produced from coal, 15 per cent from gas, and one per cent by oil. A further one per cent of Australia's electricity was produced by other fossil fuels.

7 Australian Bureau of Agricultural and Resource Economics and Sciences, *Energy Update 2011* [Internet], ABARES 2011, available from <http://adl.brs.gov.au/data/warehouse/pe_abares99010610/EnergyUpdate_2011_REPORT.pdf> [accessed 18 October 2011]. (One gigawatt hour is equal to one million kilowatt hours.)

Target.[8] The objective of the Renewable Energy Target is to supply 20 per cent of Australia's electricity, approximately 60 000 gigawatt hours, from renewable energy sources by 2020.[9] The Government has stated that renewable energy is an essential part of Australia's low emissions energy mix and has the potential to play a key role in reducing Australia's greenhouse gas emissions and in mitigating the impact of climate change.[10]

8. To contribute to the achievement of the Renewable Energy Target and to maintain a strong and competitive low emission economy, the Australian Labor Party announced the Renewable Energy Fund as an election commitment in 2007 with total funding of $500 million for the period 2009–10 to 2014–15.[11] As part of the 2008 Budget, the Minister for Resources and Energy[12] (the Minister) announced that the Renewable Energy Fund would comprise the:

- Renewable Energy Demonstration Program ($435 million);
- Geothermal Drilling Program ($50 million); and
- Second Generation (Gen2) Biofuels Research and Development Program ($15 million).[13]

9. The Government also announced in the 2008 Budget that the implementation of the Renewable Energy Demonstration Program (REDP) would be delayed until the following financial year, with funding to be appropriated from 1 July 2009. However, in December 2008, the Government announced that the Renewable Energy Fund would be brought forward for

---

8 Wong, P., (then Minister for Climate Change and Water), *Rudd government secures passage of 20 per cent Renewable Energy Target*, media release, 19 August 2009.

9 Based on expected electricity production of 300 000 gigawatt hours. The Senate, Economics Legislation Committee, *Renewable Energy (Electricity) Amendment Bill 2009 and a related bill [Provisions]*, [Internet], Commonwealth of Australia, August 2009, available from <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=economics_ctte/renewable_energy_09/report/c02.htm> [accessed on 22 September 2011], paragraph 2.2.

10 Department of Climate Change and Energy Efficiency, *Renewable energy* [Internet], Commonwealth of Australia, 2010, available from <http://www.climatechange.gov.au/what-you-need-to-know/renewable-energy.aspx> [accessed 6 October 2011].

11 Australian Labor Party, *Fact Sheet—Renewable Energy Fund*, Canberra, circa 2007, p. 1.

12 Also Minister for Tourism.

13 Ferguson, M., (Minister for Resources and Energy), *Budget Boosts Clean Coal and Renewable Energy*, media release, 13 May 2008.

investment in the subsequent 18 months. The purpose of this acceleration was to stimulate the economy during the global financial crisis and to create low-pollution jobs for the future.

Renewable Energy Demonstration Program

10. REDP is designed to accelerate the commercialisation and deployment of new renewable energy technologies for power generation in Australia by assisting the demonstration of these technologies on a commercial scale.[14] To be eligible for support under REDP, applicants were required to demonstrate that they satisfied the applicant and project eligibility criteria. Proposed projects were required to be: large-scale renewable energy demonstration projects for power generation meeting the objective and outcomes of REDP[15]; and involve eligible renewable energy generation technologies.

11. The Minister launched REDP on 20 February 2009 as a merit-based competitive grants program, with a proposed funding range of $50 million to $100 million for individual projects. As previously mentioned, the Australian Government initially made available $435 million[16] under the program to stimulate investment in renewable energy technology for power generation. The private sector is expected to contribute at least $2 for every $1 provided by the program.[17]

12. The Department of Resources, Energy and Tourism (RET) is the administering agency for REDP.[18] While the department is responsible for the design and implementation of the program, the Minister appointed an independent advisory committee, the Renewable Energy Committee (REC), to

---

[14] Department of Resources, Energy and Tourism, *Renewable Energy Demonstration Program—Information Guide*, Canberra, February 2009, p. 1.

[15] The program is designed to fill the gap between post-research and commercial uptake. Consequently, REDP is targeted at project proposals that are relatively mature and are at the state of commercial demonstration. Demonstration is taken to be the final step to address remaining technology risks around integration and scale-up of the technology, once the technology has been proven at pilot plant scale.

[16] The funding available under REDP was later reduced by the Government to $300 million for non-solar projects and $100 million for solar projects.

[17] Australian Labor Party, *Fact Sheet—Renewable Energy Fund*, Canberra, circa 2007, p. 1.

[18] REDP is administered as an executive scheme. Executive schemes rely on executive rather than legislative power, and their key advantage is the speed with which they can be established and their flexibility. A challenge in implementing an executive scheme is ensuring that any terms and conditions are clear and enforceable. As noted by the Commonwealth Ombudsman, many of the checks and balances in programs are conveyed through legislation. Source: Commonwealth Ombudsman, *Executive Schemes* [Internet]. Commonwealth Ombudsman, Canberra, 2009, available from <http://www.ombudsman.gov.au/files/investigation_2009_12.pdf> [accessed 12 December 2011].

assess REDP applications against the merit criteria and make recommendations to him for funding those projects that would enable the program to meet its objectives. RET provided secretariat support for REC, which included managing the registration of interest process, assessing applications against the eligibility criteria and coordinating technical and financial assessments. The department is also responsible for negotiating and managing the deeds of agreement.

13. RET received 63 applications, of which 61 were considered by the department to be eligible for REDP funding (36 non-solar and 25 solar). On 6 November 2009, the Minister announced grants for non-solar technologies totalling $234.5 million for two geothermal energy projects, one wave energy project and one combination energy project. On 11 May 2010, grants for two solar technology projects totalling $91.9 million were announced by the Minister. Details of all of these projects, including expenditure and capacity, are provided in Table S 1.

Table S 1

Funded non-solar and solar projects

Grant Recipient	Total Eligible Expenditure (million)	Amount of Grant (million)	Plant Capacity (MW)	Project Description
Geodynamics	$338.60	$90.00	25	A hot rock geothermal energy demonstration plant in Innamincka, South Australia.
Solar Oasis	$224.30	$60.00	40	Solar thermal big dish demonstration plant in Whyalla, South Australia.
Victorian Wave Partners	$221.60	$66.47	19	Ocean energy demonstration plant off Portland, Victoria.
MNGI	$188.30	$62.76	30	A heat exchanger within insulator geothermal energy demonstration plant in Paralana, South Australia.
CS Energy[1]	$104.70	$34.90	23	Solar powered booster for coal-fired power station at Kogan Creek, Queensland.
Hydro-Electric Corporation	$45.80	$15.28	4	Combination of solar, wind and biodiesel technologies on King Island, Tasmania.
Total	**$1 123.30**	**$329.41**	**141**	

Source: ANAO analysis of RET information.

Note 1: The grant amount was increased by $3 million due to increased project costs. This increase in the funding amount was approved by the Minister.

Program developments

14. As part of the 2009–10 Federal Budget, the Government announced the establishment of the Australian Centre for Renewable Energy (ACRE).[19] ACRE comprised: a statutory board; a Chief Executive Officer, who was an SES officer appointed by RET's Secretary; and departmental support staff. ACRE was established to provide guidance to governments and the community on renewable energy technology, and support the development of skills and capacity within the renewable energy industry.[20]

15. Also announced as part of the Budget was $1.5 billion in targeted support for the solar energy sector—the Solar Flagships Program—an element

[19] Initially announced as Renewables Australia and later changed to ACRE.

[20] Ferguson, M., (Minister for Resources and Energy), *$4.5 billion Clean Energy Initiative*, media release, 12 May 2009.

of the Clean Energy Initiative (CEI), which is to be implemented by RET.[21] With the announcement of ACRE and the CEI, solar energy projects were excluded from REDP, with the finalisation of REC's assessment of REDP solar applications suspended until ACRE was established.

16. In October 2009, the interim ACRE board[22] was established by the Minister, pending the appointment of a permanent board in May 2010. The interim ACRE board assessed the REDP solar applications shortlisted by REC, using the REDP guidelines, and made funding recommendations to the Minister. This audit examines the assessment and selection processes for applications lodged under REDP (non-solar and solar), and ongoing management of funded projects.

17. On 8 July 2011, the Government announced that the Australian Renewable Energy Agency (ARENA) would be established to consolidate renewable energy support into one independent statutory authority within the Resources, Energy and Tourism portfolio. ARENA, which commenced on 1 July 2012, is to provide $1.7 billion in funding to renewable energy projects as well as managing existing programs, including REDP. ARENA replaced ACRE.

Grant administration framework and guidance

18. Australian Government grant programs involve the expenditure of public money and are subject to applicable financial management legislation. Specifically, the *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money and public property, which includes requirements governing the process by which decisions are made about whether public money should be spent on individual grants.

19. Following the introduction in December 2007 of interim measures to improve grants administration, the Government agreed in December 2008 to a suite of reforms, including the development of an improved framework for grants administration. These were given immediate effect through revised

[21] The objective of the CEI is to support the growth of clean energy and reduce emissions. The initiative included programs such as Carbon Capture and Storage Flagships, Solar Flagships, the Australian Solar Institute and the Renewable Energy Venture Capital Fund. The Government later increased funding to the CEI to $5.1 billion.

[22] REC, which was appointed by the Minister to assess REDP applications, became the interim ACRE board.

Finance Minister's Instructions issued in January 2009 and have now been reflected in the enhanced legislative policy framework for grants administration that came into full effect on 1 July 2009, shortly after the commencement of REDP. The new framework has a particular focus on the establishment of transparent and accountable decision-making processes for the awarding of grants, and includes new specific requirements under the financial management framework in relation to grants administration and the Commonwealth Grant Guidelines (CGGs). Officials performing grants administration duties must act in accordance with the CGGs.

Audit objective and criteria

20. The objective of the audit was to assess the effectiveness of the Department of Resources, Energy and Tourism's administration of the Renewable Energy Demonstration Program (REDP), including progress towards achieving the program's objectives.

21. The audit examined whether the department had established effective arrangements to:

- implement REDP, including governance arrangements;
- assess applications for REDP funding assistance and recommend projects to the Minister for funding approval;
- negotiate funding agreements for approved projects; and
- monitor progress towards the achievement of the REDP objective.

Overall conclusion

22. The Government has made a policy commitment to support renewable energy growth in Australia through a national renewable energy target as well as providing direct financial support for the renewable energy industry.[23] The Renewable Energy Demonstration Program (REDP) was part of a 2007 election commitment that initially made available $500 million in grant funding to accelerate the development, commercialisation and deployment of renewable energy technologies in Australia. Although the Government announced in the 2008 Budget that the implementation of REDP would be delayed until the

[23] Department of Resources, Energy and Tourism, *Clean Energy Initiative* [Internet], Commonwealth of Australia, 2011, available at <http://www.ret.gov.au/Department/archive/cei/Pages/default.aspx> [accessed 5 April 2012].

following financial year, it was decided in December 2008 that the Renewable Energy Fund, of which REDP was one component, would be brought forward for investment in the subsequent 18 months.[24] The purpose of this acceleration was to stimulate the economy during the global financial crisis and to create low-pollution jobs for the future.

23. REDP was designed to provide competitive, merit-based funding for the construction of large-scale power plants to demonstrate the commercial viability of renewable energy technologies that had been proven at pilot plant scale, but had not progressed to full commercial operation. Even allowing for the expectation that these projects were to be 'shovel ready', they are a higher risk than commercially deployed technologies. This also has implications for the ability of applicants to attract and retain private sector funding (equity or debt) over the life of the project, given the requirement for grant recipients to contribute $2 for every $1 in grant funding.

24. RET received 61 eligible applications for REDP funding (36 non-solar and 25 solar). The Minister approved funding of $329.4 million for six projects, with individual grants ranging from $15.3 million to $90 million. These projects are expected to produce up to 141 megawatts of power from renewable technologies and attract a further $796.9 million in additional private sector investment. The projects are in a relatively early stage of development and, on the basis of current plans, are anticipated to be completed in 2015–16.

25. REDP was the first major program to be implemented by RET as a new department. At the time that REDP was being implemented (during late 2008 and early 2009) RET was still establishing core departmental functions. The acceleration of REDP's implementation also meant that grant applications, assessments and decisions had to be completed within a compressed timeframe, adding to the program's implementation risks.

26. While recognising the challenging environment these circumstances created, the department did not manage key aspects of the program's implementation well, departing from generally accepted practices for sound grants administration, which had only recently been reinforced by the release

[24] The Renewable Energy Fund also comprised the Geothermal Drilling Program and the Second Generation (Gen2) Biofuels Research and Development Program.

of the Commonwealth Grant Guidelines. In particular there were weaknesses in the following aspects of RET's administration:

- Program planning—the department did not complete an implementation plan for REDP, nor did it assess the risks facing the program until October 2009, some eight months after the launch of the program;
- Probity arrangements—departmental records did not indicate the consideration of declarations, by several Renewable Energy Committee (REC) members, of associations with entities, nor the involvement of these members in discussing individual applications for which they had declared a potential conflict. In addition, the department's probity officer did not observe the committee's assessment deliberations, nor perform the oversight tasks outlined in the probity plan; and
- Assessment of applications—the assessment process administered by the department fell short of the transparent and accountable decision-making processes for grants expected by government, with insufficient documentation retained by the department to evidence key aspects of the process.

27. RET informed the ANAO that despite these administrative issues, the processes employed by the department and REC were effective in determining the most appropriate projects to further the program's objectives. REC and subsequently the interim ACRE board[25], supported by the department, completed their assessments and unanimously agreed to recommend to the Minister six projects for REDP funding. The Minister approved the six recommended projects, with a total value of $329.4 million, and deeds of agreement have been authorised and executed. At the time of the audit, the selected projects were at an early phase of implementation and, consequently, it was not possible to form an opinion on the extent to which the projects have contributed to the REDP objective—especially in terms of the commercialisation and deployment of the new technologies.

28. Since 2009, when the assessment processes for REDP were undertaken, RET has progressively strengthened its governance arrangements and guidance surrounding the administration of grant programs. This additional

[25] The members of REC formed the interim ACRE board, which meant the committee was responsible for the assessment of both solar and non-solar REDP applications.

governance oversight and enhanced guidance better positions the department to effectively manage grant programs. There is, however, scope for the department to enhance existing materials through greater coverage of the requirements relating to the documentation of merit assessment processes. The ANAO has made one recommendation directed to this end.

Key findings by chapter

Program Planning and Oversight (Chapter 2)

Program design

29. RET consulted with industry stakeholders in designing REDP, including face-to-face meetings with selected potential applicants. Following the industry consultation process, RET refined key elements of the program design, including aligning the program's objective with the Government's policy intent by specifically incorporating the word 'new'. While the refinement of the objective restricted the eligibility of some renewable energy technologies and also changed the risk profile of the program, this change was consistent with the Government's policy position.

Program guidelines

30. The department prepared two program guidelines for REDP—one for potential applicants (the REDP Information Guide) and one for internal administration purposes (the Program Administrative Guidelines—PAG). The content of these documents was broadly aligned but the PAG was not publicly available. The department continues to issue both program administrative guidelines and separate information guides for the grant programs it administers, but now makes both publicly available. For new programs, there would be benefit in RET drafting and making publicly available program guidelines that meet the requirements of the CGGs and provide a single reference source for policy guidance, administrative procedures, appraisal criteria, monitoring requirements, evaluation strategies and standard forms to facilitate consistent and efficient grants administration.[26]

Implementation planning and risk management

31. The Government's decision to establish the Renewable Energy Fund in 2008 required RET to develop a detailed implementation plan, including

[26] Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, p. 22.

milestones and clear measures of success. However, the department did not complete an implementation plan for REDP nor did it assess the risks facing the program until October 2009—some eight months after the launch of the program. This increased the exposure of the department to downstream risks to the program's administration as there had not been early structured consideration given to the identification, treatment and mitigation of risks through a formal risk assessment process. The acceleration of the program and the condensed timeframe for project selection further raised the risk profile of the program and consequently the importance of sound risk management practices.

32. An implementation plan endorsed by senior management, that included resources and budgets, timelines and success factors as well as an assessment of program and implementation risks, would have provided a sound basis for the ongoing management of the program. The department's recent introduction of a project management framework, which includes the requirement for implementation and risk management plans to be developed, better positions the department to manage the implementation of its programs.

Measuring program performance

33. The department is yet to develop key performance indicators (KPIs) as a tool to allow the performance of REDP to be assessed. However, as REDP projects are in the early stages of implementation, RET has the opportunity to design and implement KPIs to assess the effectiveness of the program and the achievement of program objectives. Developing such indicators will enable the department to effectively monitor the progress of individual projects and assess whether the program is achieving its objective and whether outcomes are being delivered. RET informed the ANAO that the department is currently implementing the recommendations from ANAO Audit Report No. 5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*.[27] The department considers that the implementation of these recommendations will improve performance measures across departmental programs, and is currently drafting a set of KPIs for REDP.

[27] The ANAO recommended that entities: establish requirements to review program objectives to ensure they are clearly defined; develop key performance indicators with appropriate emphasis on quantitative and measurable indicators; and assess the extent that costing information is currently used to identify program support costs and allocate these costs to applicable programs.

Grant Assessment and Selection (Chapter 3)

Administration of the registrations of interest process

34. The REDP registration of interest process (ROI) established by RET was designed to provide feedback to applicants on the eligibility of proposed projects, assess the workload required to process applications, and to invite applicants to information workshops. RET used the information provided as part of the ROI process to identify potentially ineligible projects, including those projects that: were not of sufficient scale; had not been proven at pilot plant scale; were not employing renewable energy technologies; or were not for the generation of electricity. RET's ability to provide more specific feedback was, in part, affected by the condensed implementation timeframes resulting from the acceleration of the program and the high-level information requested from applicants.

Assessing applications for completeness and eligibility

35. Effective grant administration involves appropriate processes to ensure that applications are complete and that only eligible applications proceed to merit assessment. The process established by RET to determine the completeness of applications was limited to ensuring that attachments referenced in the application were provided. The department's assessment of completeness did not, however, include an assessment of whether all mandatory information was provided (mandatory information was not provided by 21 applicants). Notwithstanding the challenges faced by applicants in meeting the reduced application timeframe, the quality of the applications, particularly the provision of mandatory information, underpins the assessment process. The department's acceptance of incomplete applications ultimately made the subsequent merit assessment process by REC more challenging.

36. Broad eligibility criteria and the absence of clear guidance, such as defining the scale of the projects eligible for funding, made it more difficult for RET to undertake an assessment of eligibility. All 61 applications assessed as complete were deemed eligible by the department and progressed to merit assessment.

Technical and financial assessments

37. The assessment of eligible applications by the department's technical and financial assessors was designed to inform REC's merit assessment process. In general, RET appropriately managed the conflict of interest

arrangements for assessors and, through documented procedures and workshops, provided assessors with a reasonable framework to undertake assessments. However, technical and financial assessors adopted different methodologies, which contributed to the inconsistent treatment of applications. In addition, the variable quality of the applications meant that the technical and financial assessments were also of variable quality—a point made by the committee. RET had made provision for the financial and technical assessments to be moderated to improve comparability, but did not pursue this option. As a result, the risk that applications were not treated equitably was increased.

38. The technical and financial assessment process would have been better informed had RET established minimum scores to demonstrate that key merit criteria were satisfied. By using total raw scores from the assessments as the sole means to rank applications, there was no requirement for all criteria to be satisfied. This meant that some applications progressing to merit assessment by REC could receive a high score overall, but not meet key criteria, such as financial capacity.

Probity arrangements

39. The establishment of the REC brought expertise to the process of assessing and selecting applications and assisted the department to manage some of the program risks. Nevertheless, as some members of REC were involved in the renewable energy industry and were expected to have had involvement in the development of projects under consideration, the then Special Minister of State wrote to the Minister advising that members declare their interests in any such projects and remove themselves from the assessment. Several REC members declared an association with entities that prima facie could be considered to be a material conflict, including shareholdings, advisory roles, and professional relationships. The department advised the ANAO that the Program Manager and the REC Chair assessed the materiality of the declared associations; however, departmental records do not evidence this critical step as being undertaken.[28]

40. REC members informed the ANAO that the appropriate management of potential conflicts of interest was a key consideration for the committee,

[28] The REDP Renewable Energy Committee Handbook and assessment procedures required a decision on materiality or immateriality to be made prior to grant applications being provided to REC members.

particularly given the total funding available under REDP, and that potential conflicts were disclosed and considered at the commencement of each meeting. The committee had agreed that members with conflicts of interest would not be excluded from committee deliberations, but were required to restrict their comments to those of a technical and financial nature. The meeting records do not, however, indicate the involvement of these members in discussing individual applications for which they had declared a potential conflict, nor the basis of the committee's decision to allow these members to rank their preferred applications.

41. The department's management of conflicts of interest was also adversely impacted by weaknesses in probity arrangements for the assessment process. Independent probity oversight was not established until after the assessment of applications had commenced. Further, the probity advisor did not observe the committee's assessment deliberations, nor perform the oversight tasks outlined in the probity plan.

42. The advice from REC members and the department to the ANAO has been that the potential conflicts of interest declared by committee members were appropriately managed. Nevertheless, the weaknesses in probity oversight and management of potential conflicts did not deliver to the Government the level of assurance expected in relation to the integrity of the assessment process for such a significant grant program.

Assessment of applications against the merit criteria

43. REC was responsible for assessing all applications against the program's merit criteria, with the committee advising the Minister that an initial out-of-session assessment was undertaken of all applications. The quality of the applications presented challenges for REC in conducting the merit assessment process. The department advised that the committee was required to exercise considerable judgement particularly in relation to the stage of development of some projects.

44. RET originally established a sound assessment process to underpin REC's merit assessment of applications. Through successive revisions to the assessment procedures, the department reduced the documentation required to support the committee's merit assessment process. RET made key decisions relating to the shortlisting of 31 of the 61 applications received (18 non-solar and 13 solar) that were not documented. The assessments by the committee members were not documented and their ranking sheets for selecting their preferred non-solar applications were not retained by the department. The

preferential voting process applied by the department across individual committee member's rankings to arrive at a final list of the 10 preferred non-solar and eight solar applications to be considered by the committee in-session was also not documented by the department.

45. While the minutes of REC meetings provided high-level coverage of matters considered by the committee, they did not outline the considerations taken into account when ranking eligible applications individually against the merit criteria. Summary assessments were prepared for shortlisted applications only, and these assessments did not specifically include an assessment against the merit criteria. Assessments were not prepared for those applications that were not shortlisted.[29]

46. These circumstances illustrate significant scope for RET to strengthen its processes for documenting the assessments of grant applications by departmental officers and advisory committees.[30] That said, in terms of the selection process, the committee members advised the Minister that they had considered all applications and held a unanimous view on the projects recommended for funding in terms of the value for the expenditure of Commonwealth funds and contribution to the achievement of the Government's policy objectives.

47. RET has progressively strengthened its governance arrangements and guidance surrounding the administration of grant programs. The establishment of the Program Management Committee in 2010 and the subsequent Program Management and Delivery Committee in 2011 has provided improved oversight over development, delivery and risk management across departmental grant programs. The department's establishment of procedural rules for grants administration and risk management, the development of a comprehensive grants administration manual, and the preparation of a range of template documents to guide administrative practices better places the department to effectively manage grant programs.

---

[29] The CGGs state that 'In the context of grant administration, probity and transparency are achieved by ensuring: that decisions relating to granting activity are impartial, appropriately documented and publicly defensible.' p. 27.

[30] The CGGs state that 'Accountability involves agencies and decision-makers being able to demonstrate and justify the use of public resources to government, the Parliament and the community. This necessarily involves keeping appropriate records… [and] involves providing reasons for all decisions that are taken and the provision of information to government, the Parliament and the community.' p. 27.

Recommendations and advice to the decision-maker

48. REC provided the Minister, the decision-maker for REDP, with detailed reports recommending four non-solar and two solar projects for funding. The reports highlighted key considerations taken into account during the assessment process, including the immaturity of the Australian renewable energy sector and the shortcomings of the applications received for the program. While the reports included assessment summaries for each of the recommended projects, the summaries did not include information on the committee's assessment of the extent to which recommended projects met the merit criteria.[31]

49. Furthermore, the department's initial briefing accompanying REC's recommendations for non-solar projects did not comply with the requirements of the CGGs, particularly in relation to advising the Minister on the Australian Government's financial management framework and the requirements of the CGGs. The department subsequently advised the Minister of his obligations and sought approval in October 2009. The department's briefing accompanying the recommendations from the interim ACRE board for solar projects provided the Minister with appropriate information on his obligations.

Negotiation and Management of Funding Deeds (Chapter 4)

Deed negotiations

50. The department has adopted a risk-based approach to the negotiation and ongoing management of the deeds, which recognises the challenges arising from the demonstration of new renewable energy technologies at differing stages of development. The standard draft deed addressed a range of risks that could emerge under REDP by empowering the Commonwealth to claim repayment of grant funds in a range of circumstances, including abandonment of the project. Such provisions were designed to encourage applicants to commit to implementing their proposed projects in their entirety; otherwise they could be required to repay REDP grant funds in full.

51. During deed negotiations, key decisions were authorised by the Minister or the program delegate, and appropriately documented. Most deeds reflect the terms of the original recommended grant funding offer. The

[31] The REC summary assessments provided: a brief description of the proposal; the project participants; project details, such as technology, site, grant amount sought, project cost and megawatt (MW) scale; and a listing of strengths and weaknesses.

schedules to the deeds set out the milestones and progress payments agreed for each project, as well as the evidence that recipients must submit to the department to demonstrate the achievement of their project obligations.

52. Five of the six projects are for the construction of large-scale installations (19 to 49 megawatt). The sixth involved an integrated mini-grid project (4 megawatt) comprising wind, solar, biodiesel and storage technologies, as well as demand management features. REC noted that 'the scale of the project is small by REDP standards', but considered that 'the potential roll out to other locations around Australia was a valuable outcome'.

53. REC sought to manage the technology risks arising from some of the projects through the use of conditions precedent. This approach helped to ensure that grant recipients were in a better position to demonstrate their technology on a large scale prior to receiving REDP funding. Four grant recipients had conditions precedent imposed that involved testing part of their technology, for example completing a proof of concept project or a pilot project to demonstrate a mass manufacturing approach.

54. Two successful applicants negotiated to include the costs of pilot works in their REDP projects, despite the original grant offers for these projects requiring pilot works to be undertaken as a condition precedent separately from the REDP project. Although the overall funding to these projects did not increase during negotiations, the deeds include pilot costs as eligible expenditure. Allowing REDP demonstration projects to commence before the completion of conditions precedent relating to pilot works increases the risk profile of the projects. While recognising this, the department advised that this change in risk profile must be balanced with the greater risk that the project would not proceed, thus putting at risk the achievement of the objectives and outcomes of the program.

Deed management

55. There have been several variations to the funding deeds. Although most variations have been consistent with the REDP Information Guide, one grant recipient negotiated a variation that involves a further bringing forward of grant funding on a dollar-for-dollar basis in the early stages of the project. When considering the request for variation, RET prepared a risk assessment, which was informed by legal, technical and financial advice. The department also provided detailed briefings to the ACRE board and the Minister regarding the change in risk profile and the proposed risk mitigation strategies.

56. Grant recipients qualify for progress payments based on achieving milestones set out in the deed. The department has decided to pay milestone claims as a proportion of the original estimated costs, rather than the actual expenditure incurred by the recipient. The department plans to reconcile the total actual expenditure with estimated expenditure at the end of each financial year to ensure the overall grant funding does not exceed the authorised percentage. Given the department's decision to release milestone payments, which in some cases may exceed 33.3 per cent of actual eligible expenditure[32], it is important for the department to implement a sound process to reconcile milestone payments with the amount of eligible expenditure allowed under the deeds, and to adjust payments in a timely manner.

Summary of agency response to the proposed report

57. RET's summary response to the proposed report is provided below, while the full response is provided at Appendix 1.

> The Department of Resources, Energy and Tourism (RET) is committed to the effective administration of the Renewable Energy Demonstration Program (REDP). RET has successfully implemented REDP and is making good progress towards achieving the program's objectives.
>
> The Auditor-General's report acknowledges the acceleration of REDP's implementation and the impact that this had on program planning, assessment and selection processes. The acceleration meant that grant applications, assessments and decision-making had to be completed within a compressed timeframe. RET accepts that some of the documentation and record-keeping should have been better handled. This acceleration is the primary contributor to many of the issues identified in the Auditor-General's report.
>
> The Auditor-General's report also acknowledges that REDP was the first major project to be implemented by RET as a new department and, at the time that REDP was being established, RET was still establishing core departmental functions. RET has considerably strengthened its governance arrangements and guidance surrounding the administration of grant programs since REDP was implemented. These improvements in departmental policies and processes address the issues in this report and RET is confident that similar issues will not occur in future program implementation.

[32] In some cases, this ratio of project expenditure to grant funding has been altered through the deed negotiation or variation processes, with the grant recipient agreeing to contribute a greater proportion of funding to the project.

The issues identified in this report need to be considered in balance with the positive aspects that have contributed to the effective administration of REDP. Specifically, RET would like to note that:

- The projects selected for funding under REDP were assessed and recommended by an independent and expert advisory committee, the Renewable Energy Committee (REC). RET relied heavily on the professional expertise and experience of the REC.
- The REC undertook a detailed evaluation of applications and applied considered judgement after lengthy analysis and discussion. The REC's evaluation was supported by detailed independent technical and financial written assessments.
- RET was mindful of probity requirements throughout the grant application assessment and selection process. RET maintained conflict of interest disclosures for all REC members which detailed all potential linkages and associations between REC members and applicants. No REC member had a material conflict of interest and decision-making was not compromised in any way.
- The subsequent management of the funding deeds and project activities has been professional, pro-active and outcome-focused, resulting in positive early-stage results across the project portfolio.

RET considers that the REDP funding decisions are sound, and have resulted in a balanced portfolio of meritorious projects that are fully consistent with the objectives of the Program and the principle of value for money. RET recognises however that good record keeping assists it to meet its accountability obligations and demonstrate that due process has been followed in actions and decisions. Notwithstanding the Auditor-General's findings regarding documentation and record-keeping, RET is aware of no evidence that decisions to award grants to successful recipients were incorrect, not based on merit, or that the grant application and assessment process was biased and unfairly favoured or disadvantaged any applicant.

RET accepts the recommendation of the report.

Recommendations

Recommendation No. 1

Para 3.101

To improve accountability and transparency in grants administration, the ANAO recommends that the Department of Resources, Energy and Tourism strengthens processes for undertaking assessments of future grant programs by:

(a) providing additional guidance in relation to documenting assessment and selection processes in the department's grants administration manual; and

(b) reinforcing to departmental officers and advisory committee members the importance of documenting assessments against eligibility and merit criteria.

RET's response: ***Agreed.***

Audit Findings

1. Background and Context

This chapter provides the context for the Renewable Energy Demonstration Program, and an overview of the program. The audit objective, criteria and methodology are also outlined.

Introduction

1.1 Governments both nationally and internationally have acknowledged that climate change, which is primarily associated with the increase in greenhouse gas concentrations in the atmosphere, has the potential to adversely impact on economic, social and environmental systems. Greenhouse gases are linked to the use of fossil fuels for energy generation, particularly coal, oil and gas.[33]

1.2 In December 2007, Australia ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change, agreeing to limit annual greenhouse gas emissions to an average of 108 per cent of 1990 levels during the Kyoto period (2008 to 2012). The Australian Government has also committed to a long-term target to cut greenhouse gas emissions by 80 per cent below 2000 levels by 2050.[34]

1.3 There are a range of options available to reduce the reliance on fossil fuels and to reduce greenhouse gas emissions, including: energy conservation; improving energy efficiency; and shifting power generation to renewable energy sources. Renewable energy has a key role to play in mitigating climate change, with wider benefits, including: contributions to social and economic development; energy access; a secure energy supply; and reducing negative impacts on the environment and health.[35] Within this context, the Australian Government has established a range of programs and initiatives aimed at mitigating the impact of climate change and promoting the use of renewable energy.

---

[33] E. Edenhofer, R. Pichs-Madruga, Y.Sokona, K. Seyboth, P. Matschoss, S. Kadner, T. Zwickel, P. Eickemeier, G. Hansen, S. Schlömer, C. von Stechow (eds.), *Summary for Policy Makers*, In: *IPCC Special Report on Renewable Energy Sources and Climate Change Mitigation*, IPCC, Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, 2011, p. 2.

[34] Department of Climate Change and Energy Efficiency, *National targets* [Internet], Commonwealth of Australia, 2010, available from <http://www.climatechange.gov.au/government/reduce/national-targets.aspx> [accessed 4 April 2012].

[35] E. Edenhofer, et al., op.cit. p. 3.

Renewable energy

1.4 Renewable energy is energy sourced from the natural environment that can be replenished at a sustainable rate—equal to or greater than the rate of use—unlike fossil fuels, which have a finite supply and cannot be replenished. Sources of renewable energy, as classified by the *Renewable Energy (Electricity) Act 2000*, include hydro, ocean, wind, solar, geothermal and biomass technologies.[36] Further information on each of these technologies is provided at Appendix 2.

1.5 The generation of electricity from renewable energy does not generally involve the combustion of fossil fuels and the production of greenhouse gases.[37] Hence, renewable energy is a cleaner energy source with less impact on the environment. Although renewable energy power plants do not have ongoing fuel costs, and may be cheaper to operate than a fossil fuel power plant, they may have higher construction costs, and face higher financing costs relative to well-established technologies.

1.6 There are various stages in the development of renewable energy technology for power generation, including: research and development; pilot; demonstration; and commercial.[38] As a technology moves along the development continuum, the technical risk progressively declines, from high risk at the research and development stage, to low risk at the commercial stage. However, the financial risk may increase at the demonstration stage, depending on the size of the installation and level of funding required for demonstration.

1.7 The expected costs of a renewable energy technology typically rise during the research and development and demonstration phases, but decline during commercial deployment.[39] The pattern of declining costs as cumulative capacity increases is illustrated in Figure 1.1.

---

[36] A complete list of eligible renewable energy technologies is provided in s.17 of the *Renewable Energy (Electricity) Act 2000*, available from <http://www.comlaw.gov.au/Details/C2011C00651> [accessed 6 October 2011] and Division 2.2 of the *Renewable Energy (Electricity) Regulations 2001*, available from <http://www.comlaw.gov.au/Details/F2011C00810> [accessed 6 October 2011].

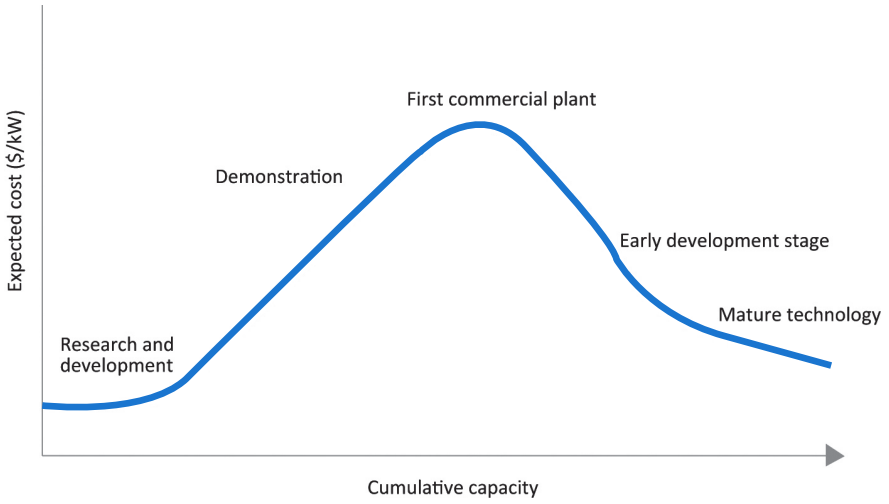
[37] The combustion of biomass does produce greenhouse gas emissions, but in smaller amounts than it would in normal decomposition processes.

[38] CSIRO National Research Flagships Energy Transformed, *Unlocking Australia's Energy Potential*, Newcastle, 2011, pp. 7–8.

[39] Commonwealth of Australia, *Draft Energy White Paper 2011: Strengthening the foundations for Australia's energy future*, Canberra 2011, p. 209.

Figure 1.1

Change in energy costs with increasing cumulative capacity



Source: CSIRO, *Projections of the future costs of electricity generation technologies*, CSIRO Newcastle, February 2011.

1.8 The decline in costs can be due to technological improvements, including better design, construction, and operation of power plants, as well as economies of scale, such as scale-up of technology production. As clean energy technologies develop from research to full commercialisation, markets build an information base about their cost and performance. However, it may not be until after the deployment of multiple commercial plants that the actual cost starts to decrease.[40] As market drivers alone are not always sufficient to support an optimal innovation effort, government assistance for the renewable energy industry aims to address market failure.

1.9 Most of Australia's electricity is generated from fossil fuels, but the proportion generated from renewable sources is increasing. In 2009–10, Australia produced 241 566 gigawatt hours of electricity, with 91.8 per cent produced from fossil fuels[41], and 8.2 per cent from renewables, such as hydro,

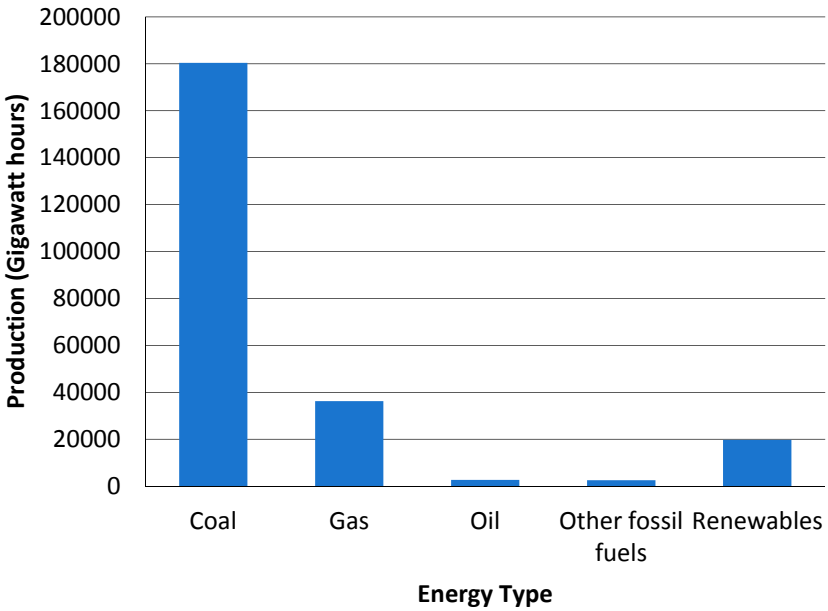
[40] CSIRO, *Projections of the future costs of electricity generation technologies*, Newcastle, February 2011, p. 11.

[41] In 2009–10, 75 per cent of Australia's electricity was produced from coal, 15 per cent from gas, and one per cent by oil. A further one per cent of Australia's electricity was produced by other fossil fuels.

wind, biofuel and solar.[42] Estimated electricity generation from wind and solar energy increased in 2009–10 by 26 per cent and 78 per cent respectively. Figure 1.2 provides a breakdown of the sources of Australia's energy supply and their production levels in gigawatt hours.

Figure 1.2

Sources of electricity production in Australia (2009–10)



Source: Australian Bureau of Agricultural and Resource Economics and Sciences 2011.[43]

1.10 Figure 1.3 provides a breakdown of the renewable sources of electricity generation in Australia. Hydro-electricity provided 64 per cent of renewable

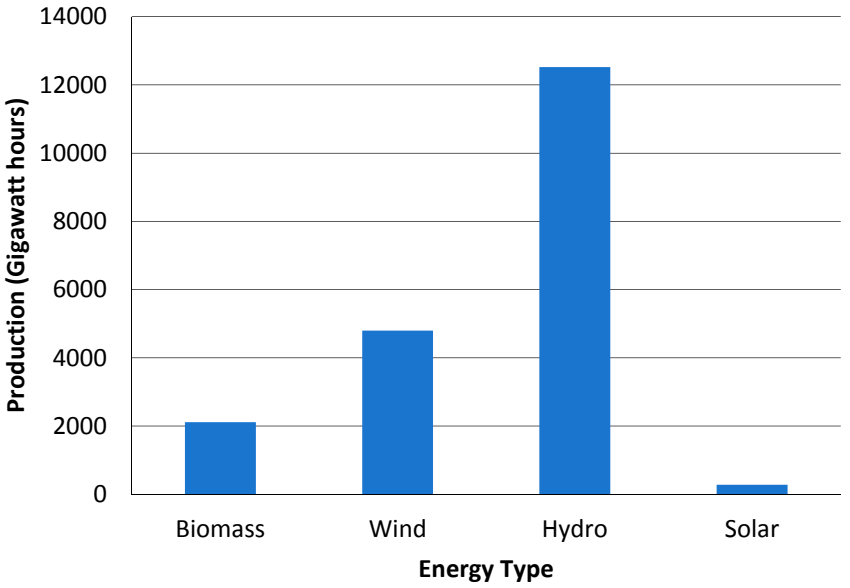
[42] Australian Bureau of Agricultural and Resource Economics and Sciences, *Energy Update 2011* [Internet], ABARES 2011, available from <http://adl.brs.gov.au/data/warehouse/pe_abares99010610/EnergyUpdate_2011_REPORT.pdf> [accessed 18 October 2011]. (One gigawatt hour is equal to one million kilowatt hours.)

[43] Australian Bureau of Agricultural and Resource Economics and Sciences, *Energy Update 2011* [Internet], ABARES 2011, available from <http://adl.brs.gov.au/data/warehouse/pe_abares99010610/EnergyUpdate_2011_REPORT.pdf> [accessed 18 October 2011].

energy in Australia in 2009–10.[44] For example, 87 per cent of Tasmania's energy is sourced from hydro and wind energies.[45]

Figure 1.3

Renewable sources of electricity production in Australia (2009–10)



Source: Australian Bureau of Agricultural and Resource Economics and Sciences 2011.[46]

1.11 The Australian Government has committed to increase the proportion of energy generated from renewable sources and to reduce dependency on non-renewable energy sources through its 20 per cent Renewable Energy Target.[47] The objective of the Renewable Energy Target is to supply 20 per cent

[44] Australian Bureau of Agricultural and Resource Economics and Sciences, *Energy Update 2011* [Internet], ABARES 2011, available from <http://adl.brs.gov.au/data/warehouse/pe_abares99010610/EnergyUpdate_2011_REPORT.pdf> [accessed 18 October 2011].

[45] Department of Infrastructure, Energy and Resources, *Energy: Renewable Energy* [Internet], DIER, Tasmania, 2011, available from <http://www.dier.tas.gov.au/energy/renewable_energy> [accessed 18 October 2011].

[46] Australian Bureau of Agricultural and Resource Economics and Sciences, *Energy Update 2011* [Internet], ABARES 2011, available from <http://adl.brs.gov.au/data/warehouse/pe_abares99010610/EnergyUpdate_2011_REPORT.pdf> [accessed 18 October 2011].

[47] Wong, P., (then Minister for Climate Change and Water), *Rudd government secures passage of 20 per cent Renewable Energy Target*, media release, 19 August 2009.

of Australia's electricity, approximately 60 000 gigawatt hours, from renewable energy sources by 2020.[48] The Government has stated that renewable energy is an essential part of Australia's low emissions energy mix and has the potential to play a key role in reducing Australia's greenhouse gas emissions and in mitigating the impact of climate change.[49]

1.12 To contribute to the achievement of the Renewable Energy Target and to maintain a strong and competitive low emission economy, the Australian Labor Party announced the Renewable Energy Fund as an election commitment in 2007. The total funding announced for this fund was $500 million for the period 2008–09 to 2014–15.[50] As part of the 2008 Budget, the Minister for Resources and Energy[51] (the Minister) announced that the Renewable Energy Fund would comprise the:

- Renewable Energy Demonstration Program ($435 million)
- Geothermal Drilling Program ($50 million); and
- Second Generation (Gen2) Biofuels Research and Development program ($15 million).[52]

1.13 The Government also announced in the 2008 Budget that the implementation of the Renewable Energy Demonstration Program (REDP) would be delayed until the following financial year, with funding to be appropriated from 1 July 2009. However, in December 2008, the Government announced that the Renewable Energy Fund would be brought forward for investment in the subsequent 18 months. The purpose of this acceleration was

---

48 Based on expected electricity production of 300 000 gigawatt hours. The Senate, Economics Legislation Committee, *Renewable Energy (Electricity) Amendment Bill 2009 and a related bill [Provisions*], [Internet], Commonwealth of Australia, August 2009, available from <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=economics_ctte/renewable_energy_09/report/c02.htm> [accessed on 22 September 2011], paragraph 2.2.

49 Department of Climate Change and Energy Efficiency, *Renewable energy* [Internet]. Commonwealth of Australia, 2010, available from <http://www.climatechange.gov.au/what-you-need-to-know/renewable-energy.aspx> [accessed 6 October 2011].

50 Australian Labor Party, *Fact Sheet—Renewable Energy Fund*, Canberra, circa 2007, p. 1.

51 Also the Minister for Tourism.

52 Ferguson, M., (Minister for Resources and Energy), *Budget Boosts Clean Coal and Renewable Energy*, media release, 13 May 2008.

to stimulate the economy during the global financial crisis[53] and to create low-pollution jobs for the future.

Renewable Energy Demonstration Program

1.14 REDP is designed to accelerate the commercialisation and deployment of new renewable energy technologies for power generation in Australia by assisting the demonstration of these technologies on a commercial scale.[54] To be eligible for support under REDP, applicants were required to demonstrate that they satisfied the applicant and project eligibility criteria. Proposed projects were required to be: large-scale renewable energy demonstration projects for power generation meeting the objective and outcomes of REDP[55]; and involve eligible renewable energy generation technologies.

1.15 The Minister launched REDP on 20 February 2009 as a merit-based competitive grants program, which had a proposed funding range of $50 million to $100 million for individual projects. As previously mentioned, the Australian Government initially made available $435 million[56] under the program to stimulate investment in renewable energy technology for power generation, with the private sector contributing at least $2 for every $1 provided by the program.[57]

1.16 The Department of Resources, Energy and Tourism (RET) is the administering agency for REDP. While the department is responsible for the design and implementation of the program, the Minister appointed an independent advisory committee, the Renewable Energy Committee (REC) to assess REDP applications against the merit criteria and make recommendations for funding. RET provided secretariat support for REC, which included managing the registration of interest process, assessing

---

53 Commencing in 2008, the global financial crisis resulted in a period of worldwide economic downturn and the prospect of rising unemployment in many countries, including Australia.

54 Department of Resources, Energy and Tourism, *Renewable Energy Demonstration Program—Information Guide*, Canberra, February 2009, p. 1.

55 The program is designed to fill the gap between post-research and commercial uptake. Consequently, REDP is targeted at project proposals that are relatively mature and are at the state of commercial demonstration. Demonstration is taken to be the final step to address remaining technology risks around integration and scale-up of the technology, once the technology has been proven at pilot plant scale.

56 The funding available under REDP was later reduced by the Government to $300 million for non-solar projects and $100 million for solar projects.

57 Australian Labor Party, *Fact Sheet—Renewable Energy Fund*, Canberra, circa 2007, p. 1.

applications against the eligibility criteria and coordinating technical and financial assessments. The department is also responsible for negotiating and managing the deeds of agreement.

1.17 RET received 63 applications, of which 61 were considered by the department to be eligible for REDP funding (36 non-solar and 25 solar). On 6 November 2009, the Minister announced grants for non-solar technologies totalling $234.5 million for two geothermal energy projects, one wave energy project and one combination energy project. On 11 May 2010, grants for two solar technology projects totalling $91.9 million were announced by the Minister. Details of these projects, including expenditure and capacity, are provided in Table 1.1.

Table 1.1

Funded non-solar and solar projects

Grant Recipient	Total Eligible Expenditure (million)	Amount of Grant (million)	Plant Capacity (MW)	Project Description
Geodynamics	$338.6	$90.00	25	A hot rock geothermal energy demonstration plant in Innamincka, South Australia.
Solar Oasis	$224.3	$60.00	40	Solar thermal big dish demonstration plant in Whyalla, South Australia.
Victorian Wave Partners	$221.6	$66.47	19	Ocean energy demonstration plant off Portland, Victoria
MNGI	$188.3	$62.76	30	A heat exchanger within insulator geothermal energy demonstration plant in Paralana, South Australia.
CS Energy[1]	$104.7	$34.90	23	Solar powered booster for coal-fired power station at Kogan Creek, Queensland.
Hydro-Electric Corporation	$45.8	$15.28	4	Combination of solar, wind and biodiesel technologies on King Island, Tasmania.
Total	**$1 123.30**	**$329.41**	**141**	

Source: ANAO analysis of RET information.

Note 1: The grant amount was increased by $3 million due to increased project costs. This increase in the funding amount was approved by the Minister.

Program developments

1.18 As part of the 2009–10 Federal Budget, the Government announced the establishment of the Australian Centre for Renewable Energy (ACRE)[58], which comprised: a statutory board; a Chief Executive Officer, who was an Australian Government SES officer appointed by RET's Secretary; and departmental support staff. ACRE was established to provide guidance to governments and the community on renewable energy technology, and support the development of skills and capacity within the renewable energy industry.[59]

1.19 Also announced as part of the Budget was $1.5 billion in targeted support for the solar energy sector—the Solar Flagships Program—an element of the Clean Energy Initiative (CEI), which was to be implemented by RET.[60] With the announcement of ACRE and the CEI, the finalisation of REC's assessment of REDP solar applications was suspended until ACRE was established.

1.20 As a result of the Budget announcement, solar energy projects were excluded from REDP and funding of $135 million was transferred from the program to the Solar Flagships Program. In 2009, the Minister subsequently allocated up to $100 million to the ACRE board to make recommendations for possible funding assistance to solar energy REDP applications. In October 2009, the interim ACRE board[61] was established by the Minister, pending the appointment of a permanent board in May 2010. The Minister requested the board to: assess, against the original guidelines issued for REDP, those solar energy applications lodged under REDP deemed the most prospective by REC; and make recommendations on which, if any, solar technology applications should receive funding within the total funding envelope of $100 million.

1.21 The interim ACRE board assessed REDP solar applications shortlisted by REC, using the REDP guidelines, and made funding recommendations to

[58] Initially announced as Renewables Australia and later changed to ACRE.

[59] Ferguson, M., (Minister for Resources and Energy), *$4.5 billion Clean Energy Initiative*, media release, 12 May 2009.

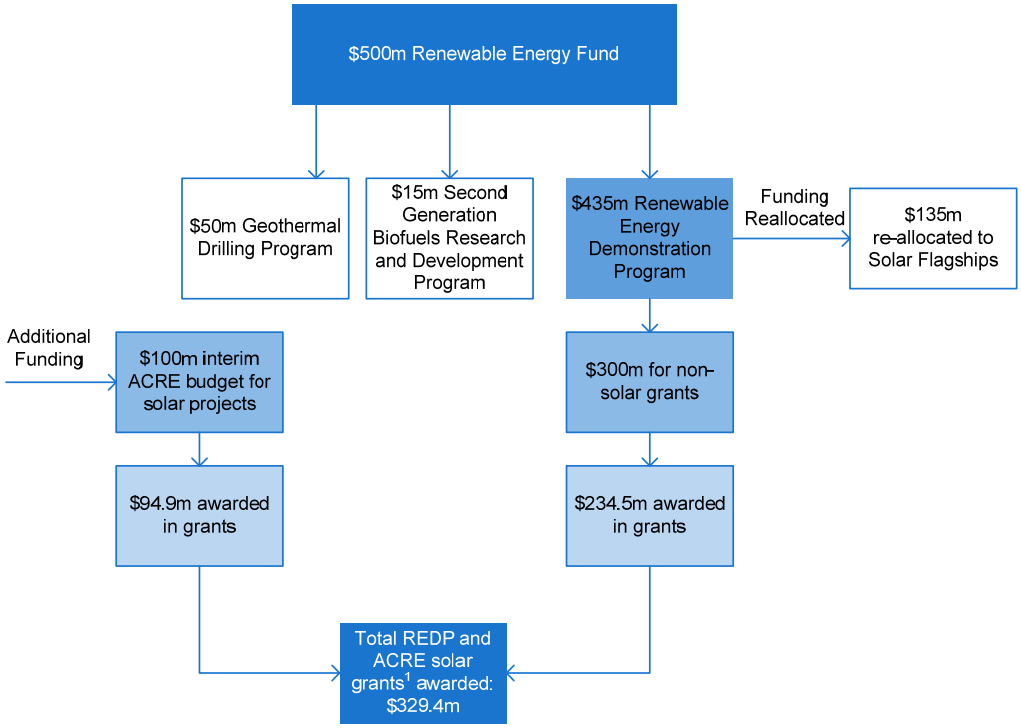
[60] The objective of the CEI is to support the growth of clean energy and reduce emissions. The initiative included programs such as Carbon Capture and Storage Flagships, Solar Flagships, the Australian Solar Institute and the Renewable Energy Venture Capital Fund. The Government later increased funding to the CEI to $5.1 billion.

[61] REC, which was appointed by the Minister to assess REDP applications, became the interim ACRE board.

the Minister. This audit examines the assessment and selection processes for applications lodged under REDP (non-solar and solar), and ongoing management of funded projects. Figure 1.4 illustrates the evolution of the REDP budget.

Figure 1.4

Evolution of the REDP budget



Source: ANAO analysis of RET information.

Note 1: The successful solar projects are referred to as ACRE solar projects.

Changes to administrative arrangements

1.22 On 8 July 2011, the Government announced that the Australian Renewable Energy Agency (ARENA) would be established to consolidate renewable energy support into one independent statutory agency within the Resources, Energy and Tourism Portfolio.[62] ARENA, which commenced on

[62] From 1 July 2012, ARENA will oversee around $3.2 billion in Australian Government funding for renewable energy such as solar (including large-scale solar), biomass, biofuels, ocean and geothermal. Ferguson, M., (Minister for Resources and Energy and Minister for Tourism), *Legislation Introduced to Establish ARENA*, media release, Parliament House, 12 October 2011.

1 July 2012, is to provide $1.7 billion in funding to renewable energy projects as well as managing existing programs, including the Solar Flagships Program, the Geothermal Drilling Program and elements of the Low Emissions Technology Demonstration Fund. ARENA will also manage activities previously administered by ACRE, including REDP.[63] ARENA replaced ACRE.

Grant administration framework and guidance

1.23 Australian Government grant programs involve the expenditure of public money and are subject to applicable financial management legislation. Specifically, the *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money and public property, which includes requirements governing the process by which decisions are made about whether public money should be spent on individual grants.

1.24 Following the introduction in December 2007 of interim measures to improve grants administration, the Government agreed in December 2008 to a suite of reforms, including the development of an improved framework for grants administration. These were given immediate effect through revised Finance Minister's Instructions issued in January 2009 and have now been reflected in the enhanced legislative policy framework for grants administration that came into full effect on 1 July 2009, shortly after the commencement of REDP. The new framework has a particular focus on the establishment of transparent and accountable decision-making processes for the awarding of grants, and includes new specific requirements under the financial management framework in relation to grants administration and the Commonwealth Grant Guidelines (CGGs). Officials performing grants administration duties must act in accordance with the CGGs.

1.25 The following seven key principles for grant administration were established in the CGGs: robust planning and design; an outcomes orientation; proportionality; collaboration and partnership; governance and accountability; probity and transparency; and achieving value with public money.[64] Further, the CGGs state that unless specifically agreed otherwise, competitive, merit-based selection processes should be used, based upon clearly-defined

[63] Ferguson, M., (Minister for Resources and Energy and Minister for Tourism), *Renewable energy enters a new ARENA*, media release, Parliament House, 8 July 2011.

[64] Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, p. 14.

selection criteria.[65] Among other things, the CGGs also elaborate on accountability requirements, specifically stating that:

> Public accountability is dependent on the proper maintenance and availability of relevant documentation. Record keeping is therefore a key component of good corporate governance and accountability. Good record keeping assists agencies to meet their accountability obligations, demonstrate compliance with the CGGs and the financial management framework, and demonstrate that due process has been followed in actions and decisions.[66]

1.26 Prior to the Finance Minister's Instructions and the CGGs, ANAO better practice guides on grants administration have been available since 1997. The guidance set out in the CGGs is, in large part, drawn from the ANAO's *Administration of Grants Better Practice Guide* (2002). The ANAO's current *Implementing Better Practice Grants Administration* guide was published in June 2010.

Audit objective, criteria and methodology

1.27 The objective of the audit was to assess the effectiveness of the Department of Resources, Energy and Tourism's administration of the Renewable Energy Demonstration Program (REDP), including progress towards achieving the program's objectives.

1.28 The audit examined whether the department had established effective arrangements to:

- implement REDP, including governance arrangements;
- assess applications for REDP funding assistance and recommend projects to the Minister for funding approval;
- negotiate funding agreements for approved projects; and
- monitor progress towards the achievement of the REDP objective.

1.29 The audit criteria were based on the requirements of the Finance Minister's Instructions and the CGGs (as appropriate to the establishment of the program) and informed by the ANAO's *Administration of Grants Better*

[65] ibid., p. 29.

[66] ibid., p. 25.

Practice Guide (2002) and *Implementing Better Practice Grants Administration* guide (2010).

Audit methodology

1.30 The audit methodology included examining RET documentation, and interviewing RET staff and members of REC. Submissions were also sought from successful and unsuccessful applicants. All grant applications, including technical, financial and merit assessments were analysed and the audit team visited a number of project sites.

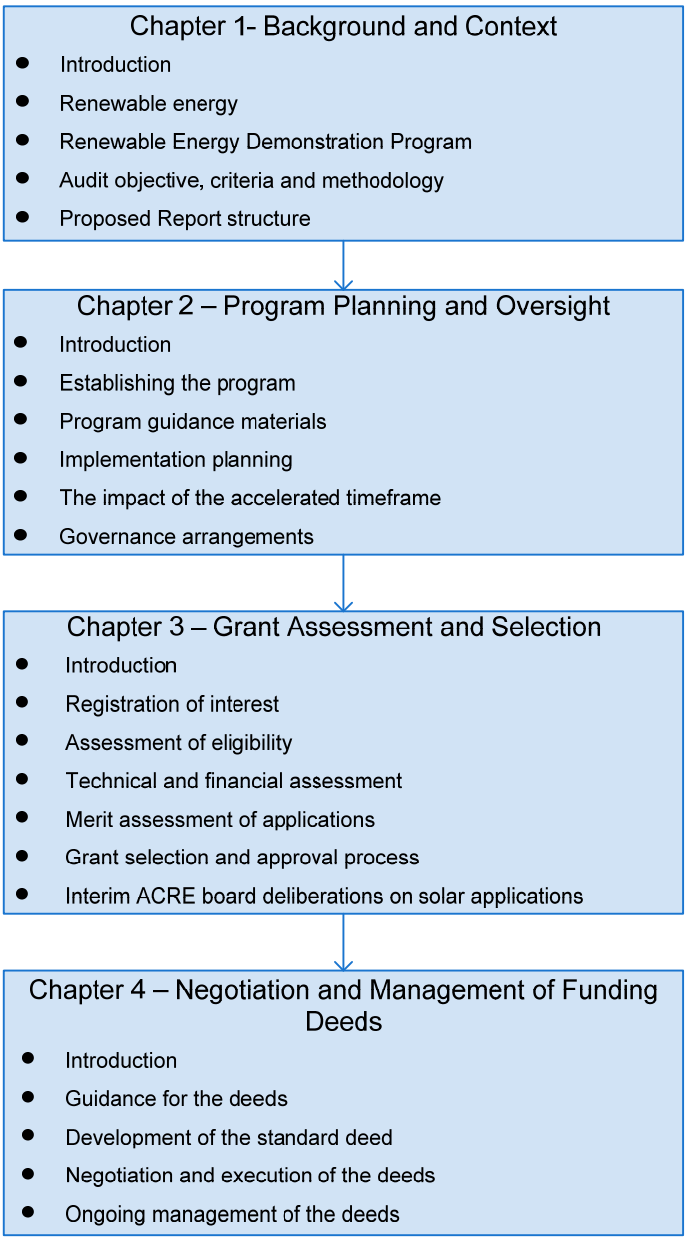
1.31 The audit was conducted in accordance with the ANAO Auditing Standards at a cost of $625 000.

Report structure

1.32 The structure of the report is outlined in Figure 1.5.

Figure 1.5

Structure of the report



Source: ANAO.

2. Program Planning and Oversight

This chapter examines the planning processes for REDP, including the design of the program, the development of program objectives, the preparation of guidance materials, and the establishment of oversight arrangements.

Introduction

2.1 REDP was expected to commence in 2008. However, as previously discussed, when developing the 2008–09 Budget, the Government delayed the implementation of the program until the following financial year. Subsequently, in December 2008, the Government announced that the implementation of REDP would be accelerated to commence in 2009 as part of a package of measures to stimulate the economy during the global financial crisis.[67] While REDP was not specifically designed to stimulate the economy, it was considered that, if brought forward, the program would contribute to the general economic stimulus through the creation of employment in the construction and the renewable energy sectors.

2.2 The focus of the RET Executive in late 2008 and early 2009 was on establishing the department[68] and addressing key operational issues, such as IT infrastructure, accommodation, recruiting staff and negotiating an enterprise agreement. REDP and the other elements of the Renewable Energy Fund (the Geothermal Drilling Program (GDP) and the Second Generation Biofuels Research and Development Program (Gen2)) were the first programs to be implemented by the department. Renewable energy policies were also evolving during this period.[69] Combining these factors with an accelerated program implementation timeframe presented a range of challenges for the department.

---

67 Under an accelerated timeframe, RET was to have all assessments completed and projects selected by 30 June 2009.

68 RET was established in December 2007. Functions were transferred from the former: Department of Industry, Tourism and Resources; Department of Education, Science and Training; and Department of Environment and Water Resources.

69 For example, the announcement of the Clean Energy Initiative, of which key elements were to be implemented by RET, and the announcement of the establishment of the Australian Centre for Renewable Energy, to provide guidance to governments, industry and the community on renewable energy technology and to support the renewable energy industry.

2.3 The ANAO examined the implementation of REDP within the Australian Government's renewable energy policy parameters and the requirements of the Commonwealth Grant Guidelines (CGGs), where applicable[70], including:

- the establishment of the program;
- program guidance materials;
- implementation planning;
- the impact of accelerating the program; and
- the governance arrangements supporting the program.

Establishing the program

2.4 The broad policy objectives for REDP were established as part of the Government's initial election commitment and subsequent Budget processes. RET was responsible for further refining the REDP objectives and developing the detailed program design. As part of this process, RET consulted the Minister and industry stakeholders.

2.5 In March 2008, three months after RET was established, the department briefed the Minister, outlining the progress of the Renewable Energy Fund, of which REDP was a part. The briefing sought approval from the Minister on the proposed objectives, outcomes and guiding principles for the Renewable Energy Fund, including:

- support for the development and deployment of renewable energy in Australia;
- contribution to the achievement of the 20 per cent Renewable Energy Target; and
- improvement in the viability and economic potential of renewable energy technology.

2.6 The scope of the projects to be funded under the proposed program included existing, new and emerging renewable energy technology. In line with the Government's election commitment, the projects were also to be

[70] The CGGs came into effect in July 2009, coinciding with the commencement of the merit assessment of applications.

large-scale demonstration projects. The Renewable Energy Fund was expected to operate from 2008–09 to 2014–15.

2.7 The early planning phase included consulting with industry, with the ministerial briefing stating:

> It will be important to ensure that the design of the Renewable Energy Fund is done in consultation with industry. A consultation process is planned, however, for this some work prior to consultation on objectives, expected outcomes and guiding principles will be required to stimulate a good outcome from the consultations.

2.8 As mentioned earlier, the Government subsequently announced as part of the 2008–09 Budget that the implementation of REDP would be delayed until the following financial year, with funding to be appropriated from 1 July 2009. The remaining two Renewable Energy Fund programs (GDP and Gen2) would, however, be implemented during 2008–09 and administered by RET.

Consultation on the program design

2.9 In preparation for the delayed commencement of REDP on 1 July 2009, RET continued work on the development of an industry consultation process and on the draft *Renewable Energy Demonstration Program—Information Guide* (the Guide). The draft Guide was subsequently approved by the Minister on 19 September 2008. On 3 October 2008, the Minister also approved the proposed consultation process and the release of the draft Guide, which was to be finalised following the consultation process. The consultation process for REDP was to include a four-week period for written submissions and a consultation event.

2.10 On 9 October 2008, RET released the draft Guide on its website as the basis for consultation with industry stakeholders.[71] The draft Guide established the proposed objectives for REDP. These were to:

- demonstrate the technical and economic viability of renewable energy technologies through large-scale installations;
- support the development of a range of renewable energy technologies across a range of geographic locations in Australia;

[71] The *Renewable Energy Demonstration Program—Information Guide (Draft)* was available on the department's website <http://www.ret.gov.au>.

- enhance Australia's international leadership in renewable energy technology development;
- attract private sector investment in renewable energy;
- contribute to the achievement of the 20 per cent renewable energy target by 2020; and
- contribute to global efforts for climate change mitigation.[72]

2.11 The draft Guide also included reference to multiple funding rounds, as well as the eligibility criteria, potential merit criteria, funding deed requirements and the application process for the then $435 million program.

2.12 By the close of the submission period on 5 November 2008, RET had received 24 written submissions from a range of interested parties, including industry bodies, potential applicants, other government agencies and academics.[73]

Analysis of industry feedback

2.13 When engaging in stakeholder consultation, it is important for administering agencies to appropriately incorporate the information gathered, as there is 'no point in extensively engaging stakeholders if the consultations are not going to shape implementation.'[74]

2.14 Submissions from stakeholders were assessed by RET and consolidated into a high-level list of key messages. In December 2008, after written submissions were received, RET invited selected potential applicants and other interested parties for face-to-face discussions to 'clarify the objective of the REDP and the outcomes desired from the projects'.[75] The proposed consultation event, which was approved by the Minister, was not held.

---

[72] Department of Resources, Energy and Tourism, *Renewable Energy Demonstration Program—Information Guide (Draft),* Canberra, October 2008, p. 1.

[73] The draft *Renewable Energy Demonstration—Information Guide* was also forwarded to members of the public who had registered interest in the program through email, telephone or correspondence. In addition, the draft Guide was provided to subscribers of the <http://www.business.gov.au> website. This website is a government online initiative for the Australian business community. Also known as The Business Entry Point Initiative, the site is funded by the Australian Government and coordinated by the Department of Industry, Innovation, Science, Research and Tertiary Education.

[74] ANAO, Better Practice Guide—*Implementation of Programme and Policy Initiatives*, Canberra, October 2006, p. 39.

[75] Other interested parties included government agencies and financial and technical experts.

2.15 RET did not document the analysis of feedback and how this was incorporated into the final Guide. The department considered that the final Guide reflected stakeholder input and that it would not have been practical to document the source and context of every amendment from inception to finalisation.

Program objective

2.16 A key element of sound grants administration is defining a clear objective for the granting activity. The clearer the objective, the easier it is to develop selection criteria, limit wasted applications and develop an appropriate performance information framework.[76] During January 2009, the REDP objective, merit criteria and application processes were refined by RET and included in the final Guide and the Program Administrative Guidelines (PAG).[77] The objective established for REDP was:

> To accelerate the commercialisation and deployment of new renewable energy technologies for power generation in Australia by assisting the demonstration of these technologies on a commercial scale, and thereby to contribute to the achievement of the 20 per cent renewable energy target by 2020 and global efforts for climate change mitigation.[78]

2.17 The objective was developed by amalgamating three of the objectives outlined in the draft Guide and the insertion of the words 'new' and 'for power generation'. The remaining objectives, outlined in the draft Guide (see paragraph 2.10), became REDP outcomes.

2.18 The department informed the ANAO that the inclusion of 'new' in the objective was to align it with the original intent of government. This resulted in changes to the eligibility of renewable energy technologies, effectively excluding some technologies that had been proven on a large-scale. While the refinement of the objective also heightened the risk profile of the prospective projects, because none of the projects expected to be funded would have progressed beyond pilot scale, it was consistent with the Government's policy position.

---

[76] ANAO, Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 9.

[77] The Program Administrative Guidelines, an internal RET document, set out, among other things, the objective, merit criteria and the respective responsibilities of the Minister, the department and the application assessment committee.

[78] Department of Resources, Energy and Tourism, *Renewable Energy Demonstration Program—Information Guide*, Canberra, February 2009, p. 1.

2.19 The department informed the ANAO that, while the merit and eligibility criteria were not amended to explicitly reflect the new objective, the department had provided additional guidance to program stakeholders to clarify REDP requirements, including information in the Guide, which states:

> Renewable energy technologies for power generation that have already reached the stage of commercial roll-out are not eligible, unless the project is able to demonstrate significant innovation over the existing application of technology.[79]

Program guidance materials

2.20 Those wishing to respond to grant opportunities should be given adequate information to enable them to do so. To promote the launch of REDP, the Minister issued a press release and program documentation, including the Guide and other explanatory materials. The Guide, REDP Fact Sheet, Questions and Answers (FAQs), Registration of Interest Form, Application Form, and Draft Deed were placed on RET's website in February 2009.[80]

2.21 As outlined in the ANAO's Better Practice Guide, grant program guidelines play a central role in the conduct of effective, efficient and accountable grants administration. There is also an expectation under the CGGs that program guidelines will be made public and be freely accessible to stakeholders.[81]

2.22 Clear information about a program, such as well-defined objectives, merit criteria and application requirements can reduce the risk of ineligible applications and, consequently, save time and resources for applicants and administering agencies. Within this context the department produced the PAG as well as the Guide.

Program Administrative Guidelines

2.23 The PAG outlined the objective of the program, its outcomes, the respective responsibilities of the Minister, the department and REC, and the

---

79 ibid., p. 6. The terms commercial roll-out, demonstration and innovation were not defined in the REDP Guide. Additionally, RET did not clarify whether technology would be excluded because it had been deployed commercially overseas nor did the guidance provide a definition of large-scale by stating a minimum megawatt capacity for power generation.

80 Ferguson, M., (Minister for Resources and Energy), *Minister Launches $435 Million Renewable Energy Demonstration Program*, Parliament House, Canberra, 20 February 2009.

81 Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, p. 11.

eligibility and merit criteria to be applied to REDP grant applications.[82] The PAG was not publicly released and remains an internal departmental document.

2.24 From December 2007 to September 2010, there was a policy requirement that guidelines for new grant programs be considered by the Expenditure Review Committee (ERC) of Cabinet, with this requirement reflected in the CGGs.[83] In February 2009, the Minister approved the PAG after also obtaining approval from ERC out-of-session.[84]

2.25 RET did not make the PAG publicly available and it was not a requirement when the program was established. The department informed the ANAO that as the PAG was drafted using legal terminology, and included provisions relating to program governance, it was not suitable for release as a public document. The establishment of multiple program guidance documents introduces the risk of inconsistency and makes it more difficult for stakeholders to access comprehensive information on the program. Further, retaining the government endorsed program guidelines as an internal document unnecessarily limits the transparency of the grant process.

Renewable Energy Demonstration Program—Information Guide

2.26 The Guide was the primary source for potential applicants seeking information about REDP. The Guide was generally aligned with the PAG, and included the program objective, the merit and eligibility criteria, and dates for the submission of registrations of interest and applications. It also provided further elaboration on aspects of the program relevant to applicants such as the department's position on contracting with unincorporated joint ventures.

2.27 Greater clarity in the Guide, particularly in relation to the eligibility criteria, would have assisted applicants when preparing their applications and the department in the assessment process. Feedback provided to the ANAO by

---

[82] The PAG did not make reference to value for money as a consideration for the selection of funding recipients. Achieving value for money in grants administration is now a requirement under the CGGs.

[83] In September 2010, as part of various changes made with the objective of supporting strong and effective Cabinet Government, it was decided that items of a more routine nature, such as draft grant program guidelines, would be removed from the Cabinet agenda. Draft program guidelines are now submitted on a case-by-case basis, according to a risk assessment undertaken by the administering agency. Agencies are required to consult with Finance and the relevant policy area within PM&C before the risk self-assessment is finalised.

[84] Changes were made to the PAG in May 2009 to reflect the separation of solar projects as a result of the announcement of the Solar Flagships Program. The amended PAG was not approved by ERC.

applicants suggested that, overall, the documentation and information sought in the REDP application was comprehensive and well thought out, and RET was professional and helpful in all its communication; however, the department could have better defined aspects of REDP eligibility, including the minimum megawatt capacity required for large-scale demonstration and the stage of development that the technology had to reach in order to be eligible for the program.

2.28 There were, also, some inconsistencies between the PAG and the Guide. For example, under project eligibility criterion 3.2.1 *Large-scale renewable energy demonstration project for power generation meeting the objective and outcomes of REDP*, the Guide indicated to applicants that:

> To be eligible a project must be a large-scale demonstration renewable energy project for power generation located in Australia. The program is designed to fill the gap between post-research and commercial uptake. Consequently, the REDP is targeted at project proposals that are relatively mature and are at the stage of commercial demonstration.
>
> Demonstration is taken to be the final step to address remaining technology risks around integration and scale-up of the technology, once the technology has been proven at pilot plant scale.

2.29 The PAG did not include the same level of detail for the eligibility criteria. The Guide also outlined that unincorporated joint venture applications involving several entities were not acceptable because of the complexity of contracting arrangements, while the PAG did not address this issue.[85] The program delegate, in consultation with the Minister's Office, approved the Guide, the application form and the funding deed.[86]

2.30 According to the CGGs, a single reference source for policy guidance, administrative procedures, appraisal criteria, monitoring requirements, evaluation strategies and standard forms helps to ensure consistent and efficient grants administration.[87] RET continues to issue both program administrative guidelines and separate information guides for the programs it

[85] An unincorporated joint venture is where multiple companies operate jointly, but are not legally incorporated, that is, it is not a single, separate legal entity.

[86] Authority for the program delegate to develop these subsidiary documents was contained in the PAG approved by the Minister. These subsidiary documents, which are part of the program guidance materials, were not approved by ERC.

[87] Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, p. 22.

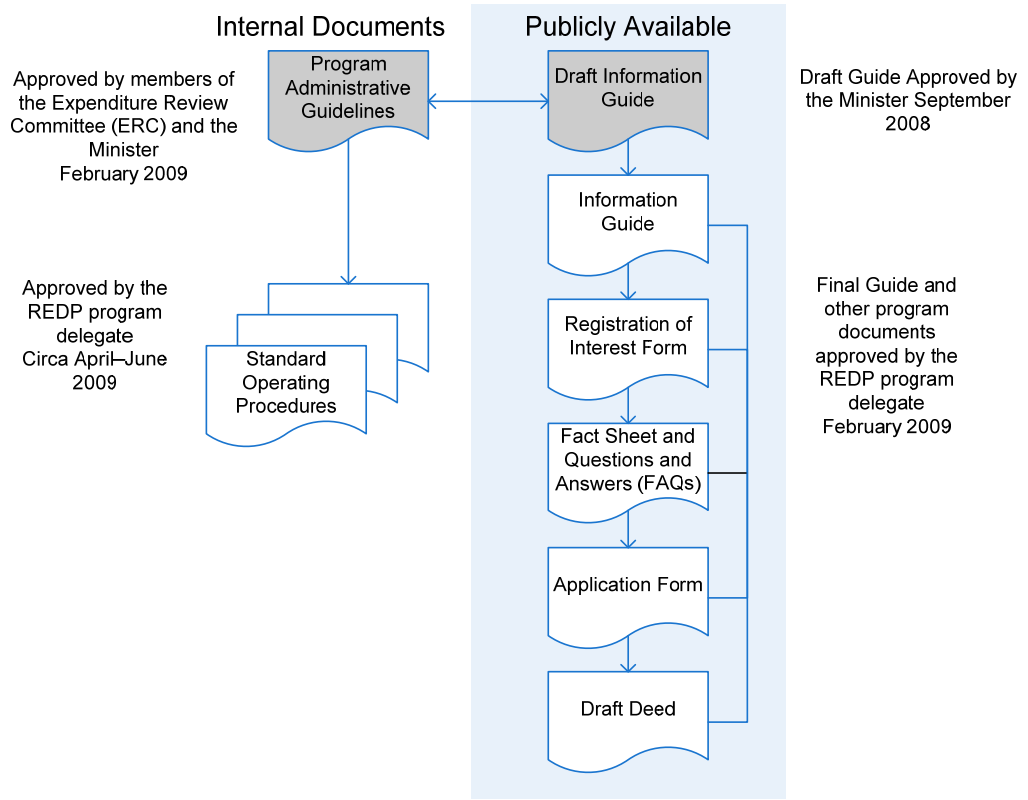
administers. The department advised that the program administrative guidelines set out the rules and the information guide interprets those rules to assist potential applicants in understanding the program requirements. Unlike REDP, both documents for new programs are now made publicly available on the department's website.

Operational procedures

2.31 RET also developed a suite of Standard Operating Procedures that provided detailed information on key administrative processes, such as procedures for the assessment of applications. Figure 2.1 illustrates the guidance material developed for REDP.

Figure 2.1

REDP guidance materials



Source: ANAO from RET information.

Conclusion

2.32 RET consulted with industry stakeholders in designing REDP, including face-to-face meetings with selected potential applicants. The consultation activities undertaken by RET provided potential applicants with the opportunity to learn more about the program and for the department to refine aspects of the program based on feedback received from stakeholders.

2.33 At the completion of the industry consultation process, RET refined key elements of the program design, including aligning the program's objective with the Government's policy intent by specifically incorporating the word 'new'. The refinement of the objective restricted the eligibility of some renewable energy technologies and also changed the risk profile of the program.

2.34 The department prepared two sets of program guidelines for REDP—one set for potential applicants (the Guide) and one set for internal administration purposes (the PAG). The content of these documents was broadly aligned, but the PAG was not made publicly available. Feedback from applicants indicated that aspects of the eligibility criteria could have been more clearly defined.

2.35 The department continues to issue both program administrative guidelines and separate information guides for the grant programs it administers.[88] For new programs, there would be benefit in RET drafting and making publicly available program guidelines that meet the requirements of the CGGs and provide a single reference source for policy guidance, administrative procedures, appraisal criteria, monitoring requirements, evaluation strategies and standard forms to facilitate consistent and efficient grants administration.[89] Also, it is important to recognise that where more than one document is created, collectively, all such documents constitute program guidelines for the purposes of the CGGs and, accordingly, should be subject to approval requirements.

Implementation planning

2.36 The Government's decision to establish the Renewable Energy Fund in 2008 required RET to develop a detailed implementation plan, including

[88] The department now makes both sets of program guidelines publicly available.

[89] Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, p. 22.

milestones and clear measures of success, in consultation with the Cabinet Implementation Unit (CIU) within the Department of the Prime Minister and Cabinet (PM&C).[90] The Government also required REDP's progress to be monitored by the CIU.

2.37 PM&C advised the ANAO that RET was not required to submit a detailed implementation plan for Cabinet consideration. However, RET was required to report to the CIU against the status of program implementation. The reporting framework established by the CIU required a high-level statement of the program objectives and status against milestones. RET reported REDP's progress against activities, such as the launch of the program and assessment of applications.

2.38 RET initially prepared two draft implementation plans in June and July 2008. However, these were not finalised. The department informed the ANAO that it had subsequently adapted an implementation timeline, previously used to implement the Low Emissions Technology Demonstration Fund, which identified key implementation tasks. The timeline did not, however, establish the resource requirements to implement the program, key milestones, a budget, or performance measures.[91]

2.39 An implementation plan would have provided RET with an overarching strategy to guide the implementation of REDP, which consists of large-scale construction projects that are not expected to be completed for at least six years. Senior management endorsement of this plan, including confirmation of the resources to be committed to the program, agreed timelines and key milestones, would have provided a sound basis for the ongoing management of the program.

2.40 The department advised that it has recently implemented a project management framework, which will reinforce the requirement for implementation planning and executive endorsement of project plans. The implementation of new grant programs will be covered by the framework that includes a requirement for a project:

---

[90] The CIU was established in October 2003 to assist the Prime Minister and the Government to manage and deliver the Government's strategic reform priorities, including reporting to the Prime Minister on progress with the delivery of these priorities across the Australian Public Service. Only selected programs are monitored by the CIU.

[91] In comparison, the implementation plan for the Low Emissions Technology Demonstration Fund consisted of 48 pages and contained, among other things, stakeholder analysis, risk assessments, procurement activities and resourcing arrangements.

- initiation document, to secure initial approval of projects prior to detailed planning;
- implementation plan;
- status report; and
- finalisation report, which assists project managers to bring a project to completion.

Risk management

2.41 An important aspect of program implementation is the identification and assessment of risks that may adversely affect program delivery, and the development of mitigation strategies to address identified risks.

2.42 Departmental guidance on risk management, the Risk Management Procedural Rule, had been in place since June 2008. These procedural rules are aligned with the current Australian/New Zealand Standard for Risk Management[92] and outlined that Heads of Division, the Chief Financial Officer and General Managers are to ensure that risk assessments and risk management plans are completed for all new policy proposals, programs and projects under their responsibility.

2.43 The implementation of REDP, and as a consequence, the risk profile of the program, was affected by a series of changes to the delivery environment, particularly refinements in the Government's policy settings for the program, including the:

- announcement that the implementation of REDP would be accelerated to provide an economic stimulus, which meant that grant applications, assessments and decisions were to be completed within a compressed timeframe;
- decision to quarantine solar funding from REDP, which meant that the processing of submitted solar applications was delayed until a revised process was established;
- announcement of the establishment of the Australian Centre for Renewable Energy (ACRE), which altered REDP's governance arrangements; and

[92] AS/NZS4360:2004 Risk Management.

- announcement of the $5.1 billion Clean Energy Initiative (CEI), key elements of which were also to be implemented by RET.

2.44 RET informed the ANAO that the department did not prepare a risk management plan for the implementation of REDP. A risk management plan would have provided a sound basis for RET to assess and manage the risks that emerged during the implementation and ongoing management of REDP, such as the higher than anticipated demand for the program, as well as the changes to the implementation timeframe.

2.45 In October 2009, at the request of a departmental internal governance committee[93], RET subsequently developed a risk management plan for REDP. RET informed the ANAO that program risk management plans are now reviewed quarterly as part of internal management procedures.

The impact of the accelerated timeframe

2.46 As previously discussed, the Government announced in December 2008 that the total Renewable Energy Fund budget would be brought forward for investment in the subsequent 18 months, subject to the availability of suitable demonstration projects to:

- turbo charge investment in solar and renewable energy projects;
- complement the Carbon Pollution Reduction Scheme[94];
- stimulate the economy; and
- create low pollution jobs of the future.[95]

2.47 As a consequence, RET was required to accelerate the implementation of REDP, with projects to be approved by June 2009 and initial funding to be expended in 2009–10. The decision to bring forward the commencement of the

[93] The CEI Program Management Committee was established in July 2009.

[94] The Carbon Pollution Reduction Scheme (CPRS) was Australia's proposed cap-and-trade emissions trading scheme. The CPRS was to have been the main element in Australia's efforts to reduce greenhouse gas emissions. The initial CPRS legislative package was introduced into the Parliament by the Government in 2009 and passed through the House of Representatives in June 2009. However, the Senate did not pass the legislative package. A revised CPRS legislative package was re-introduced into the Parliament, but again failed to pass the Senate. The Government subsequently deferred the introduction of the CPRS in April 2010. The Clean Energy Legislative Package was passed by the Senate on 8 November 2011, and a carbon pricing mechanism was introduced on 1 July 2012.

[95] Rudd, K., (Former Prime Minister), *Government to Bring Forward Investment in Green Energy*, media release, Parliament House, Canberra, 14 December 2008.

program by six months had a number of effects, including a reduced timeframe for applicants to prepare their applications and changes to the application and assessment processes employed by the department.

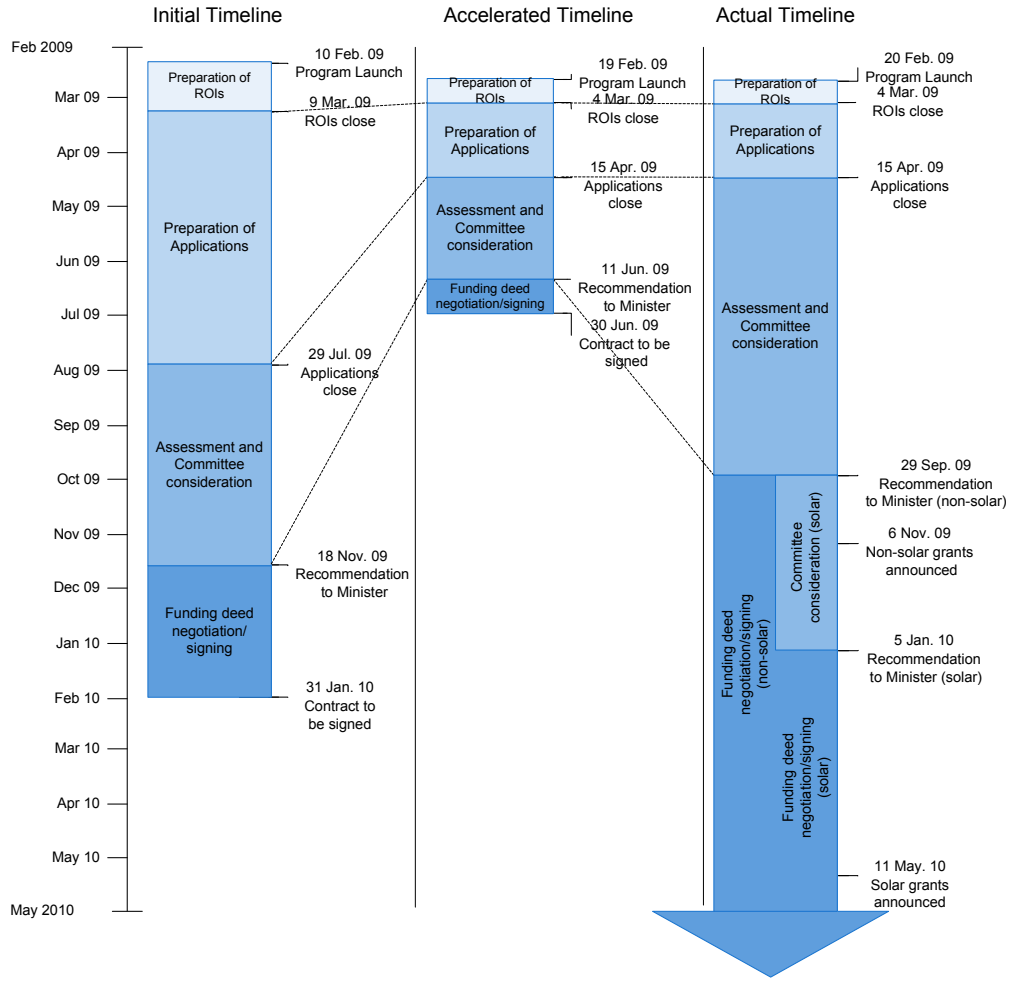
Implementation timeline

2.48 Initially, REDP funding was to be available from 1 July 2009 and cease on 30 June 2015, with the launch of the program to take place in February 2009. Once implementation of the program was accelerated by the Government, the program timeline was revised.[96] RET prepared several revisions to this implementation timeline during 2009. The proposed timeline before acceleration, the accelerated timeline, and the actual timeline are illustrated in Figure 2.2.

[96] The initial and revised launch dates were both in February 2009. However, under the accelerated timeframe, the assessments and decisions were to be completed by June 2009, that is, within four months from the launch date, which is eight months less than the initial timeframe.

Figure 2.2

REDP timeline variations



Source: ANAO analysis of RET information.

Note: All agreements for non-solar grants were signed between 20 February 2010 and 9 September 2010. The two agreements for the solar grants were signed on 3 March 2011 and 8 March 2012.

2.49 The initial timeline approved by the Minister provided five-and-a-half months for applicants to prepare their applications. The time available under the revised timeline was reduced to less than two months. The reduction in time contributed to the variable quality of applications, in particular the extent to which applicants were able to finalise key components of their

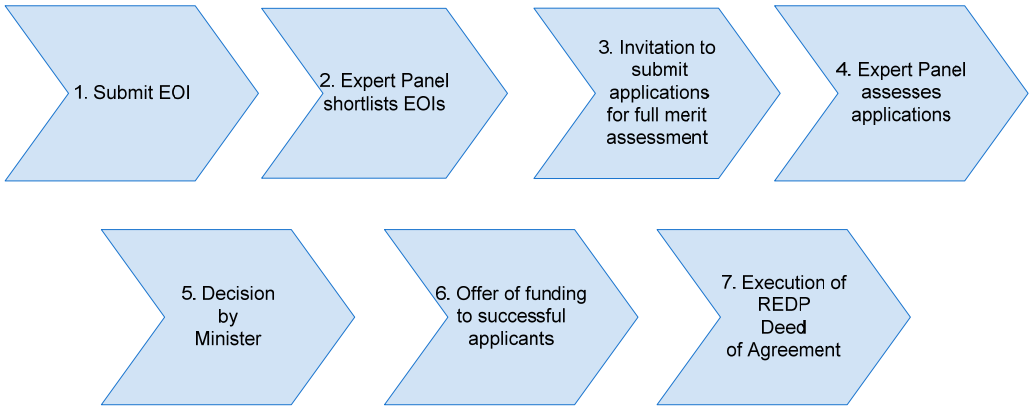
applications.[97] The compressed timeframe also adversely impacted on the time available for the department to assess applications. During the five-and-a-half months when applications were being prepared, RET had intended to establish processes to administer REDP, including: preparing for the receipt of applications; recruitment of staff; training; and finalising the appointments to the Renewable Energy Committee (REC). The timeline that was developed in response to the Government's acceleration of the program provided less than two months to establish these processes.

Changes to application and assessment processes

2.50 The draft Guide, which underpinned industry consultation, included the details of the proposed grant application process. This process provided for the submission of an expression of interest (EOI), which was to have been assessed by technical experts. Potential applicants with shortlisted EOIs would have then been invited to submit a full application. Figure 2.3 represents the process as outlined in the draft Guide.

Figure 2.3

Proposed process for assessing applications for REDP



Source: Draft REDP Information Guide, RET 2008.

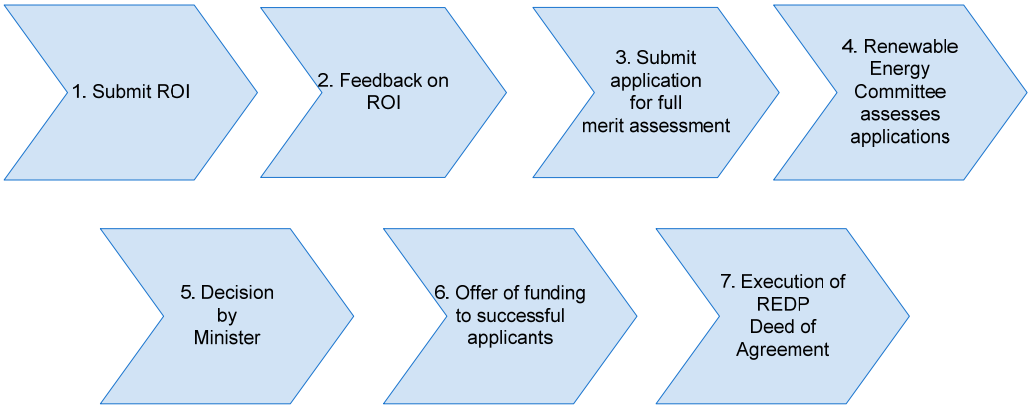
2.51 The proposed assessment process could not proceed because, at the time of the program's launch, the expert panel was not in place and the procedures for receiving and assessing applications had not been finalised. The process for assessing applications was subsequently changed, with the revised

[97] These components included: securing financial backing; preparing audited financial statements; obtaining necessary approvals; and formalising joint venture arrangements.

process outlined in the final Guide. The new process involved potential applicants submitting a registration of interest (ROI) in order for them to apply for REDP funding. Figure 2.4 represents the revised process as outlined in the final Guide.

Figure 2.4

Final process for the assessment of applications for REDP



Source: REDP Information Guide, RET, 2009.

2.52 The requirement for the shortlisting of applications by an expert panel was replaced with departmental staff providing feedback on registrations of interest, with all applicants allowed to submit a full application for assessment by REC. REC was to conduct a merit assessment of all eligible applications with a view to making recommendations to the Minister. The Minister would then decide which applications were to be funded.[98] The assessment and selection of projects are discussed in Chapter 3.

Governance arrangements

2.53 Governance refers to the practices, policies and procedures, exercised by an agency's executive, to provide strategic direction, ensure objectives are achieved, risks are managed and resources used responsibly and with accountability.[99]

[98] RET was to assess REDP applications for completeness and eligibility.

[99] ANAO, Better Practice Guide—*Implementation of Programme and Policy Initiatives*, Canberra, October 2006, p. 13.

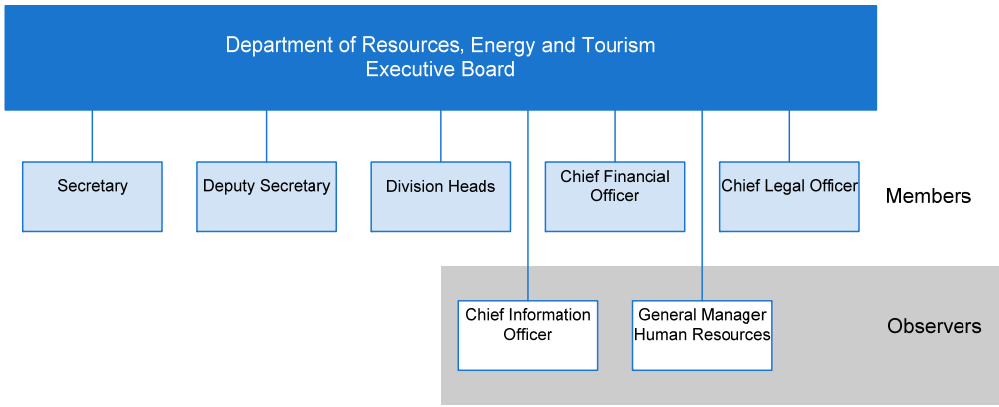
Internal oversight arrangements for REDP

2.54 The PAG outlines the responsibilities of the Minister and the department in administering REDP. The program delegate and the program manager have operational responsibility for the management of REDP. The program delegate was the Energy Futures Branch Manager, a position that at the time of implementation was within the Energy and Environment Division. The program manager was a section head, responsible for a number of programs, one of which was REDP.

2.55 When REDP was first implemented during late 2008 and early 2009, one high-level departmental committee was in operation, the Executive Board, which met weekly. Reporting on REDP was included in the periodic program status updates to the Executive Board. The report provided a high-level summary report, which included an update on program implementation. For example, in July 2009, the program report included a 'green' status for REDP and the following narrative: 'REC to meet and make recommendations in July/August. Upcoming—manage concerns about solar applications.' The financial reports to the Board included actual versus budget figures against the Renewable Energy Fund, which subsequently changed to reporting against the three elements of the fund, one of which was REDP. The membership of the Executive Board is shown in Figure 2.5.

Figure 2.5

Membership of the Executive Board



Source: ANAO analysis of RET Information.

2.56 In July 2009, after the announcement of the CEI, the department implemented a CEI Program Management Committee. While the committee's key focus was on the implementation of the elements of the CEI, it also

provided oversight of departmental programs, such as REDP. In October 2009, the CEI Program Management Committee identified that a risk management plan had not been completed for REDP and requested a plan to be developed. The committee reviewed the risk management plan during December 2009 and the first monthly risk management reports were provided to the committee in February 2010. The committee subsequently received regular high-level reports on the implementation of REDP.

2.57 From August 2010, RET reported monthly on the status of REDP projects to the ACRE board and also reported internally to the Program Management and Delivery Committee, which was established in September 2010, to ensure high-quality program development, delivery and risk management across all grant programs in the department.[100] The reports to ACRE were summary reports, including traffic lights (red, amber and green) for reporting current status against milestones and an update of current issues, such as the progress of deeds of agreement negotiations.

2.58 While the oversight arrangements for REDP have been strengthened over time, the establishment of an REDP implementation plan would have better placed the department to monitor progress against agreed timelines, milestones and success factors and identify the risks to timely implementation.

Measuring program performance

2.59 Government agencies are required to report to Parliament on the achievement of program objectives.[101] Performance information provides the basis for regular reporting on project milestones and whether program objectives have been achieved. The CGGs also require the development of outcome measures to assess the extent to which the granting activity is meeting both the strategic directions and the operational objectives of the agency.[102]

[100] The CEI Program Management Committee was subsumed into the Program Management and Delivery Committee in September 2010.

[101] Department of the Prime Minister and Cabinet, *Guidelines for Annual Reports*, Canberra, July 2011, p. 18.

[102] Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, p. 18.

Key performance indicators

2.60 Agencies are required to publish in their Portfolio Budget Statements (PBS) program objectives, expenses, deliverables and key indicators for each program.[103] RET has one outcome:

> The improved strength, competitiveness and sustainability of the resources, energy and tourism industries to enhance Australia's prosperity through implementation of government policy and programs.[104]

2.61 This outcome is supported by three programs, including *Program 2: Energy Related Initiatives and Management*. While the Renewable Energy Fund was included in the 2009–10 PBS, REDP is not specifically mentioned in the department's subsequent PBS.[105]

2.62 RET advised the ANAO that it has not developed key performance indicators (KPIs) for REDP. Developing appropriate KPIs and collecting and analysing performance data informs program evaluation, and assists in assessing whether the objective of the program and program outcomes are being achieved. Where objectives and outcomes are expected to be achieved over the longer term, such as with REDP, interim evaluation criteria provide a basis for assessing progress towards meeting the program objective and ultimately to undertake an evaluation of the program once completed.

2.63 As the REDP projects are in the early stages of implementation, RET has the opportunity to design and implement KPIs to assess the effectiveness of the program and the achievement of program objectives.

2.64 RET informed the ANAO that delays in setting program KPIs and developing a formal performance plan at this stage of program implementation would not detract from the department's ability to report fully against the stated objective and outcomes for the program, which mainly fall well into the future. Notwithstanding this view, delays in establishing performance monitoring arrangements generally make it more difficult to build data requirements into funding agreements and collect data relating to the early stages of program implementation.

---

[103] The term 'program' under the Government's Outcomes and Programs Framework usually covers a range of deliverables, of which programs, such as REDP, may only be one element.

[104] Department of Resources Energy and Tourism, *Portfolio Budget Statements 2012–13, Resources, Energy and Tourism Portfolio*, Canberra, 2012, p. 7.

[105] In the 2012–13 PBS, the department had three programs, a reduction from the four programs outlined in the 2011–12 PBS.

2.65 The department advised that it is currently implementing the recommendations from the ANAO Audit Report No. 5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*.[106] RET considers that the implementation of these recommendations will improve performance measures across departmental programs, and is currently drafting a set of KPIs for REDP. These will be submitted to the department's Program Management and Delivery Committee for approval.

2.66 There has been no specific reporting against the status or performance of REDP in the department's annual report. In RET's 2010–11 Annual Report, the department reported on the establishment of ACRE and provided a status report on the progress of signing ACRE Solar (REDP) deeds of agreement.[107] In its first annual report, ACRE reported the funding amounts awarded to projects for each program for which the board was responsible.[108]

2.67 RET informed the ANAO that the department is planning to undertake an internal evaluation of the ACRE solar projects in September 2012, with a full-term evaluation planned for June 2014. For the non-solar REDP projects, a mid-term evaluation of REDP is planned for June 2013 with a full-term evaluation in June 2016. The department also advised that the evaluation criteria and methodology for both programs has yet to be determined. The absence of relevant KPIs and performance information from the commencement of the program may make these evaluations more difficult.

Conclusion

2.68 RET did not establish an implementation plan to guide the delivery of REDP, which involved large-scale, high-risk construction projects. An implementation plan endorsed by senior management that included information on resources and budgets, timelines and success factors, as well as an assessment of program and implementation risks, would have provided a

[106] The ANAO recommended that entities: establish requirements to review program objectives to ensure they are clearly defined; develop key performance indicators with appropriate emphasis on quantitative and measurable indicators; and assess the extent that costing information is currently used to identify program support costs and allocate these costs to applicable programs.

[107] On 8 July 2011, the Government announced that the Australian Renewable Energy Agency (ARENA), a statutory authority, will assume responsibility for REDP from 1 July 2012.

[108] Australian Centre for Renewable Energy board (ACRE), Annual Report 2009–10, [Internet], ACRE, December 2010, available from <http://www.ret.gov.au/energy/Documents/ACRE_report_final.pdf> [accessed 14 December 2011].

sound basis for the ongoing management of the program. The department recently introduced a project management framework, which includes the requirement for implementation and risk management plans to be developed, better positioning the department to manage the delivery of its programs.

2.69 The PAG outlined the program governance arrangements, including the responsibilities of the Minister and the department. During the early implementation period for REDP, one high-level committee operated within RET—the Executive Board. In July 2009, RET established a Program Management and Delivery Committee following the announcement of the Clean Energy Initiative, which provided additional oversight for REDP.[109] The status of REDP projects are reported monthly to the ACRE board and the department's Program Management and Delivery Committee.

2.70 The department is yet to develop key performance indicators (KPIs) to inform assessment of REDP's performance. Developing such indicators will enable the department to effectively monitor the progress of individual projects and assess whether the program is achieving its objective and outcomes are being delivered. RET informed the ANAO that the department is currently implementing the recommendations from ANAO Audit Report No. 5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*. The department considers that the implementation of these recommendations will improve performance measures across departmental programs, including REDP.

[109] The CEI Program Management Committee commenced in July 2009. The committee became the Program Management and Delivery Committee in September 2010.

3. Grant Assessment and Selection

This chapter outlines the processes established by RET to assess and select applications for REDP grant funding.

Introduction

3.1 A key consideration in the assessment of grant applications is the equitable and transparent selection of projects that represent the best value for money. A competitive merit selection process based on clearly-defined selection criteria and which has regard to the program's objectives provides a sound basis on which to assess grant applications. It is also important that the assessment and selection process is transparent and free from the risk of claims of political or other bias.

3.2 REDP was the first major program to be implemented by RET as a new department, and core departmental functions were still being established during the program's implementation. Coupled with the acceleration of REDP, which meant that grant applications, assessments and decisions had to be completed within a compressed timeframe, this created a challenging environment for the department to deliver the program.

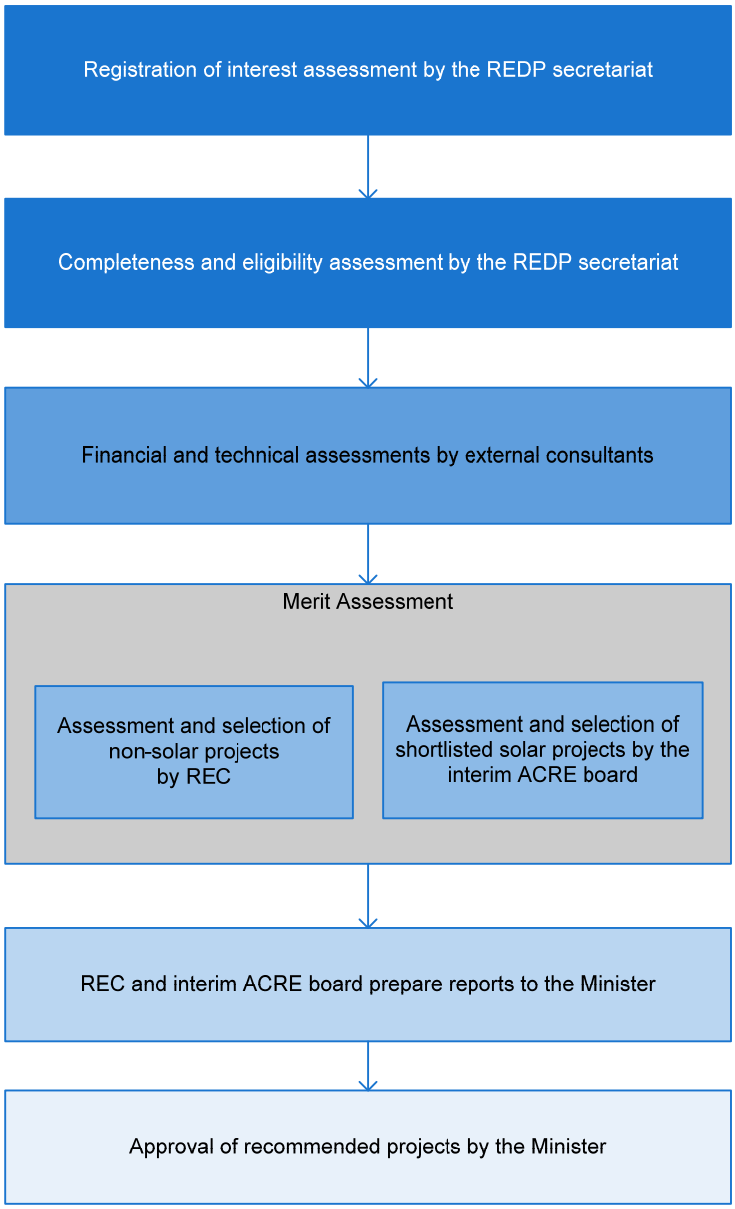
3.3 The ANAO examined key aspects of the assessment and selection process for REDP, including the:

- registrations of interest by potential applicants;
- eligibility assessment of applications by the department;
- financial and technical assessment of applications;
- merit assessment of applications by REC;
- funding approval by the Minister for successful non-solar applications; and
- interim ACRE board deliberations on solar applications and Ministerial approval.

3.4 Against this background, Figure 3.1 outlines the key elements of the REDP assessment and selection process.

Figure 3.1

Assessment process for REDP applications



Source: ANAO analysis of RET information.

Registration of interest

3.5 Potential applicants intending to submit a full application for funding were required to lodge a registration of interest (ROI). RET informed the

ANAO that the purpose of the ROI process was to allow the department to: provide feedback on the eligibility of projects; assess the future workload required to process applications; and invite applicants to REDP information workshops. The ROIs required a general description of the proposed project, including the scale, major development and construction milestones, and the budget.

3.6 The ROI lodgement period commenced on 20 February 2009 when the Minister launched the program. Due to the acceleration of the program's implementation, potential applicants had only eight business days to submit their ROIs and a further 30 business days to lodge a full application.[110]

Receipt of registrations of interest

3.7 RET received 167 ROIs from a range of applicants, including start-up ventures with the backing of larger, established companies from non-renewable industries. A number of state-owned power corporations also lodged ROIs. Some companies that submitted ROIs had been in existence for less than three years, with several joint ventures being created solely for the purpose of seeking REDP funding.[111] Table 3.1 illustrates the number of ROIs submitted to RET and the renewable energy technology involved.

[110] The ROI form was available on the RET website from 20 February 2009. RET also emailed the form along with program information to interested parties.

[111] While applicants for REDP funding were required to be registered Australian companies, there was no restriction on the length of time they had been established.

Table 3.1

Renewable energy technologies represented in REDP ROIs

Technology	Number of ROIs	Percentage
Solar	51	30.5
Biomass	45	26.9
Combination[1]	39	23.4
Ocean Energy	11	6.6
Wind	11	6.6
Geothermal	8	4.8
Hydro	2	1.2
Total	**167**	**100**

Source: ANAO analysis of RET data.

Note 1: Combination proposals contained multiple technologies. For example, where a blend of geothermal and solar, or wind and battery storage are proposed in the one project.

3.8 All parties submitting ROIs received an acknowledgement email from RET, which provided confirmation of the applicant's nominated workshop, and in some cases limited preliminary feedback. RET used the information provided as part of the ROI process to identify potentially ineligible projects, including those projects that: were not of sufficient scale; had not been proven at pilot plant scale; were not employing renewable energy technologies; or were not for the generation of electricity. For example, when acknowledging receipt, RET directed 16 ROI applicants to the Climate Ready Program administered by AusIndustry, given the proposed scale of the projects.

3.9 RET had received 152 ROIs by the closing date of 4 March 2009. An additional 15 ROIs were accepted after the closing date from 5 March 2009 to the final application closing date of 15 April 2009.[112] RET informed the ANAO that while it was mandatory to submit ROIs, the closing date was not mandatory.

3.10 Due to the large number of ROIs received and the short timeframe to provide feedback, the department considered that there was insufficient time and resources to respond individually to each ROI. RET categorised the ROIs into 20 groups with standard responses developed for each group. Overall, the

[112] One ROI was submitted concurrently with an application on the closing date of 15 April 2009.

ROI process assisted the department to identify clearly ineligible projects (44 ROIs) and advise applicants accordingly.

REDP workshops

3.11 In mid-March 2009, RET conducted five REDP information workshops for potential applicants in Perth, Adelaide, Melbourne, Sydney and Brisbane. While RET did not record the names of attendees at these workshops, the department informed the ANAO that approximately 250 people attended. RET presented information to potential applicants, regarding: REDP and its aims; the eligibility and merit criteria; the application form; and the anticipated timeline for the application and selection process.

3.12 The Australian Government Solicitor (AGS) was engaged to provide advice to RET regarding the deed of agreement for the program and presented an overview of the key elements of the funding deed to participants. RET also responded to questions from workshop participants. These workshops provided potential REDP applicants with an opportunity to learn more about the program and the eligibility of their projects prior to developing a full application. For example, in the presentation provided to applicants, RET explained that REDP projects would need to be large-scale and use technology that had been proven at pilot plant scale and not yet commercially deployed.[113]

Assessment of eligibility

3.13 By the application closing date of 15 April 2009, RET had received 63 applications, which were categorised into 38 non-solar and 25 solar projects. The consideration of solar projects was suspended after the Solar Flagships Program was announced in May 2009.[114]

3.14 Of the 38 non-solar applications, there were six renewable energy technologies represented. Table 3.2 outlines the technologies represented and the number of applications received in each category.

[113] The guidance material prepared by RET did not clarify whether the technology would be excluded because it had been deployed commercially overseas, nor did the guidance provide a definition of large-scale by stating a minimum megawatt capacity for power generation.

[114] Solar projects were assessed by REC separately from non-solar projects.

Table 3.2

Number and technology type of non-solar REDP applications

Technology Type	Number of Applications	Comment
Biomass	19	A number of co-firing projects that use organic material, such as forest residue or waste plant material, to boost electricity generation.
Geothermal	6	Various types of geothermal technologies, including hot rocks and engineered geothermal systems.
Ocean energy	6	Different technology types, including wave and tidal energy.
Wind	3	Two of these projects included battery storage. One project proposal contained a new wind turbine design.
Combination	3	One of these combination projects was a geothermal-solar hybrid.
Hydro	1	A mini hydro system, which is a small-scale hydro system.
Total	**38**	

Source: ANAO from RET information.

Receipt of applications

3.15 Applications were initially assessed for completeness by the department using a checklist. RET informed the ANAO that its approach to assessing the completeness of applications was based on the fact that the applicant had completed the application form and provided the attachments cited in each application. RET did not assess whether they were completed to a high standard or not. The department recognised that the acceleration of the program meant that applicants only had a very short timeframe in which to submit applications and some applicants would have been disadvantaged, particularly in providing all the requested financial information, including audited financial statements.

3.16 Where an application was found to be incomplete, that is, attachments referenced in the application were not included, applicants were generally notified and the department allowed additional information to be submitted

within a specified timeframe.[115] Four applicants that requested to submit missing documentation after the due date were permitted to do so. Ultimately, RET determined that 61 applications were complete and would be assessed for eligibility.[116]

3.17 RET's assessment of completeness did not, however, include an assessment of whether mandatory information was provided. The ANAO's analysis indicated that 21 applications (34 per cent) that were considered complete by REDP were considered incomplete by the financial and technical assessors because key information had not been provided by applicants. Moreover, RET considered applications to be complete when unaudited financial statements were provided, even though the provision of audited financial statements was mandatory.[117] The absence of key information, such as financial statements, joint venture agreements and project plans, directly affected the quality of the application and the outcome of the assessment. Table 3.3 shows the number of applications with key documentation missing.

Table 3.3

Missing key documents from REDP applications

Type of Missing Document	Number of Applications
Financial statements[1]	15
Joint venture agreement	5
Project plan	1
Total	**21**

Source: ANAO analysis of RET information.

Note 1: This includes where partial financial statements were submitted.

[115] In relation to two applications, the department did not notify applicants that attachments referenced in their applications had not been included or prepared to the required standard and, as a consequence, they did not have the opportunity to provide the missing information. In one case, the Program Delegate determined that, despite the provision of an incomplete attachment to their application, an applicant could proceed to merit assessment as requesting the provision of additional information may have provided an advantage to the applicant. It was acknowledged that the provision of incomplete information would result in a lower score for the application. The department's intention to seek information from applicants after applications closed was not outlined in the REDP Information Guide.

[116] Two applications, where the application form was not fully completed, were assessed as incomplete and therefore not eligible.

[117] The REDP application form listed mandatory attachments, one of which was audited financial statements (including notes) for the previous three financial years (or as many as possible if company was less than three years old) and interim (year-to-date) financial statements for the current financial year. Consolidated financial statements were also required where the applicant was part of a group. Minimum requirements were a profit and loss statement, balance sheet, and statement of cash flow.

3.18 Notwithstanding the challenges faced by applicants in meeting the reduced application timeframe, the quality of the applications, particularly the provision of mandatory information, underpins the assessment process. The department's acceptance of incomplete applications ultimately made the merit assessment process by REC more challenging.

Determination of eligibility

3.19 RET assessed the eligibility of the 61 applications deemed complete using a checklist based on the following eligibility criteria:

- the non-tax exempt company status and the provision of a correct Australian Company Number;
- the ability to demonstrate beneficial use of the intellectual property (IP) necessary to carry out the project, and the provision of an IP plan;
- whether the proposed project was for large-scale demonstration of renewable energy power generation, meeting the objective and outcomes of REDP;
- whether the project was using an eligible renewable energy technology[118]; and
- compliance with the Equal Opportunity for Women legislation.

3.20 The adoption of broad eligibility criteria and the absence of clear guidance relating to key elements of the program objectives, such as 'large-scale demonstration', made it more difficult for the department to undertake an assessment of eligibility. As discussed in Chapter 2, the department did not define 'large-scale' by stating minimum megawatt capacity. As a consequence, all 61 applications deemed complete progressed to merit assessment, including at least two applications for small-scale power generation. The volume of applications and, in some cases the quality of the applications, placed pressure on the merit assessment process and also increased its cost. The additional time required to assess the large number of

[118] The eligible technologies were outlined in the Program Administrative Guidelines. However, where there was uncertainty the *Renewable Energy (Electricity) Act 2000* was consulted. In one case, RET sought advice from a technical assessor on the eligibility of a technology proposed. A complete list of eligible renewable energy technologies is provided in s.17 of the *Renewable Energy (Electricity) Act 2000*, available from <http://www.comlaw.gov.au/Details/C2011C00651> [accessed 6 October 2011] and Division 2.2 of the *Renewable Energy (Electricity) Regulations 2001*, available from <http://www.comlaw.gov.au/Details/F2011C00810> [accessed 6 October 2011].

applications of variable quality was particularly problematic for REC, given the reduced time available for assessment.

3.21 The department advised the ANAO that taking a 'harder line on completeness and eligibility' had to be balanced against the possibility of overlooking otherwise good applications and the risk of applicants being disadvantaged because of the short timeframe that applicants had to prepare their applications. Notwithstanding this rationale, assessing eligibility is a critical step in the grant assessment process, as it ensures that only eligible applications proceed to merit assessment.

Technical and financial assessment

3.22 To inform REC's merit assessment of REDP applications, RET engaged financial and technical assessors to review and report on each eligible application. These assessors were sourced from the department's Grant Assessment and Administration Panel and were specifically contracted on the basis of their technical knowledge and expertise.[119] Six financial assessors and nine technical assessors were contracted to provide advice on the 61 applications at a total cost of $862 409 (an average of $14 138 per application).

3.23 RET provided a briefing workshop for assessors to explain the program, the merit assessment process, the assessment procedures, and the pro-forma for documenting assessments. In general, the workshops provided appropriate coverage of the assessors' responsibilities.

Management of conflicts of interest

3.24 RET informed the ANAO that because of the specialised nature of the renewable energy expertise needed, there was only a small pool of consultants available to undertake technical assessments. As a result, conflicts of interest were likely to exist and required careful management. In particular, there was a risk that assessors engaged by RET had been contracted by applicants to provide assistance in the development of their applications.

3.25 RET reviewed the information contained in REDP applications to identify assessors that had been involved in the development of applications

[119] The Grant Assessment and Administration Panel comprises technical and financial consultants engaged by RET to provide advice on grant applications.

and these assessors were excluded from providing assessment services for the program. RET also developed a process to identify and manage conflicts of interest. All assessors were required to complete a conflict of interest declaration prior to receiving applications for assessment. In the event that an actual or perceived conflict of interest existed in relation to a particular application, the application was allocated to another assessor. RET implemented a sound process to manage the conflict of interest arrangements for the technical and financial assessors.

Assessment against the merit criteria

3.26 Merit criteria, applied in determining funding recipients under a grant program, are the key link between the program's stated objectives and the outcomes to be achieved. They play an important role in: attracting good potential funding recipients to apply to the program; and encourage entities that are unlikely to be successful not to invest unnecessary resources in preparing an application. They also provide the basis for a transparent, accountable and effective grant program.[120]

3.27 REDP technical and financial assessors were allocated approximately four weeks to complete their assessments against the merit criteria, with each considering up to 10 applications. RET provided feedback to assessors on their initial assessments, which helped to establish the department's requirements. However, the accelerated timeframe meant that technical assessors did not have the opportunity to verify claims in the application forms by contacting the applicants or by undertaking site visits. Financial assessors generally used the information provided, although some sought additional information from the Internet, including downloading financial statements from company websites.

3.28 Applicants and their respective projects were assessed against the five criteria established in the Guide (as shown in Table 3.4). Each criterion was scored from zero to six, with a potential total score out of 30.

[120] ANAO Better Practice Guide—*Implementing Best Practice Grants Administration*, Canberra, June 2010, p. 61.

Table 3.4

REDP merit assessment criteria

Number	Merit Criteria
1	Financial capacity, particularly the ability to match the grant on a two-for-one dollar basis.
2	Potential of the project to support the development and deployment of large-scale renewable energy generation in Australia.
3	Technical strength of the project and the technical capability of the applicant.
4	Management capability of the applicant.
5	Potential for the project to retain local and attract international renewable energy expertise to Australia and enhance Australia's share of the global market in renewable energy technologies.

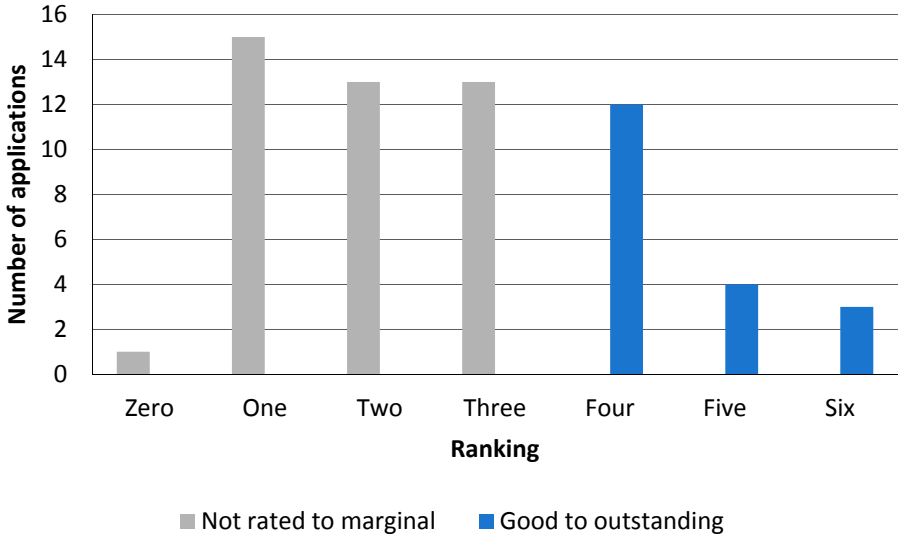
Source: ANAO from RET information.

3.29 The financial assessors assessed each application against the first merit criterion and the technical assessors against the remaining four criteria. The five merit criteria were rated equally, that is, there was no weighting of criteria. The ratings scale included zero (merit criterion not rated) and the ratings of one to three ranged from very poor to marginal. A rating of good to outstanding required four and above. Nineteen applications (31 per cent) scored a financial rating of four and above and 42 applications (69 per cent) were rated three and below. The total raw scores were used to rank applications.[121] Figure 3.2 shows the spread of rankings for the financial criterion for all 61 applications.

[121] The raw scores were the sum total of the assessment scores provided by the financial and technical assessors against the merit criteria. These scores were not moderated and there were no minimum score established to ascertain if a criterion was met.

Figure 3.2

Financial ranking for all applications

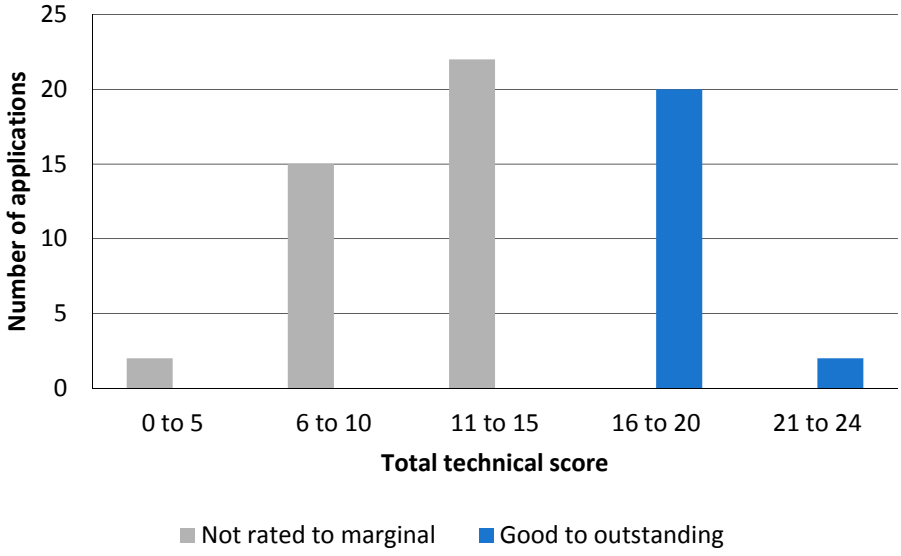


Source: ANAO analysis of RET data.

3.30 Figure 3.3 shows the consolidated scoring for the technical assessments for all applications. Twenty-two applications (36 per cent) scored over 16 out of a possible score of 24.

Figure 3.3

Technical ratings for all applications



Source: ANAO analysis of RET data.

3.31 As REDP applicants were required to meet the costs of completing each milestone before claiming reimbursement from RET, not giving due consideration of the financial capacity of an applicant at the financial assessment stage transferred an additional workload and risks to later stages of the selection process. The financial capacity of applicants considered eligible by the department was raised by the REC Chair in his letter to the Minister accompanying the committee's report. The letter noted that one of the factors why applications 'fell short' was because they 'were simply not financially viable'. Establishing minimum scores for criteria would have meant that all applications had to meet a minimum standard to be considered for funding.

Content and quality of financial and technical assessments

3.32 To effectively inform REC's merit assessment of REDP applications, the financial and technical assessments needed to be comparable so that the rankings were reliable and the commentary identified the distinguishing attributes of each application. As applications were assessed by a number of financial and technical assessors, different methodologies were adopted. Consequently, the rankings and commentary varied across assessors, which made comparisons between assessments more difficult. For example, where

the applications contained little or no financial information, the rating of financial capacity varied from zero to two.

3.33 In addition, there was scope for the department to have provided additional guidance to assessors to assist in determining the nature of any proposed unincorporated joint venture arrangements and the impact on the assessment. At least 19 (31 per cent) of the applications were submitted by partners of unincorporated joint ventures and assessments included the financial information of unincorporated joint venture partners in some cases and not in others, which increased the potential for inequities in the assessment of like projects.[122]

3.34 The ANAO reviewed the commentary in the financial and technical assessments and found that, while the assessors generally adhered to the merit criteria, they placed greater emphasis on different areas, creating inherent inconsistencies in the financial and technical assessments. While time constraints necessitated the allocation of applications across assessors, rather than allocating them to one firm, the department had made provision in its probity plan to undertake a moderation process. The draft probity plan stated:

> If considered necessary, the REDP Program Manager, Energy and Environment will appoint an officer to undertake a review of all assessments, with a view to identifying any remaining moderation issues. The reviewing officer will document any moderation issues and forward these to the REDP Program Manager along with a recommendation of action to be taken.[123]

3.35 Adopting a moderation process to improve the comparability of assessment, as outlined in the probity plan, was not implemented for REDP. RET informed the ANAO that the department implemented a number of processes to mitigate risks from the variability of assessments, including the review of the initial assessment provided by each assessor to assist with conformity of all assessments. The department also advised that all assessments were read for correctness and general validity. Furthermore, the department advised that the assessments were to provide advice to REC in conducting merit assessments and were not the basis for assessment—'it was

[122] The application form required confirmation of whether the applicant was an incorporated joint venture, but did not seek further information on partners of unincorporated joint ventures. The Guide stipulated that only incorporated joint venture applicants could enter into a deed with the Commonwealth for REDP funding.

[123] RET, Probity Plan (draft) dated July 2009.

up to the REC to determine how much reliance was placed on the financial and technical assessments'. Given the cost of the assessments and the reliance placed on the technical and financial assessments to shortlist applications for merit assessment by REC, a moderation process would have provided greater assurance regarding the appropriateness of assessments.

Merit assessment of applications

3.36 Following completeness and eligibility checks and technical and financial assessments, all 61 applications, along with the completed technical and financial assessments, were provided to members of REC for merit assessment. The establishment of REC brought expertise to the process of assessing and selecting applications and assisted the department to manage some of the program's risks.

Roles and responsibilities in the assessment process

3.37 The PAG outlined the responsibilities of REC in relation to the assessment of all eligible REDP applications 'according to the extent the application meets the merit criteria.'[124] The committee was to provide its merit assessment to the Minister, with the Minister 'to consider the REC's recommendations and other relevant information such as the achievement of program objectives'[125] when approving grant funding for REDP projects.

3.38 In January 2009, RET commenced a process to identify potential REC members to undertake the merit assessment of REDP applications. In May 2009, the Minister appointed to the committee six candidates from the business and scientific community and a Deputy Secretary from the department. Also in May 2009, the Government foreshadowed the establishment of ACRE, a statutory board within RET, to provide guidance on renewable energy technology, among other things.[126] A provisional advisory board, the interim ACRE board, was subsequently established in October 2009 to make recommendations to the Minister on the REDP solar applications

[124] RET, Program Administrative Guidelines, clause 8.1.

[125] ibid, clause 9.1.

[126] Initially, the Australian Centre for Renewable Energy (ACRE) was announced as Renewables Australia.

shortlisted by REC.[127] The members of REC formed the interim ACRE board, which meant the committee was then responsible for the assessment of both solar and non-solar REDP applications. The total fees paid to non-government members of REC and the interim ACRE board was approximately $63 000.

3.39 REC was to conduct the merit assessment of 36 REDP non-solar and 25 solar applications through a series of meetings and teleconferences from June through to September 2009. As there were 61 applications to be assessed, RET disseminated assessment packs to REC members by mid-July 2009. These packs included all applications, a copy of the technical and financial assessment reports and merit assessment forms that were to be completed for each application.[128]

3.40 The ANAO examined REC's and the interim ACRE board's merit assessment of REDP applications, particularly the process used to shortlist applications and the assessment of those shortlisted applications. Within this context, the ANAO examined the:

- management of probity, including conflicts of interest;
- assessment procedures; and
- assessments of non-solar and solar applications undertaken by REC.

Management of probity

3.41 Probity relates to ethical behaviour and, in relation to grants administration, involves 'applying and complying with public sector values and duties such as honesty, integrity, impartiality and accountability.'[129] Probity includes the appropriate management of conflicts of interest, maintenance of confidentiality and the conduct of those involved in the assessment of grant applications. The CGGs state that:

[127] As part of the 2009–10 Budget announcements, solar applications for REDP were quarantined due to the announcement of the Solar Flagships Program. As a result, REC assessments of REDP solar applications were suspended until an agreed process was determined. REC assessed the non-solar applications and was subsequently required to assess solar applications with a view to providing a shortlist of solar projects to the ACRE board for consideration.

[128] The letter accompanying the assessment packs included the instruction: 'You must complete an assessment form for each of the 61 applications'.

[129] Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, p. 27.

> In the context of grant administration, probity and transparency are achieved by ensuring: that decisions relating to granting activity are impartial, appropriately documented and publicly defensible.[130]

3.42 Probity advisors are generally independent and appointed to oversee grant assessment processes. A common approach to manage probity issues is to develop and document a probity plan.

Probity plan

3.43 RET commenced drafting a probity plan in July 2009, after applications were received and following the inaugural REC meeting in June 2009. The probity plan, which was adapted from the Low Emissions Technology Demonstration Fund, covered all aspects of the REDP grant administration process.[131] The plan was revised until August 2009, by which time REC had determined the highest-ranked non-solar applications. The final version of the probity plan was not endorsed by the probity advisor or the program delegate, and the department did not record the basis on which the plan was amended.

Probity advisor

3.44 The internal probity advisor for REDP, appointed in July 2009, was a newly-recruited RET executive level two staff member. While the probity advisor commented on a draft of the probity plan, the advisor did not perform the probity oversight role outlined in the plan. RET did not require the probity advisor to attend REC meetings to observe the committee's deliberations and oversee the management of conflicts of interest. Instead, the Chair of REC consulted the probity advisor separately on the management of the potential conflicts of interest declared by REC members. The probity advice provided to the Chair was not documented. Subsequently, the probity advisor's involvement was limited to the provision of comments on the draft assessment report that recommended projects to the Minister for funding.

3.45 As the expected value and risk profile of REDP grants was high, the appointment of an external probity advisor, to oversee all aspects of the merit assessment process, would have provided greater assurance regarding the integrity of the assessment process for the program.

---

[130] ibid.

[131] The Low Emissions Technology Demonstration Fund Probity Plan had been developed by an external consultant, who undertook the probity oversight for that program.

Conflicts of interest

3.46 Individuals appointed to advisory committees for grant programs who have specialist expertise in particular industry sectors are likely to have existing relationships, particularly where there is a relatively small field of qualified candidates. On 11 May 2009, the then Special Minister of State wrote to the Minister of Resources and Energy on behalf of the Prime Minister highlighting the importance of implementing effective arrangements to manage conflicts of interest for REDP. The Special Minister of State advised that, where there was a conflict of interest, members of the committee were to 'remove themselves from the assessment of any such projects'. The department also briefed the Minister and advised that, where a material conflict of interest existed, members 'will not be permitted to take part in the process'. In this respect, appropriate mechanisms were required to be established to identify and manage potential conflicts of interest.[132]

3.47 When accepting their appointment to REC, committee members were required to sign an acknowledgement of their responsibilities in the following areas: code of conduct, disclosure of interest, confidentiality provisions, and applicant contact principles.[133] REC members informed the ANAO that the appropriate management of potential conflicts of interest was a key consideration for the committee, particularly given the total funding available under REDP.

3.48 At the REC induction meeting on 4 June 2009, RET provided members with a copy of the REDP Renewable Energy Committee Handbook (the Handbook), which detailed REC members' responsibilities with regard to conduct, conflicts of interest, and contact with applicants. The Handbook also set out the role of RET's program manager in managing conflicts of interest

[132] ANAO, Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 31.

[133] RET documented the acknowledgement of six REC members. The seventh REC member was inducted separately and the acknowledgement forms were not retained by the department. All conflicts of interest were declared between 5 and 27 June 2009.

and the procedures to apply where a potential conflict of interest had been declared.[134]

3.49 RET provided REC members with a summary of the key details of the 61 eligible applications and members were asked to identify any potential and actual conflicts of interest against each application.[135] Five REC members declared associations with entities, including shareholdings, advisory roles, and professional relationships.[136]

3.50 The department advised that the Program Manager and the REC Chair assessed the materiality of the declared associations; however, departmental records do not evidence this critical step as being undertaken. All application packs were sent to REC members and they were requested to rank their preferred applications to be considered in-session.[137]

3.51 At the in-session meeting (6–7 August 2009) to deliberate on non-solar applications, the Chair of REC advised the committee that:

> he had met with the probity advisor to review the non-solar conflicts of interest involving three committee members. The probity advisor suggested that the committee review each conflict of interest on a case-by-case basis and decide whether or not the conflicted member should be present when the particular application was being discussed in detail.

3.52 The Chair also advised the committee that 'the initial discussion would not examine individual applications in detail but would discuss applications in a general sense and in technology groups.'

---

[134] The Handbook states that 'Papers relating to the individual applications will not be forwarded to members until the Program Manager receives advice that they are unlikely to declare a potential conflict of interest in relation to the items listed for consideration. Members who intend to declare such an interest will not receive reports or information on those items. The Chair, in consultation with the Program Manager, will take a decision on materiality or immateriality prior to the distribution of papers.' The standard operating procedure Renewable Energy Committee Assessment Process also states that 'REC members will only receive documentation for the applications where there is no conflict of interest registered.'

[135] The summary included a listing of the shareholders of the applicant, joint venture partners, related bodies corporate, advisors and other related entities.

[136] The REDP Renewable Energy Committee Handbook provides guidance on material and immaterial conflicts of interest. A conflict of interest is likely to be material if a direct link exists between a matter being considered and a member. A conflict of interest is likely to be immaterial where the interest of the member is insignificant and unlikely to influence the member.

[137] Thirty-one shortlisted applications were provided to REC members to rank their preferred 18 applications (10 non-solar and 8 solar) to be considered in-session. For 11 of these applications (35 per cent), an association with an entity that could be considered a material conflict had been declared by REC members. This figure does not include multiple immaterial conflicts of interest declared by one member.

3.53 The committee had agreed that members with conflicts of interest would not be excluded from the committee deliberations, but were required to restrict their comments to those of a technical or financial nature.[138] It was therefore important for the meeting records to indicate the involvement of members when discussing individual applications for which they had declared a potential conflict. The meeting minutes prepared by the REDP secretariat comprised high-level or summary information and did not capture important aspects of the conduct of meetings, particularly how conflicts of interest were managed with regard to individual applications, which was a requirement established in the Handbook and the assessment procedure.[139]

Assessment procedures

3.54 To provide guidance to REC in undertaking the merit assessments, RET developed Standard Operating Procedure 6—*Renewable Energy Committee REDP Application Assessment Process* (the assessment procedure), which was provided to the committee at its first meeting on 4 June 2009. The assessment procedure represented a sound approach to assessing applications against the merit criteria, including capturing the committee's individual merit scores for each application.

3.55 The assessment procedure was subsequently revised after the first meeting based on the requirement for out-of-session assessment due to the large number of applications to be assessed and the compressed timeframe to complete the assessments because of the acceleration of the program. RET further revised the assessment procedure to remove the requirement for REC members to document an individual score against the merit criteria for each application, despite the committee being responsible for conducting a merit assessment for each eligible application.

3.56 A third revision further amended the assessment process. REC members were required to supply a ranking of their preferred 10 applications from a shortlist of 18 applications prepared by the department. Under the

[138] The REC meeting minutes discuss conflicts of interest in terms of 'indirect and direct' rather than using the terminology outlined in the Handbook, which was 'material and immaterial'.

[139] The Handbook stated that 'The minutes of the meeting will record: the member declaring the interest; the nature of the interest; if it was judged material or immaterial by the Committee; and the departure of members from the room.' The standard operating procedure Renewable Energy Committee Assessment Process states that 'The minutes of the meeting will be recorded and finalised by the REC Secretariat and will record the REC member's participation regarding the application.'

revised procedures, separate merit scores from each committee member would not be recorded—only the preferred ranking. A fourth revision, prepared on the same day as the previous revision, included reference to 'a preferential voting system', to be undertaken by RET to produce a final preferred 10 applications to be considered in-session by REC. Table 3.5 summarises the key merit assessment procedures and the respective changes included in each revision.

Table 3.5

Summary of assessment process outlined in revisions of Standard Operating Procedure 6

Date of Draft	Description of Key Assessment Process
2 June 2009	• REC to individually review applications against merit criteria; • REC members are encouraged to assign a merit score for each criteria; • REC members to bring to meetings completed assessment forms and notes; • the Secretariat will ask for merit scores; and • outcome of meeting will be a list of suitable and a list of unsuitable projects.
20 July 2009	• large number of applications–out-of-session shortlist process; • complete assessments–individual applications, initial scores and forward to Secretariat; • will provide listing based on average scores; and • outcome will be two lists as above.
4 August 2009	• REC members may, if they wish, use the REC assessment worksheet and the merit criteria rating system, as a tool; and • separate merit scores will not be recorded–only the preferred ranking.
4 August 2009	• REC will assess non-solar applications against the merit criteria to develop a preferred ranking of applications as above, use of merit criteria as a tool; • using a simple preferential voting system, REDP Secretariat will produce a shortlist; and • the overall REC ranking of shortlisted applications by preference, based on merit criteria, will be forwarded to members out-of-session for agreement.

Source: ANAO based on analysis of RET information.

3.57 While amendments to the assessment procedures were designed to accommodate the assessment of a large number of applications within a condensed timeframe, they progressively reduced the robustness of the assessment process. Consequently, the transparency of the assessment process

underpinning the merit assessment of REDP applications by REC was diminished.[140]

Assessment of non-solar applications

3.58 Application packs were provided to REC members for an initial out-of-session assessment. To undertake the in-session merit assessment of REDP applications, REC held a series of meetings and teleconferences to plan for and assess the applications. Table 3.6 sets out the meeting schedules and the key tasks for the respective meetings.

Table 3.6

REC's meeting schedule for REDP applications

Meeting	Purpose	Comment
4 June 2009	Induction	Presentation on the program. Documenting conflict of interest and other administrative tasks. RET provided a sample of application forms, project plans and financial and technical assessment for REC. The committee discussed the financial and technical assessments, noting that there was a significant risk of varying standards of assessing, reporting and expert commentary in the reports.
22 July 2009	Planning meeting	Conflict of interest discussion. The assessment procedure to be redrafted and not be prescriptive. Out-of-session shortlisting process so that only 10 applications discussed in detail. Probity advisor not to attend meetings and Chair to meet with probity advisor separately. The action list included preparation of a shortlisting template to include highest-ranked 18 applications.
6–7 August 2009	Decision meeting	Deliberation on technologies and recommendations regarding successful non-solar applications developed. Conditions precedent documented. Discussion of structure of report to Minister and planning for solar project assessment.
24 August 2009	Decision meeting	Follow up of remaining issues regarding the decisions on non-solar applications. Assessment of solar applications and recommendations formulated.
10 September 2009	Decision teleconference	Finalisation of the recommendations on non-solar and solar projects.

Source: ANAO analysis of RET information.

[140] The CGGs state that 'accountability and transparency are related concepts, such that: accountability involves agencies and decision-makers being able to demonstrate and justify the use of public resources to government, the Parliament and the community. This necessarily involves keeping appropriate records… [and] involves providing reasons for all decisions that are taken and the provision of information to government, the Parliament and the community.'

Shortlisting non-solar applications for consideration by REC

3.59 The progressive amendments to the assessment procedures made reference to a departmental shortlisting process and a preferential voting system to determine a subset of applications for consideration by REC. The revised arrangements also placed a greater reliance on the technical and financial assessments as the primary means of shortlisting, despite committee concerns regarding their variable quality. The basis for the shortlisting process and preferential voting system was not retained in departmental records.

3.60 The ANAO sought information from the department and interviewed members of REC regarding the assessment and selection processes adopted. RET advised that the decision to shortlist 18 non-solar applications out of 36 was taken internally (within the department) and the decision and the rationale underpinning the selection of 18 applications (those with a score of 17 out of 30 and above) were not documented. The department further advised:

> The applications for both solar and non-solar broke roughly into thirds on raw scores. Taking non-solar as an example, that meant that there were approximately ten good, ten mediocre and ten poor proposals based on raw scores. As only three to four grants were likely to be awarded, it was reasonable to assume that these would come from the top ten. As a risk mitigation strategy against the lack of moderation, RET gave the REC the top 18 applications by raw score to assess for themselves what their preferred top ten applications would be prior to in-committee discussion of ten.[141]

3.61 To inform the assessment process, the department prepared a summary assessment for each of the 18 shortlisted applications. These summary assessments addressed the strengths and weaknesses of each shortlisted application, but did not specifically address the merit criteria. The department informed the ANAO that these departmental assessments 'were not part of the merit assessment process and RET officers were free to give their opinion about any aspect of the proposal'. RET believes that this extra assessment enhanced rather than inhibited the decision-making process.[142]

---

[141] RET advice to the ANAO provided on 6 March 2012.

[142] The departmental summary assessments were prepared to assist the Deputy Secretary in his role on the committee. The department advised that these departmental assessments were also provided to members of REC.

3.62 Each member of REC assessed the 18 shortlisted applications and indicated their preferred 10 applications. The department performed a 'simple preferential voting' process in order to arrive at a final list of 10 applications to be considered in-session by REC. The department did not retain all the original votes from members or record the basis on which the preferential voting process was applied. The REDP secretariat did, however, seek confirmation from REC members that the consolidated votes were correct.

3.63 While the large number of applications to be assessed and the short timeframe in which to conduct the merit assessments necessitated an efficient process, there was an obligation on the department to ensure the process was robust and appropriately documented. However, the department made key decisions relating to the assessment process, such as the shortlisting of applications, without adequately documenting the basis of these decisions. As a consequence, there is a lack of transparency surrounding these aspects of the merit assessment process.

Assessment and deliberation of shortlisted non-solar projects

3.64 REC was to assess in-session the 10 non-solar applications determined by the department's preferential voting process following initial shortlisting. The 10 non-solar applications were considered over two days at a meeting held on 6–7 August 2009. The minutes of REC meetings provided high-level coverage of matters considered by the committee, but did not outline the matters taken into account when ranking individual applications against the merit criteria.

3.65 In relation to the REC meeting of 6–7 August 2009, the high-level coverage of proceedings indicate that the committee reviewed applications in groupings of technology, with consideration given to: the lack of innovation in some technology groupings; the early stage of development of some of the technologies proposed; and the potential for some applicants funded under REDP to disseminate particular technologies to the wider industry. In addition, the committee also considered the option of providing partial funding for some projects.

3.66 Concerning the adequacy of the meeting minutes, RET advised the ANAO that the committee's deliberations were not part of the official record and that the report to the Minister captured the considerations of REC when making recommendations and was appropriate. However, neither the meeting minutes or the report to the Minister provided sufficient detail to evidence the

committee's view on each application against the merit criteria and the relative considerations in finding one application more meritorious than another.

3.67 Three out of the four REDP non-solar projects recommended by the committee for funding had conditions precedent involving either a successful pilot plant or pilot testing of the technology, reinforcing the need for proposed technologies to be at the stage of large-scale demonstration before funding was provided.[143]

3.68 The record of the REC meeting on 24 August 2009 indicated that the committee had also requested the department to prepare assessments for all unsuccessful applications. These assessments were not prepared by the department.

REC assessment of solar applications

3.69 REC was to assess solar applications with a view to making recommendations to the ACRE board, which was to be established in the subsequent 12 months. RET undertook a similar approach to assessing solar applications as it adopted for non-solar applications. RET determined a shortlist from the 25 solar applications by selecting the top 13 ranked by raw scores. The department developed summary assessments for these 13 applications and also requested REC to rank its preferred eight applications. Each member of REC indicated their preferred eight applications from the 13 shortlisted. RET retained the ranking sheets for solar applications completed by the six REC members. The department again used its 'preferential voting' process to arrive at a final list of eight applications to be considered in-session. The committee discussed the eight applications and developed a shortlist of five applications to present to the Minister for recommendation to the ACRE board when established. These recommendations comprised three solar thermal and two solar photovoltaic projects.

Assessment and deliberations of shortlisted solar projects

3.70 The commentary recorded for solar projects in the REC meeting minutes was high-level and general in nature. For example, the committee

[143] As part of the ROI process, department staff reviewed project proposals and provided feedback on project eligibility, including whether pilot testing had been completed. The technical assessors also considered the existence of pilot plants when assessing applications, and the absence of a pilot plant or information that the technology had been proven at pilot plant scale was seen as a weakness in 33 per cent of the applications assessed.

noted its opinion that overall, solar applications were at an early stage of maturity and not as competitive for grid installations. However, there was a potential for off-grid options, particularly for remote areas. The committee considered solar technology to be expensive and no projects offered the potential for a technology cost reduction. In addition, the committee outlined concerns about overall lack of innovation and, in some cases, the projects appeared to simply subsidise the manufacture of existing technology. In this context, the committee was supportive of Australian technology being supported for specific applications that would best meet Australia's needs.

3.71 As with the non-solar REDP applications, summary assessments were completed for the 13 shortlisted solar projects. These summaries were in the same format as the non-solar projects and did not specifically include an assessment against the merit criteria, referring instead to strengths and weaknesses. Those applications not included in the shortlist did not have summary assessments prepared. As a consequence, there is no documentation to support the merit assessment of all eligible solar REDP applications by REC.

3.72 The summary assessments for the five shortlisted solar projects were included in the REC's report to the Minister on non-solar projects so that these projects could be endorsed by the Minister for consideration and assessment by ACRE. As discussed previously, records retained by RET did not demonstrate the rationale underpinning the committee's recommendations against the merit criteria. Notwithstanding the compressed timeframes for the assessment of applications, the documentation to support the process was below the standard expected for effective grant administration.

Grant selection and approval process

3.73 The Minister was the decision-maker for awarding REDP grant funding. The CGGs state that ministers will not approve a grant without first receiving agency advice on its merits. In practice, advice on the merits of a grant application includes a clear agency recommendation to the Minister concerning whether or not funding should be approved for that application under the program guidelines. Advice and related briefing material provided to Ministers on grant approval should also explicitly address the requirements of the *Financial Management and Accountability Act 1997* (FMA Act).

REC report to the Minister for non-solar projects

3.74 With the assistance of RET, the committee prepared a report for the Minister in September 2009 that included the committee's recommendations

on REDP non-solar projects and the recommended solar projects for future consideration by ACRE when it was established.[144] The committee members advised the Minister that they had considered all applications and held a unanimous view that the projects selected were the ones most likely to achieve the objectives of the program, subject to meeting preconditions.

3.75 The Chair of REC provided a covering letter to the report, explaining that most applications: were not of sufficient scale; did not employ new or novel technologies; did not have the potential for wider deployment in Australia; or were not financially viable. This perspective by the Chair reinforces the importance of an effective eligibility assessment process to help ensure that applications with little likelihood of success do not proceed to merit assessment.

3.76 The report to the Minister also outlined the rationale for REC's decisions and broad considerations, such as the maturity of the applicant company under consideration, the applicant's approach to delivering and funding the project on a commercial scale, and the time needed for the project to deliver results to meet the Government's 20 per cent Renewable Energy Target. The committee considered that:

> despite the immature development of many applications the objectives of REDP could still be achieved by applying a strategic investment approach that would provide value for money. The Committee considered that technology risk in some of the less mature technologies could be managed by appropriate conditions precedent being included in the project funding agreements.

3.77 Within this context, three of the four non-solar projects recommended for funding included conditions precedent. The report included extensive commentary on the technologies for future reference of the ACRE board. The report also included assessments of 17 (out of the 18) shortlisted non-solar and five solar projects considered by REC. These assessments included: a brief description of the proposal; the project participants; project details, such as technology, site, grant amount sought, project cost and megawatt (MW) scale; and a listing of strengths and weaknesses, rather than a specific assessment against the merit criteria.

[144] The report was 93 pages in length and included; a covering letter, an executive summary, report body and numerous attachments, including the background to REDP, conclusions, the committee's assessment process and the two-page assessments of shortlisted applications.

3.78 In an annexe to the report, RET provided advice regarding the management of conflicts of interest and probity for the grant assessment process, including the appointment by RET of an internal and independent probity advisor and the existence of a probity plan. The Minister was not advised that the probity plan had not been finalised or that the oversight arrangements were not implemented as intended. The Minister approved funding for all of the recommended non-solar applications in November 2009.[145]

3.79 The ANAO examined the report to the Minister to assess compliance with the requirements of the CGGs in relation to the department advising the Minister of his responsibilities under the FMA Act and the CGGs and on the merits of the proposed grant. While the report specified projects recommended for grant funding, it did not provide information to the Minister on the financial management framework and the requirements of the CGGs, in particular, satisfying the requirements of FMA Regulations 9, 10 and 12.

3.80 In a subsequent briefing on 12 October 2009, the department advised the Minister of the requirements of the FMA Act and the CGGs and sought his approval under the relevant regulations.

Interim ACRE board deliberations on solar applications

3.81 In November 2009, the Minister requested the members of REC to form the interim ACRE board to make recommendations on the REDP solar applications by the end of November 2009.[146] The members of REC were then appointed to the interim ACRE board and meetings were held on 16 and 23 November 2009, with a final teleconference on 7 December 2009.

3.82 The minutes of these meetings, which were prepared by RET, partially documented the deliberations relating to solar applications.[147] After excluding the two solar photovoltaic applications, the interim ACRE board subsequently requested three shortlisted solar thermal applicants to present to the board on 23 November 2009. Details of the presentations and the deliberations of the

[145] No recommendations for grant funding were in the Minister's electorate. Additional reporting arrangements are in place for Ministers approving grant funding in their own electorates.

[146] At the time of making the recommendation to interim ACRE, the members of REC had not been advised that they would be appointed to the interim ACRE board.

[147] The first meeting was documented. The second meeting was only partially documented and the final teleconference was not documented.

interim ACRE board following the presentations were not documented by RET.

3.83 The board made recommendations to the Minister in January 2010. The two successful REDP solar applications were announced in May 2010.[148] One of the successful solar applicants had a pilot plant under construction and the interim ACRE board recommended to the Minister that a condition of funding was the completion of the pilot project.

3.84 The ANAO reviewed the report from the interim ACRE board to the Minister to assess compliance with the requirements of the CGGs. Elements of the report were compliant as the attachments to the briefing provided information to the Minister on the Australian Government's financial management framework and the requirements of the CGGs, in particular, satisfying the requirements of FMA Regulations 9, 10 and 12. As was the case for non-solar applications, summary assessments accompanied the report, but these did not provide an assessment against the merit criteria. The Minister accepted the recommendations of the board unchanged and indicated approval by signing the ministerial briefing.

Improvements to grant administration practices

3.85 Since 2009 when the assessment processes for REDP were undertaken, RET has progressively strengthened its governance arrangements and guidance surrounding the administration of grant programs. The establishment of the Program Management Committee in 2010 and the subsequent Program Management and Delivery Committee in 2011 has provided improved oversight over development, delivery and risk management across departmental grant programs.

3.86 The department's establishment of procedural rules for grants administration and risk management, the development of a comprehensive grants administration manual, and the preparation of a range of template documents to guide administrative practices better places departmental staff to effectively manage grant programs.

[148] On 11 May 2010, the Minister announced the membership of the permanent ACRE board and the dissolution of the interim ACRE board. The permanent board comprised new members with one continuing member from REC appointed as the Chair.

3.87 While acknowledging the significant improvements in RET's guidance materials since 2009 to support department staff administering grants programs, there is scope to enhance existing materials through greater coverage of requirements surrounding the documentation of merit assessment processes. As has been highlighted in this report, a transparent and accountable assessment process is reliant on sound documentation.

Conclusion

3.88 The REDP registration of interest process established by RET was designed to provide feedback to applicants on the eligibility of proposed projects, assess the workload required to process applications, and to invite applicants to information workshops. RET used the information provided as part of the ROI process to identify potentially ineligible projects, including those projects that: were not of sufficient scale; had not been proven at pilot plant scale; were not employing renewable energy technologies; or were not for the generation of electricity. RET's ability to provide more specific feedback was, in part, affected by the condensed implementation timeframes resulting from the acceleration of the program and the high-level information requested from applicants. Overall, the ROI process assisted the department to identify clearly ineligible projects and advise applicants accordingly.

3.89 The process established by RET to determine the completeness of applications was limited to ensuring that attachments referenced in the application were provided. The department's assessment of completeness did not, however, include an assessment of whether all mandatory information was provided (mandatory information was not provided by 21 applicants). Notwithstanding the challenges faced by applicants in meeting the reduced application timeframe, the quality of the applications, particularly the provision of mandatory information, underpins the assessment process. The department's acceptance of incomplete applications ultimately made the subsequent merit assessment process by REC more challenging.

3.90 All 61 applications assessed as complete were deemed eligible and progressed to merit assessment. Broad eligibility criteria without minimum scores and the absence of clear guidance, such as defining the scale of projects eligible for funding, also made it more difficult for the department to determine eligibility. The additional time required to assess the large number of applications against the merit criteria was particularly problematic given the reduced timeframe available for assessment following the acceleration of the program.

3.91 The assessment of eligible applications by technical and financial assessors was designed to inform REC's merit assessment process. In general, RET appropriately managed conflict of interest arrangements for assessors and, through documented procedures and workshops, provided assessors with a reasonable framework to undertake assessments. However, there were no minimum scores set for key merit criteria. This meant that applications could receive a high score overall, but did not meet key criteria, such as financial capacity. In addition, technical and financial assessors adopted different methodologies, which contributed to the inconsistent treatment of applications. Furthermore, the variable quality of the applications meant that the technical and financial assessments were also of variable quality—a point made by the committee. RET had made provision for the financial and technical assessments to be moderated to improve comparability, but it did not pursue this option. As a result, the risk that applications were not treated equitably was increased.

3.92 Probity arrangements for the assessment process were impacted by: delays in the development of a probity plan, which was not commenced until after applications had been received and the first meeting of REC; and the limited extent to which the probity advisor fulfilled the probity role established for the assessment process. On 11 May 2009, the then Special Minister of State wrote to the Minister of Resources and Energy on behalf of the Prime Minister highlighting the importance of implementing effective arrangements to manage conflicts of interest for REDP.

3.93 Potential conflicts of interest were declared by some members for some applications and these required careful management by the department. However, there were weaknesses in the department's management of potential conflicts of interest declared by members. While the department advised that the Program Manager and the REC Chair assessed the materiality of the declared associations, departmental records do not evidence this critical step as being undertaken. A decision on materiality or immateriality was required to be made prior to grant applications being provided to REC members, as outlined in the REC Handbook and assessment procedures. There is an obligation on the department to take steps so that potential conflicts are appropriately managed and the risk of inequitable treatment of applicants is minimised. The weaknesses in probity oversight and management of potential conflicts of interest did not deliver to the Government the level of assurance expected in relation to the integrity of the assessment process.

3.94 REC was responsible for assessing all applications against the program's merit criteria. The large number of applications and the variable quality of applications presented challenges to the committee in completing the merit assessment. RET originally established a sound assessment process to underpin REC's merit assessment of applications. Through successive revisions to the assessment procedures, the department reduced the documentation required to support the committee's merit assessment process. RET also made key decisions relating to the shortlisting of 31 of the 61 applications received (18 non-solar and 13 solar) that were not documented.

3.95 REC members were provided with all applications for an initial out-of-session assessment and further shortlisted the number of applications to be considered by the committee in-session by ranking their preferred 18 applications (10 non-solar and eight solar). The basis of assessments by committee members was not documented and the ranking sheets for the non-solar applications were not retained by the department. The preferential voting process applied by the department across individual committee member's rankings to arrive at a final list of the 10 preferred non-solar and eight solar applications to be considered by the committee in-session was also not documented by the department.

3.96 While the minutes of REC meetings provided high-level coverage of matters considered by the committee, they did not outline the considerations taken into account when ranking eligible applications individually against the merit criteria. Summary assessments were prepared for shortlisted applications only, and these assessments did not specifically include an assessment against the merit criteria. Assessments were not prepared for those applications that were not shortlisted.

3.97 The committee members advised the Minister that they considered all applications and held a unanimous view on the projects to be recommended for funding in terms of the value for the expenditure of Commonwealth funds and contribution to the achievement of the Government's policy objectives. However, the records retained by RET do not support a transparent assessment process. There is scope for RET to strengthen its processes for documenting the assessments of grant applications by departmental officers and the advisory committees.

3.98 REC provided the Minister with detailed reports recommending two solar and four non-solar projects for funding. The reports highlighted key considerations taken into account during the assessment process, including the

immaturity of the Australian renewable energy sector and the shortcomings of the applications received for the program. However, the Committee considered that, despite these shortcomings, the objectives of REDP could still be achieved by applying a strategic investment approach that would provide value for money. The report stated that the technology risk in some of the less mature technologies could be managed by appropriate conditions precedent being included in the project funding deeds. For the combination project, the consideration of its small scale was included in a summary assessment attached to the report.

3.99 While the reports included assessment summaries for each of the recommended projects, the assessments did not include information on the committee's assessment of the extent to which recommended projects met the merit criteria. Furthermore, the department's initial briefing accompanying REC's recommendations for non-solar projects did not comply with the requirements of the CGGs, particularly in relation to advising the Minister on the Australian Government's financial management framework and the requirements of the CGGs in order to satisfy the requirements of FMA Act. The department subsequently advised the Minister of his obligations and sought approval in October 2009. The department's briefing accompanying the recommendations from the interim ACRE board for solar projects provided the Minister with appropriate information on his obligations.

3.100 Since 2009 when the assessment processes for REDP were undertaken, RET has progressively strengthened its governance arrangements and guidance surrounding the administration of grant programs. This additional governance oversight and enhanced guidance better places departmental staff to effectively manage grant programs. There is, however, scope for the department to enhance existing materials through greater coverage of the requirements surrounding the documentation of merit assessment processes.

Recommendation No.1

3.101 To improve accountability and transparency in grants administration, the ANAO recommends that the Department of Resources, Energy and Tourism strengthens processes for undertaking assessments of future grant programs by:

(a) providing additional guidance in relation to documenting assessment and selection processes in the department's grants administration manual; and

(b) reinforcing to departmental officers and advisory committee members the importance of documenting assessments against eligibility and merit criteria.

RET's response: *Agreed*.

3.102 RET's Grant Administration Manual updated in June 2012 includes guidance in relation to:

- the documentation of assessment and selection processes; and
- selection criteria including threshold /eligibility criteria.

4. Negotiation and Management of Funding Deeds

This chapter examines the development, negotiation and management of the deeds of agreement between the successful grant applicants and the Commonwealth.

Introduction

4.1 The PAG required successful REDP applicants to enter into a deed of agreement (deed) with the Commonwealth before grant funds would be paid.[149] The deeds provide the legal framework for implementing REDP projects and making progress payments. The six successful REDP applicants have executed deeds with the Commonwealth.

4.2 On commencement of the program, the Minister appointed the RET Secretary as the program delegate, who then appointed the division head and branch head responsible for REDP as program delegates. On a day-to-day basis, the funding deeds are managed by staff in RET's Clean Energy Division. Departmental staff are responsible for negotiating with grant recipients and for the monitoring and reporting of REDP projects. Monthly progress reports are provided to the ACRE Board and the department's Program Management and Delivery Committee.

4.3 The ANAO examined the development, negotiation and management of the deeds, with particular emphasis given to the:

- guidance for administering the deeds;
- development of the standard deed;
- negotiation and execution of the deeds with successful applicants; and
- ongoing management of the deeds, including variations.

Guidance for the deeds

4.4 Departmental guidance for developing, negotiating and managing the deeds was provided by the PAG. As previously noted, guidance to applicants included the *Renewable Energy Demonstration Program—Information Guide* (the

[149] RET, 'Renewable Energy Demonstration Program Administrative Guidelines' 13 May 2009, clause 13, p. 8.

Guide), the Fact Sheet, Questions and Answers, information workshops, and the application form. As the PAG was not made public, the guidance provided to applicants played a key role in informing them about the program.

PAG requirements

4.5 The PAG specified that the REDP deed would comprise two parts: the General Conditions, defined as the predetermined standard contract approved by the department (these conditions were not to be negotiated); and the schedule, defined as the specific information and conditions consistent with the grant offer (these conditions could be negotiated by applicants prior to deed execution, and subject to approval by the program delegate). At REDP information workshops, a senior lawyer from the Australian Government Solicitor (AGS) advised potential applicants that the final version of the standard deed would not be amended. However, the department informed the ANAO that in negotiating the funding deeds, it took the position that if a change to the General Conditions conferred some advantage to the Commonwealth, either actual or in improving its negotiating position, it may propose such a change to the program delegate.

4.6 Once a deed was executed, the program delegate would be able to approve a request from a grant recipient to vary a project or the deed if the change was not likely to affect the achievement of the project's stated outcomes and did not vary the funding arrangements. Otherwise, only the Minister could approve the request. The PAG specified that the delegate might seek the advice of REC, technical experts or due diligence experts in assessing a request for variation to the deed. All requirements of the PAG were incorporated into the standard draft deed developed by the department in consultation with the AGS.

Guidance to potential applicants

4.7 Consistent with the PAG, the Guide advised potential applicants that the deed provided the legal framework for making grant payments and conducting the agreed project. The Guide stated that successful applicants would be provided with a written offer of assistance, which would include any conditions on the offer.[150] Successful applicants would have 30 calendar days to execute a deed with the Commonwealth, commencing from the date of the

[150] RET, *Renewable Energy Demonstration Program—Information Guide*, Canberra, February 2009, p. 13.

written offer. Failure to execute a deed within this time may result in the offer being withdrawn. The department advised ANAO that REDP applications were to be for projects that were 'shovel ready' and able to commence immediately a grant was announced.

4.8 As outlined in Chapter 1, the development stages for renewable energy technology are defined as: research and development; pilot; demonstration; and full commercial deployment.[151] REDP was targeted at projects that were at demonstration stage. The department advised potential applicants through the Guide and at information workshops that funding was for large-scale demonstration projects, not research and development or pilot plants. The department also advised potential applicants that large-scale demonstration was taken to be the stage beyond pilot plant, but prior to commercial rollout. This advice was repeated at a separate workshop for assessors. None of the successful applicants sought funding for pilot works in their original applications.

4.9 The Guide outlined other key requirements, such as:

- grant funding being limited to a maximum of one-third of eligible expenditure on the project; and
- the applicant having the financial capacity to match the REDP grant on the basis of at least $2 for every $1 provided by REDP to fund the costs of the project not met by REDP as they fall due.

4.10 REDP applicants needed to demonstrate that they had the financial capacity to meet the costs of completing each milestone before claiming reimbursement for a maximum of one-third of their estimated costs.[152] At information workshops, the department advised that the grant payment could only be made on one-third of the eligible expenditure. In addition, the senior AGS lawyer who developed the draft deed advised potential applicants that their funding percentage could not exceed 33.3 per cent of eligible expenditure

[151] CSIRO National Research Flagships Energy Transformed, *Unlocking Australia's Energy Potential*, Newcastle, 2011, p. 7–8.

[152] The department advised potential applicants that although the private sector would contribute at least $2 for every $1 of REDP funding, it expected that the private sector contribution would go much higher than two-for-one.

annually.[153] The six deeds originally executed by the Commonwealth reflected this advice, by setting progress payments to be no more than one-third of the estimated cost of achieving each milestone.

Development of the standard deed

4.11 A well-drafted funding agreement supports the effective management of grant activities and contributes to good governance and accountability by documenting the expectations of both parties in the delivery of the granting activity. The CGGs recommend that an enforceable agreement should be established wherever possible.[154]

4.12 The standard draft deed incorporated the requirements set out in the PAG and the Guide.[155] It established: the rights and responsibilities of each party; a performance and financial monitoring regime; and remedies for non-compliance. The deed addressed a range of risks that could emerge under the program by empowering the Commonwealth to recover grant funds in certain circumstances.[156] For example, if the Commonwealth considers that the total value of progress payments paid to the recipient exceeds 33.3 per cent of the total eligible expenditure incurred, the recipient may be required to repay the excess amount.[157] The Commonwealth may also seek repayment of grant funds in full when the grant recipient:

- terminates the deed before completing the project (clause 21(d));
- abandons the project (clause 22.1(c));
- assigns its rights other than in accordance with the deed (clause 22.1(e)); or

[153] RET, *AGS Renewable Energy Demonstration Project Legal Overview of Draft Deed*. Under the terms of the standard deed, progress payments were to be made on the basis of estimated expenditure for each milestone recorded in the funding deed's schedule. The deed recognised that actual expenditure could deviate from this amount and provided for reimbursement to the Commonwealth where grant payments exceeded 33.3 per cent of the total annual expenditure on the project.

[154] Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, p. 24.

[155] The draft deed set out, among other things, the recipient's project obligations, conditions precedent to grant payments, processes for making claims and payments (including milestone obligations), intellectual property rights, recordkeeping, reporting and the Commonwealth's access to records, confidentiality provisions, repayment obligations, the Commonwealth's right to recover money, financial Guarantor provisions, indemnities and insurances, variation and termination provisions, program evaluation and dispute resolution processes.

[156] A more complete list of conditions that would require repayment is at Appendix 3.

[157] Draft REDP Funding Deed, clause 16.1.

- if there is a change in control of the recipient, which the Commonwealth considers will result in the recipient not continuing with the project (clause 11.4).

4.13 Such provisions were designed to encourage applicants to be committed to implementing their proposed projects in their entirety. Otherwise, grant recipients could be required to repay REDP grant funds in full.

4.14 The draft deed was placed on the RET website in February 2009, prior to the workshops for applicants who had registered an interest in the program. Attendees were advised that a final draft deed would be placed on the RET website prior to the application closing date, and that if they were offered a grant they would be expected to sign the funding deeds without any changes to the General Conditions. The final draft deed was placed on the RET website two weeks before the closing date for applications, with a document explaining the differences between the two versions.

Negotiation and execution of the deeds

4.15 The Minister announced the four successful non-solar projects on 6 November 2009 and negotiations with applicants commenced soon after. The last non-solar deed was finalised in September 2010, with the length of negotiations ranging from three to 10 months. The two successful solar projects were announced on 11 May 2010.[158] The last solar deed was executed in March 2012, negotiations taking from 10 to 22 months.[159]

RET's approach to negotiations

4.16 After the announcement of the non-solar projects on 6 November 2009, departmental officers negotiating the REDP deeds sought approval to use the AGS in the negotiation process as the AGS was closely involved in the development of the draft deed and the information workshops. The RET legal section advised that a request to direct source legal advice from the AGS could not be justified because the original advisor was no longer available. A private

[158] Ferguson, M., (Minister for Resources and Energy), Budget 2010 Facts Sheets, *Fact Sheet 2: ACRE Support for Large-Scale Solar Projects,* media release, Parliament House, Canberra, 11 May 2010.

[159] Some delays were due to factors beyond the department's control, such as: the separation of the assessment of solar projects from other renewable technologies, and the calling of the 2010 Federal election and caretaker period.

firm was appointed as the legal advisor for deed negotiations. The new legal advisor reviewed the draft deed and recommended some minor changes to the General Conditions.

4.17 The department used as the basis of negotiations: the draft deed (which applicants had accepted as a condition of their application); the final application as assessed by REC; and any conditions REC had attached to its recommendation of each project. Before meeting with the successful applicants, the department pre-populated the deeds with project information from each grant application. In some cases, the application did not contain sufficient or appropriate detail to complete the deed's schedules. The successful applicants were subsequently invited to review and amend the schedules accordingly.

4.18 Negotiations were conducted at face-to-face meetings and through correspondence with applicants or their legal advisors. The REDP legal advisor attended negotiation meetings. The department maintained detailed records of the negotiation process with each applicant. The delegate's approval was obtained for key decisions affecting the deeds, and these were appropriately documented.

4.19 When negotiations commenced, RET advised successful applicants that the purpose of the negotiations was to finalise project details in the deed schedules, and not to re-negotiate the General Conditions. All questions or issues relating to the General Conditions were directed to the REDP legal advisor. The REDP legal advisor was generally not requested to advise on compliance with the PAG, the Guide and other guidance provided to applicants. Instead, the main role of the REDP legal advisor was to ensure that the deeds:

- reflected the commercial positions agreed between the parties and the department's commercial instructions; and
- when executed, would constitute a legal, valid and binding agreement between the parties.

4.20 The outcome of the funding deed negotiations is summarised in Table 4.1.

Table 4.1

Outcome of funding deed negotiations

Grant Recipient	Media Release[1]	Deed Signed	Grant Funds (ex GST) (million)	Eligible Expenditure (million)	Plant Capacity (MW)
Geodynamics[2]	6 Nov 2009	14 Jul 2010	$90.00	$338.61	25
MNGI		16 Jul 2010	$62.76	$188.29	30
Victorian Wave Partners		9 Sep 2010	$66.47	$221.55	19
Hydro-Electric Corporation[3]		20 Feb 2010	$15.28	$45.84	4
Solar Oasis[2]	11 May 2010	8 Mar 2012	$60.00	$224.28	40
CS Energy		3 Mar 2011	$34.90	$104.70	23

Source: ANAO from RET information.

Note 1: The successful projects were announced publicly by the Minister on these dates.

Note 2: Eligible expenditure for these projects include costs for some pilot works.

Note 3: The purpose of this project was to demonstrate the feasibility of supplying baseload power from a variety of renewable sources in a small island grid system.

Outcome of negotiations

4.21 The six projects examined by the ANAO have deeds that have been authorised and executed by the Minister or the program delegate, and their details published on RET's website.[160] Most projects reflect the terms of the recommended grant funding offer. The schedules to the deeds set out the milestones and progress payments agreed for each project, and the evidence that recipients must submit to the department to demonstrate the achievement of their project obligations. The executed deeds provide a sound basis for the ongoing management of the project.

4.22 One of REDP's intended outcomes was to demonstrate the technical and economic viability of renewable energy technologies through large-scale installations. Five of the six projects are for the construction of large-scale installations (19 to 49 megawatt). The sixth involved an integrated mini-grid project (4 megawatt) comprising wind, solar, biodiesel and storage technologies, as well as demand management features. REC identified the

[160] REDP grants are included in the list of grants published on RET's website. Available from <http://www.ret.gov.au/Department/pub-and-rep/reporting/Pages/default.aspx> [accessed 18 October 2011].

scale of the project as a weakness in its report to the Minister stating that 'the scale of the project is small by REDP standards'. Notwithstanding the project's small scale, the committee considered that 'the potential roll out to other locations around Australia was a valuable outcome'.

4.23 REC considered that many of the projects seeking REDP funding were at an early stage of development having yet to be proven at any significant pilot scale and consequently were not in a strong position to demonstrate the technology on a commercial scale. The committee considered that the technology risk for some of the less mature technologies could be managed by appropriate conditions precedent being included in the project funding agreements.[161] For example, the committee stated that 'the successful completion of proof of concept or pilot project drilling to prove the potential of the particular geothermal heat sources would be a necessary precondition to any geothermal projects receiving funding under REDP'.

4.24 RET considers that all of the technologies funded under REDP have been demonstrated at pilot plant scale. The department informed the ANAO that the standard that was consistently applied during the assessment stage and throughout the management phase of the projects was that the pilot could have been in association with the REDP project or in an unrelated project in Australia or elsewhere in the world.[162] Notwithstanding the department's view, the committee's establishment of a condition precedent requiring the successful completion of a 'proof of concept' project for one applicant indicates that this project was not as advanced as other funded projects. When balancing the early stage of development of this project with the potential benefits, the department advised that the committee exercised considerable judgement in selecting the project for funding. A key factor taken into consideration was the funding provided under another government program for the applicant to complete the final proof of concept for the proposed technology.

---

[161] A condition precedent is a condition of the deed that must be satisfied by the grant recipient before the Commonwealth is obliged to pay any grant funds. Conditions precedent are governed by clause 3 of the General Conditions of the Funding Deed, which states: 'The obligation of the Commonwealth under this deed to pay any grant funds or other monies to the Recipient will not commence until the Recipient provides documentary evidence to the satisfaction of the Commonwealth that each and every one of the conditions precedent (if any) specified in item 1 of schedule 1 has been fulfilled (or has been waived by the Commonwealth)'.

[162] There was, however, a level of inconsistency in the technical assessors' treatment of international pilot works that were unrelated to the proposed REDP project. As outlined in Chapter 3, the technical assessments were not moderated.

4.25 As outlined above, REC sought to manage technology risks arising from some of the projects through the use of conditions precedent. This approach helped to ensure that grant recipients were in a better position to demonstrate their technology on a large scale prior to receiving REDP funding. Four grant recipients have conditions precedent that involve testing part of their technology, for example completing a proof of concept project (outlined earlier) or a pilot project to demonstrate a mass manufacturing approach.

Negotiating conditions precedent

4.26 Grant recipients for two of the four projects with grant offers that included a condition precedent relating to the completion of pilot works, as recommended by REC and the interim ACRE board, have negotiated for this work to be included as project milestones and costs treated as eligible expenditure.[163] The total value of each grant has not, however, increased.

4.27 As a result of technical issues relating to pilot works for these two projects, including the need to identify a replacement pilot plant for one project, the department sought alternative arrangements to meet the 'spirit' of the original conditions precedent. In relation to one project, RET included the condition precedent as a milestone under the deed in response to a request from the grant recipient. The department considered that the introduction of the new 'go/no go' milestone ensured that the intent of the conditions precedent was met, that is the grant recipient was required to achieve the milestone prior to undertaking the large-scale demonstration project.[164] In relation to the second project, the department and the grant recipient agreed to a combined condition precedent/milestone. In this case, the recipient is required to expend $75.7 million and meet the condition precedent/milestone before the department releases $24.5 million in REDP funding.

4.28 Throughout the negotiation process, the department provided regular advice to the Minister on the progress of the negotiations and on the proposed arrangements. In addition, the department sought legal, technical and financial advice in relation to the negotiations and deed execution. The department also prepared risk assessments covering aspects of the arrangements, such as the

[163] As previously noted, REC recommended the non-solar projects to the Minister. Following the establishment of ACRE, REC was re-constituted as the interim ACRE board, which recommended solar projects to the Minister for approval.

[164] As a result, pilot plant costs were included as eligible REDP project expenditure, which meant that the grant recipient's funding ratio increased to a minimum of $3 project funding for every $1 of grant funding.

financial risks associated with one project. The proposed amendments were subsequently considered and endorsed by the ACRE board.

4.29 Allowing REDP demonstration projects to commence before the completion of conditions precedent relating to pilot testing increases the risk profile of the projects. The department advised that this change in risk profile must be balanced with the greater risk that the project would not proceed, thus putting at risk achieving the objectives and outcomes of the program. RET considers that the approach adopted fully satisfied the intent of REC to decrease the technical risk of the project.

4.30 RET informed the ANAO that it acknowledges that it has been necessary, on occasion, to transfer additional risk to the Commonwealth in order to progress some of the REDP projects to meet the objectives of the program. The department prepared risk analyses that outlined measures to mitigate these additional risks.[165] All changes have been considered and approved by the appropriate delegate, including the Minister, where necessary.

Changes to General Conditions

4.31 In February 2010, after deed negotiations had started, the department sought to strengthen its approach to risk management. In the context of seeking an extension to the negotiation period, the department advised the program delegate that:

> the issue of the risk of induced seismicity with the geothermal proposals under REDP and GDP has led to the possible inclusion of new conditions being applied to these projects.

4.32 By May 2010, RET had decided to draft new clauses on risk management, community consultation and notification for all REDP deeds. These clauses required grant recipients to: develop and maintain a risk management plan; consult with the local community about their project; and notify the department of any incident that may be a threat to the safety and wellbeing of any person, and any concerns about the projects by local community groups. At the request of ACRE, the draft deed was also amended

[165] The department has established a project management committee to enhance the monitoring of project progress. In addition, the department has required an increased level of reporting from grant recipients to support greater accountability, as well as additional insurance to mitigate the risk to the Commonwealth.

to require recipients to submit updated budgets on a quarterly basis, and an updated total cost to project completion.

4.33 The additional clauses strengthened the risk management, public accountability and reporting arrangements for the program.[166] These changes enhanced the administration of the program. The department informed the ANAO that the introduction of these clauses affected each deed negotiation differently, with some deeds being delayed and others taking little or no extra time.

4.34 Five applicants negotiated further changes to the General Conditions to their advantage. These changes were approved by the program delegate, based on the recommendation of departmental officers who had sought advice on the changes, but not advice in relation to compliance with the PAG. The General Conditions were amended at the request of applicants despite all applicants previously declaring their acceptance of the deed without alteration as part of their application. The department advised that these were not significant changes and the reasoning was properly documented and considered by the department. The department also advised that the General Conditions were only amended on the basis of advice, and an assessment of risk to the Commonwealth, which was considered low.

Unincorporated joint ventures

4.35 The Guide and the Questions and Answers document provided on the department's website discouraged applications from unincorporated joint ventures.[167]

4.36 Four successful REDP applications had projects that were, at the time of application, unincorporated joint ventures. The outcomes of negotiations for these four projects were:

- two joint venture partners were required to incorporate as a condition precedent to the funding deed, and did so;
- three joint venture partners applied for REDP as a consortium but only two of the partners incorporated during early negotiations;

[166] The extra clauses were also added to the deed that had already been executed, by executing a deed of variation.

[167] The Guide stated 'Unincorporated joint venture applications involving several entities are not acceptable due to the complexity of the contracting arrangements that the Australian Government would thereby become party to.'

- one joint venture partner applied for REDP in its own right, contracted with the Commonwealth in its own right, and did not incorporate with its joint venture partner; and
- one joint venture partner applied for REDP in its own right, but was assessed on the financial capacity of its two joint venture partners, one of which has since withdrawn from the project. This applicant contracted with the Commonwealth as an agent for the other two members of the unincorporated joint venture, and negotiated for clauses relating to the two joint venture partners to be included in the deed.

4.37 In the latter case, the department agreed to have the applicant represented in the deed as an agent for the other two partners in the unincorporated joint venture on the basis of advice that an agency agreement would provide the Commonwealth with certain benefits. However, this advice did not include whether the change was consistent with all REDP guidance materials. Consequently, the department's Chief Legal Officer advised that the deed could be construed to be with an unincorporated joint venture, rather than the applicant alone, and this could be perceived as being contrary to the Guide. Nevertheless, the department assessed the risk as low on the basis of further legal advice, and the delegate approved the proposed draft deed, based on the recommendation of the department.

Time taken to negotiate deeds

4.38 Although the PAG and the Guide stated that successful applicants had 30 days from the date of the grant offer to execute the deed with the Commonwealth, the deeds took many months to finalise. As outlined earlier, the length of negotiations ranged from three to 22 months. The PAG empowered the program delegate to authorise extensions to the negotiation period.[168] Throughout negotiations, departmental officers sought extensions to the negotiation period, supported by detailed briefings. In general, requests for extensions to the negotiation period were at the request of the proponent. The delegate duly authorised the extensions to the negotiating period.

4.39 The department made a considerable effort to reach agreement with applicants in negotiations. Some delays were due to factors beyond the

[168] RET, 'Renewable Energy Demonstration Program Administrative Guidelines', 13 May 2009, clause 10.2, p. 7.

department's control, such as the separation of the assessment of solar projects from other renewable technologies, and the calling of the 2010 Federal election and caretaker period. Other delays were due to some applicants negotiating changes to the conditions of their grant offer, or not promptly finalising their corporate authorisation, funding or intellectual property arrangements. These delays were inconsistent with the department's advice that REDP applications would need to be for projects that were 'shovel ready' and able to commence immediately a grant was announced. It was also contrary to the applicants' declaration on the application form that they accepted a limited period of 30 days to finalise the funding agreement.

Conclusion

4.40 Applicants were provided with guidance material that clearly outlined the terms and conditions for negotiating and managing the deeds. As the PAG was not made public, departmental guidance played a key role in informing potential applicants about the program.

4.41 The standard draft deed developed by the department addressed a range of risks that could emerge under REDP by empowering the Commonwealth to claim repayment of grant funds in a range of circumstances, including abandonment of the project. Such provisions were designed to encourage applicants to be committed to implementing their proposed projects in their entirety; otherwise they could be required to repay REDP grant funds in full.

4.42 During deed negotiations, key decisions were authorised by the Minister or the program delegate, and appropriately documented. All six approved REDP projects have deeds that have been authorised and executed by the Minister or the program delegate and provide the basis for the ongoing management of the projects. Most projects reflect the terms of the original recommended grant funding offer. The schedules set out the milestones and progress payments agreed for each project, and the evidence that recipients must submit to the department to demonstrate the achievement of their project obligations.

4.43 One of REDP's intended outcomes was to demonstrate the technical and economic viability of renewable energy technologies through large-scale installations. Five of the six projects are for the construction of large-scale installations (19 to 49MW), which is consistent with the program's eligibility criteria. The sixth involved an integrated mini-grid project (4 megawatt)

comprising wind, solar, biodiesel and storage technologies, as well as demand management features. Notwithstanding the small scale of the project, the committee considered that 'the potential roll out to other locations around Australia was a valuable outcome'.

4.44 Of the five large-scale projects, REC put in place conditions precedent for four projects that involved testing parts of their technology. This approach was designed to manage the risk for some of the less mature technologies and help to ensure that grant recipients were in a better position to demonstrate their technology on a large scale prior to receiving REDP funding.

4.45 Two successful applicants negotiated to include the costs of pilot works in their REDP projects, despite the original grant offers for these projects requiring pilot works to be undertaken as a condition precedent separately from the REDP project. Although the overall funding to these projects did not increase during negotiations, the deeds now include pilot costs as eligible expenditure. In negotiating these revised arrangements, the department sought advice, prepared risk assessments, obtained endorsement from the ACRE board, and briefed the minister appropriately.

Ongoing management of the deeds

4.46 The deeds, once executed, provided the basis of day-to-day management of REDP projects. The department monitors, assesses and reports the progress of each project against the deed's schedules, and briefs the program delegate on grant recipients' requests for variations to the deeds. It is relatively early in the life of the REDP projects, and at the conclusion of fieldwork only three milestone payments have been made to grant recipients. The remainder of this chapter examines the management of selected aspects of the deeds comprising: deed variations and the assessment of project milestones and progress payments.

4.47 The department undertakes monthly monitoring and reporting on the status of each project, including: variations to the funding deeds; progress on milestones and technical performance; budget management and financial issues; emerging risks and compliance issues. The department also produces quarterly summary reports for REDP. The quarterly reports include timeframes for the assessment of milestones, making payments, contract negotiations and responding to non-compliance. The monthly and quarterly reports are submitted to both ACRE and the department's Program Management and Delivery Committee.

Variations to deeds

4.48 The PAG requires any variation to a deed to be formally approved by the program delegate. As at December 2011, there had been seven variations, and further draft variations were under consideration by the delegate. The approved variations included: a deferral of project milestones and payments; a deferral of conditions precedent; the addition of risk management, community consultation and notification clauses; and a major restructuring of one project's funding arrangements.

4.49 All variations have been approved by the program delegate. The department received one recipient's formal request for variation to its first payment milestone almost four months after it was due. Another recipient sought a six-week extension for the first condition precedent two days before it was due, which was approved by the delegate the following week. The latter recipient subsequently sought further variations. The department advised the ANAO that the formal request from the first recipient was received after its payment milestone fell due, but the company had been in discussion with the department regarding the treatment of the situation since before the due date of the milestone. The second recipient's proposed variation was being negotiated.

4.50 Most variations have been formally executed as a numbered deed of variation, but two variations have been agreed by co-signing a letter setting out the changes, and one variation was approved by email. Whichever method is used to vary the deed, it is important for variations to be executed in advance, and not retrospectively, to avoid any potential breach of contract.

Variation to funding arrangements

4.51 A grant recipient negotiated a substantial variation to its funding arrangement under the deed. Although the total amount of funding provided by the Commonwealth has not changed, most of the funding will now be payable on a 1:1 basis in the first stage of the project, before the unincorporated joint venture partners decide whether to proceed past the pilot plant stage. Several of the later milestones have no funding attached. Increasing the level of funding in the early stages of the project to a dollar-for-dollar basis is a departure from the principle that applicants match the REDP grant on the basis of at least $2 for every $1 provided by REDP to fund the costs of the project not met by REDP as they fall due. The department advised that, over the life of the project, the funding remains on a 2:1 basis or greater.

4.52 The revised project description recognises that partners will undertake reviews of the project at specified points, and there is a risk that either the recipient and/or its partner may determine not to proceed further with the project as the result of one of these reviews. The department received advice that this approach increases the risk to the Commonwealth that the recipient does not proceed with the project past the pilot plant. Under the original agreement, the funding payable before execution of the contract to build the demonstration plant was some 28 per cent of its total grant funding. Under the variation, the funding payable before the recipient commits to building the demonstration plant is now 89 per cent of its total grant funding.

4.53 RET sought legal, technical and financial advice before proceeding with this variation. The department also provided detailed advice to the Minister on the potential risks and mitigation strategies. Briefings indicated that, while the variation increased the financial risk borne by the Commonwealth, enhanced monitoring and reporting requirements to manage the risks had been put in place, including the establishment of a project monitoring committee. The department also advised the Minister that it considered the level of additional risk, in the case of demonstration projects, was acceptable and the variation was a logical step to increase the chance of success of the project.

Assessment of project milestones and payments

4.54 Grant recipients qualify for progress payments based on achieving milestones set out in the deed. Recipients must demonstrate that, overall, they have spent a minimum of $2 in eligible expenditure for every $1 of grant funds they receive[169], otherwise they are liable to repay the excess.

4.55 To claim a progress payment, grant recipients must:

- complete a project milestone in accordance with the deed;
- submit a project milestone report with their payment claim; and
- submit evidence as specified by the deed.

4.56 The department developed a standard report template for recipients to submit their payment claims. The report requires grant recipients to provide their total project expenditure (eligible and ineligible expenditure) and the

[169] Two recipients with pilot works included in their projects are required to spend a minimum of approximately $3 in eligible expenditure for every $1 in grant funding.

amount claimed. The report also provides for grant recipients to report on contract variations and any problems encountered and lessons learned.

4.57 Under the terms of the deed, the department has 30 days to assess the payment claims, once the recipient has submitted all information required by the department. The department has a further 30 days to pay an approved claim. A summary of progress payments to grant recipients is presented in Table 4.2.

Table 4.2

Progress payments to grant recipients

Grant Recipient	Payment Claim Due Date	Payment Claim Lodged	Date Approved	Date of Payment	Amount (ex GST)
Hydro-Electric Corporation	27 Jun 2011	11 Jul 2011	3 Aug 2011	9 Aug 2011	$100 000
Geodynamics	31 Dec 2010	30 Nov 2010 resubmitted 17 Dec 2010	17 Feb 2011	25 Feb 2011	$900 000
CS Energy	30 Apr 2011	29 Apr 2011 resubmitted 8 Jun 2011	14 Jun 2011	9 Jul 2011	$6.98m

Source: ANAO analysis of RET information.

4.58 As at December 2011, the department had made the first progress payments for three projects. Recipients lodged their claims for payment either by, or shortly after, the due date. The department processed two of the three claims within 30 days from receipt of final documentation; one complex claim took 60 days to process. The amounts paid were in accordance with the deeds' payment schedules.

4.59 The processing of the milestone claims was challenging, and the department required two of the three claims to be resubmitted by the grant recipients. The first payment claim dated 30 September 2010 for $3.025 million eligible expenditure was originally submitted with over 100 pages of supporting documentation, including a large number of receipts and invoices from suppliers, with some in foreign currency. The recipient was asked to resubmit the claim with only the top five invoices, as the department considered that these receipts would provide sufficient evidence of achievement of the milestones. The receipts were not required to evidence eligible expenditure, as the grant recipient was required to: warrant its level of

eligible expenditure in each milestone report; and submit audited financial statements annually that include a statement that the eligible expenditure claimed by the grant recipient has been applied to the project in accordance with the funding agreement.

4.60 A further complication in the processing of grant payments arose when a grant recipient claimed payments that were lower than the scheduled payments in their respective deeds. At the time of negotiating the deeds, applicants provided their best estimate of expenditure for each milestone. Consequently, the actual expenditure incurred for a particular milestone sometimes varied from this estimate. The department sought advice on how to process such claims and was advised that the department was only permitted to pay the exact amount specified in the schedule to the deed. If the department wanted to pay a lower amount, for example, it would require a variation to the deed.

4.61 The department decided to ask the grant recipient to submit its claims for the exact amounts specified in its deed, with the department conducting a reconciliation of total eligible expenditure at a later date to ensure that overall grant funding does not exceed the authorised percentage of eligible expenditure.[170] The department informed the ANAO that it will review the funding ratio at the end of each financial year and make any necessary decisions regarding the recall of funds at this time. If the overall grant funding is higher than the specified amount, the deed authorises the department to recover any overpayment.

4.62 The risks inherent in this approach arise at the end of the project or at the time of potential early project termination. In both these cases, closer departmental monitoring of eligible expenditure will need to occur. This monitoring will help to ensure that the 2:1 ratio (or an increased ratio where agreed as part of deed negotiation or variation) is not exceeded on the actual final eligible expenditure on the project. While the deed contains provisions for recovery of funding in those cases of early project termination, the timely reconciliation of eligible expenditure will help to further limit the risks facing the Commonwealth.

[170] Under REDP funding arrangements, total grant funding must not exceed the authorised percentage of total eligible expenditure. The authorised percentage varies between grant recipients from 26.6 per cent to 33.3 per cent.

Conclusion

4.63 The deeds, once executed, provided the basis for day-to-day management of REDP projects. The department monitors, assesses and reports the progress of each project against the deed's schedules, and briefs the program delegate on recipients' requests for variations to the deeds. There have been several variations to the funding deeds, with one grant recipient negotiating a variation that involves a further bringing forward of grant funding on a dollar-for-dollar basis in the early stages of the project. The result is that 89 per cent of grant funding is now payable by the Commonwealth before the recipient commits to the construction of the demonstration plant.

4.64 While acknowledging the increase in risks to the Commonwealth from this variation, the department balanced this increase in risk with the risk of the project not proceeding, thus adversely impacting on the objectives of the program. When considering the request for variation, the department prepared risk assessments, based on legal, technical and financial advice, and fully briefed the Minister regarding the change in risk profile and proposed risk mitigation strategies.

4.65 Grant recipients qualify for progress payments based on achieving milestones set out in the deed. The department has decided to pay milestone claims as a proportion of the original estimated costs, rather than 33.3 per cent of the actual expenditure incurred by the recipient. The department plans to reconcile the total actual expenditure with estimated expenditure at the end of each financial year to ensure the overall grant funding does not exceed the authorised percentage. Given the department's decision to release milestone payments, which in some cases may exceed the ratio of eligible expenditure to grant funding, it is important for the department to implement a sound process to reconcile milestone payments, and to adjust payments in a timely manner.

Ian McPhee
Auditor-General

Canberra ACT
21 August 2012

Appendices

Appendix 1: Agency response to the proposed report

The Department of Resources, Energy and Tourism (RET) is committed to the effective administration of the Renewable Energy Demonstration Program (REDP). RET has successfully implemented REDP and is making good progress towards achieving the program's objectives.

The Auditor-General's report acknowledges the acceleration of REDP's implementation and the impact that this had on program planning, assessment and selection processes. The acceleration meant that grant applications, assessments and decision-making had to be completed within a compressed timeframe. RET accepts that some of the documentation and record-keeping should have been better handled. This acceleration is the primary contributor to many of the issues identified in the Auditor-General's report.

The Auditor-General's report also acknowledges that REDP was the first major project to be implemented by RET as a new department and, at the time that REDP was being established, RET was still establishing core departmental functions. RET has considerably strengthened its governance arrangements and guidance surrounding the administration of grant programs since REDP was implemented. These improvements in departmental policies and processes address the issues in this report and RET is confident that similar issues will not occur in future program implementation.

The issues identified in this report need to be considered in balance with the positive aspects that have contributed to the effective administration of REDP. Specifically, RET would like to note that:

- The projects selected for funding under REDP were assessed and recommended by an independent and expert advisory committee, the Renewable Energy Committee (REC). RET relied heavily on the professional expertise and experience of the REC.
- The REC undertook a detailed evaluation of applications and applied considered judgement after lengthy analysis and discussion. The REC's evaluation was supported by detailed independent technical and financial written assessments.
- RET was mindful of probity requirements throughout the grant application assessment and selection process. RET maintained conflict of interest disclosures for all REC members which detailed all potential linkages and associations between REC members and applicants. No REC member had a material conflict of interest and decision-making was not compromised in any way.

- The subsequent management of the funding deeds and project activities has been professional, pro-active and outcome-focused, resulting in positive early-stage results across the project portfolio.

RET considers that the REDP funding decisions are sound, and have resulted in a balanced portfolio of meritorious projects that are fully consistent with the objectives of the Program and the principle of value for money. RET recognises however that good record keeping assists it to meet its accountability obligations and demonstrate that due process has been followed in actions and decisions. Notwithstanding the Auditor-General's findings regarding documentation and record-keeping, RET is aware of no evidence that decisions to award grants to successful recipients were incorrect, not based on merit, or that the grant application and assessment process was biased and unfairly favoured or disadvantaged any applicant.

RET accepts the recommendation of the report.

Response to the recommendation

Agreed. RET's Grant Administration Manual updated in June 2012 includes guidance in relation to:

- the documentation of assessment and selection processes; and
- selection criteria including threshold /eligibility criteria.

Appendix 2: Renewable energy technologies

Table A. 1

Renewable energy technologies and definitions

Renewable Energy Technology	Definition
Biomass	Biomass energy involves using sources such as agricultural crop wastes, plantation wood waste, urban garden and food waste, sugar cane residues (known as bagasse), sewage and animal wastes in firing or co-firing in conventional power plants.[171] Plants running on biomass can be used to generate electricity, in many cases all year round, 24 hours a day as baseload power. Landfill gas plants, already in operation across all Australian capital cities, often operate for over 90 per cent of the year, comparable to traditional energy power stations. In Australia, most of the energy created from biomass fuels is in the form of heat from firewood and bioenergy from bagasse or wood wastes. Bioenergy resources are located across all the states of Australia, with most regions engaged in agriculture, forestry and food production producing substantial waste biomass that could be used to support power production. Sources used for biomass energy can also be used to produce liquid fuels, or biofuel.[172]
Geothermal	A geothermal system consists of three elements: a heat source covered by insulating rock to trap the heat, and a fluid to transport heat to the surface. There are two main types of geothermal systems that can be used to generate electricity: hydrothermal systems and hot rock systems.[173] Hydrothermal systems have fluids circulating through rock pores or fractures in areas where high heat-flow is present. These systems are often found near active tectonic plate boundaries where volcanic activity has occurred, such as in Iceland, New Zealand and the Philippines. Hydrothermal systems can also form in sedimentary rocks above areas of hot basement rocks. High-temperature hydrothermal systems are often exploited for electricity generation, while low-temperature hydrothermal systems are more suited to direct-use applications. Hot rock systems do not have fluids naturally circulating through the rock and in most cases, the rock needs to be fractured to achieve the fluid flow required for heat transfer.[174] Wells are drilled to a depth of 3-5 kilometres below the surface to

[171] Lenzen, M. *Current state of development of electricity-generating technologies—a literature review*, Integrated Sustainability Analysis, The University of Sydney, 2009, p. 135.

[172] Clean Energy Council, *Bioenergy* [Internet], Clean Energy Council 2011, available from <http://www.cleanenergycouncil.org.au/cec/technologies/bioenergy.html> [accessed 31 October 2011].

[173] Geoscience Australia, *Geothermal Energy in Australia,* [Internet], available from <http://www.ga.gov.au/energy/province-sedimentary-basin-geology/geothermal-geology.html>[accessed 23 January 2012].

[174] Where naturally occurring fractures are absent or underdeveloped, cracks are created through a process of hydraulic stimulation, or 'fracking', where micro-seismic events are triggered to open existing fractures to create a geothermal reservoir. This process is part of an Enhanced Geothermal System. Australian Geothermal Energy Association, *Frequently Asked Questions* [Internet], AGEA 2001, available from <http://www.agea.org.au/geothermal-energy/frequently-asked-questions/> [accessed 31 October 2011].

Renewable Energy Technology	Definition
	find the heat-producing granites. Hot rock systems are normally associated with granites that contain anomalously high concentrations of the naturally radioactive elements uranium (U), thorium (Th) and potassium (K). Although enriched in these elements compared to other rocks, element concentrations are still relatively low. The radioactive decay of these elements over millions of years generates heat, which is trapped when the granites become buried by insulating sedimentary rocks. The thicker the insulating layer, the hotter the temperatures, for example, granites at three kilometres depth overlaid by insulating sediments can be hotter than 200°C. While some of the world's best sites for hot rocks are in Australia, at this stage the only working geothermal power station in Australia is in Birdsville, Queensland. It uses hot water from the Great Artesian Basin and can produce up to 120 kilowatts of electricity.[175]
Hydro	Hydroelectricity, or hydro, is electrical energy generated when falling water from reservoirs or flowing water from rivers, streams or waterfalls is channelled through water turbines. Most hydroelectricity in the world is generated in dams. In this case, the energy generated depends on the water volume and on the difference in height between the reservoir and the turbine. Smaller hydropower installations are often the diverting, or run-of-the-river type, where the natural flow of a river is used to generate electricity.[176] The pressure of the flowing water on the turbine blades causes the shaft to rotate and the rotating shaft drives an electrical generator that converts the motion of the shaft into electrical energy.[177] Hydro can provide both baseload and peak electricity and hydro generators can start up and supply maximum power within 90 seconds. Smaller hydro power stations are also a reliable source of power and are often used as standalone systems not connected to the electricity grid. With a long history of development in Tasmania and the Snowy Mountains Scheme in NSW, hydro delivers the majority of Australia's renewable energy. There are more than 100 hydroelectricity stations totalling over 8 000 megawatts of capacity.[178]
Ocean Energy	The oceans' tides, waves or temperature can be used to produce electricity. Power comes from the water's movement, either the changes in height of the tides or the ocean's current, or from differences in water temperature. Different technologies adopt different methods for harnessing the ocean's energy: • a tidal power station is part of a dam, built across a narrow bay or river mouth. As the tide flows in and out, it creates uneven water levels on opposite sides of the dam wall. Water flows from the high side to the low

[175] Clean Energy Council, *Geothermal* [Internet], Clean Energy Council 2011, available from <http://www.cleanenergycouncil.org.au/cec/technologies/geothermal.html> [accessed 31 October 2011].

[176] Lenzen, M. *Current state of development of electricity-generating technologies—a literature review*, Integrated Sustainability Analysis, The University of Sydney, 2009, p. 76.

[177] Geoscience Australia, *Ocean energy* [Internet], Commonwealth of Australia 2010, available from <http://www.ga.gov.au/energy/other-renewable-energy-resources/ocean-energy.html>[accessed 31 October 2011].

[178] Clean Energy Council, *Hydroelectricity* [Internet], Clean Energy Council 2011, available from <http://www.cleanenergycouncil.org.au/cec/technologies/hydro.html> [accessed 31 October 2011].

Renewable Energy Technology	Definition
	side through turbines to generate electricity. • wave energy uses surface waves and pressure variations below the ocean's surface to generate intermittent power. Floating buoys, platforms, or submerged devices placed in deep water, generate electricity using the bobbing motion of the ocean's waves. • Ocean Thermal Energy extracts energy from the temperature difference between the ocean's warm surface and deeper colder waters. Thermal energy conversion plants use the water to produce steam and then pass the steam through a turbine generator to make electricity.[179] Australia's main wave energy resource is along the western and southern coastline, especially in Tasmania. The best tidal resources are located along the northern coast of Western Australia, and are largely removed from the major demand centres.[180]
Solar	Solar power is generated when energy from the sun is converted into electricity or used to heat air, water, or other fluids. There are two main types of solar energy technologies: • solar photovoltaic (PV) panels convert light energy directly into electricity by transferring sunlight photon energy into electrical energy. This conversion takes place within cells of specially fabricated semiconductor crystals. Solar PV power is installed on almost 200 000 rooftops across Australia. The majority of solar PV installations are grid connected systems, however, solar PV also has a long history of supplying reliable 'off grid' power to remote and regional Australian communities.[181]
	• solar thermal energy harnesses the sun's power to generate electricity by using lenses and reflectors to concentrate the sun's energy. The concentrated energy is then used to heat a fluid, such as water or oil, and uses the steam to drive a turbine. This technology is being deployed on a large scale to provide electricity.[182]

[179] Clean Energy Council, *Marine energy* [Internet], Clean Energy Council 2011, available from <http://www.cleanenergycouncil.org.au/cec/technologies/marine.html> [accessed 31 October 2011].

[180] Geoscience Australia, *Basics* [Internet], Commonwealth of Australia 2010, available from <http://www.ga.gov.au/energy/basics.html> [accessed 31 October 2011].

[181] Clean Energy Council, *Solar PV* [Internet], Clean Energy Council 2011, available from <http://www.cleanenergycouncil.org.au/cec/technologies/solarpv.html> [accessed 31 October 2011].

[182] Clean Energy Council, *Solar thermal* [Internet], Clean Energy Council 2011, available from <http://www.cleanenergycouncil.org.au/cec/technologies/solarthermal.html> [accessed 31 October 2011].

Renewable Energy Technology	Definition
Wind	Wind energy, currently the cheapest renewable energy source, involves the generation of electricity from the naturally occurring power of the wind. Wind turbines extract energy from the passing air by converting kinetic energy from rotational movement via a rotor.[183] The wind energy engaged in the turbine blades is transferred via a rotor to a generator, both contained within a housing situated on top of the turbine tower. Power is transmitted down the tower to a transformer on the ground, and then into the electricity grid. During the past decade, horizontal-axis three-blade turbines have emerged as the most popular technology, and today, the majority of commercial wind plants feature these turbines.[184] Turbine output fluctuates over time due to the variability of the wind. Measuring, modelling and understanding this variability is crucial for site selection, and also for integration of wind power into electricity grids.[185] Wind energy is primarily used for electricity generation, both onsite and for transport to the grid. Wind energy is also used to pump bore water, particularly in rural areas.

[183] Geoscience Australia, *Wind energy* [Internet], Commonwealth of Australia 2010, available from <http://www.ga.gov.au/energy/other-renewable-energy-resources/wind-energy.html> [accessed 31 October 2011].

[184] Lenzen, M, *Current state of development of electricity-generating technologies—a literature review*, Integrated Sustainability Analysis, The University of Sydney, 2009, p. 88.

[185] ibid., p. 89.

Appendix 3: Grant repayment provisions

1. The standard funding deed empowers the Commonwealth to claim repayment of grant funds in certain circumstances, such as where the grant recipient:

- fails to meet a condition precedent under the deed (clause 3.3);
- receives progress payments that exceed 33.3 per cent of the value of eligible expenditure (clause 16.1);
- terminates the deed unilaterally before completion of the project (clause 21(d));
- makes an incorrect or misleading representation or warranty under the deed (clause 22.1(a));
- abandons the project (clause 22.1(c));
- assigns its rights other than in accordance with the deed (clause 22.1(e));
- is in persistent breach of the deed (clause 22.1(f));
- engages in fraud, misleading or deceptive conduct (clause 22.1(h)); or
- if there is a change in control of the recipient, which the Commonwealth considers will result in the recipient not continuing with the project (clause 11.4).

Index

Current Better Practice Guides

The following Better Practice Guides are available on the ANAO website.

Public Sector Environmental Management	Apr 2012
Developing and Managing Contracts – Getting the right outcome, achieving value for money	Feb 2012
Public Sector Audit Committees	Aug 2011
Human Resource Information Systems – Risks and Controls	Mar 2011
Fraud Control in Australian Government Entities	Mar 2011
Strategic and Operational Management of Assets by Public Sector Entities – Delivering agreed outcomes through an efficient and optimal asset base	Sept 2010
Implementing Better Practice Grants Administration	Jun 2010
Planning and Approving Projects – an Executive Perspective	Jun 2010
Innovation in the Public Sector – Enabling Better Performance, Driving New Directions	Jun 2009
SAP ECC 6.0 – Security and Control	Dec 2009
Preparation of Financial Statements by Public Sector Entities	Jun 2009
Business Continuity Management – Building resilience in public sector entities	Jun 2009
Developing and Managing Internal Budgets	Jun 2008
Agency Management of Parliamentary Workflow	May 2008
Public Sector Internal Audit – An Investment in Assurance and Business Improvement	Sep 2007
Fairness and Transparency in Purchasing Decisions – Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007

Implementation of Programme and Policy Initiatives – Making implementation matter — Oct 2006