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Submission to the Clean Energy Finance Corporation Review Panel

Summary

We believe that the CEFC should be designed such that:

- The CEFC starts assessing projects in 2012 and significant amounts of projects are underway as soon as possible in 2013. We have little time to lose in switching over from fossil fuel based stationery energy to renewable energy and the CEFC should assist that transition as fast as possible.
- It assists renewable energy only. Fossil gas projects are neither clean nor renewable. Under no circumstances should the CEFC be assisting projects that utilise unconventional gas such as coal seam gas.
- It assists in seeing under construction over 2000 MW of large scale solar projects by 2013. Large scale solar projects, such as high temperature solar thermal plants with storage, are currently not supported under the current policy settings in Australia and will be a major component of our energy future if supported now to enable innovation and experience to assist this technology achieve maturity.
- Not place barriers to smaller community scale renewable energy projects. A modest portion of the fund should be used to assist community ownership models of renewable energy, such as community owned wind farms
- A significant amount of the fund should be used to invest in strategic grid infrastructure, such as the Victorian-South Australia interconnector, that will facilitate the connection of greater amounts of renewable energy. This infrastructure needs external support to be built as it is typically beyond the financial investment capacity of individual companies. Once built these new grid lines will enable new renewable energy sources to become financially viable.
- That any projects funded under the CEFC are additional to the 20% LRET target. We suggest that this is achieved by expanding the LRET during each biannual assessment to take into account the entry of LRETS created by CEFC assisted projects.

Discussion

Support for Community owned renewable energy

MASG is currently working to establish a community owned wind farm in the Mount Alexander Shire in Victoria. The wind farm is planned to supply all of the electricity needs of our residential sector, approximately 4 to 6MW.

Securing start up assistance for communities to enable projects such as ours become a reality is very difficult.

Grants and loan schemes such as those that exist in Scotland have been very effective in enabling communities to enter into the renewable energy market. The important environmental, local economic and social benefits of community ownership of renewable energy are well known, but we would also point out that community ownership of renewable energy also delivers a wider societal benefit that should be recognised and assisted in that it creates greater engagement and understanding of renewable energy technologies in our society.

The development of community owned renewable energy projects in Scotland and in Victoria near Daylesford, the Hepburn Wind Farm, have demonstrated how they assist the wider community understand renewable energy technologies, like wind power, and the changes in areas that eventuate with more widespread distributed renewable energy deployment. This assists communities adapt to change and creates greater understanding and social licence for the more rapid uptake of renewable energy technologies.

The use of small (\$50 to \$100,000) start up investments, loans or equity shares, during the initial stages of project inception prior to formal capital raising would assist many projects like ours to be built.

CEFC investment, loan guarantees or low interest loans during capital raising in community owned renewable projects would assist those projects achieve financial closure and realise many of those wider societal social benefits.

In summary, we would like the CEFC to:

1. specifically include community projects as a part of the package
2. not rule out community sized projects in the design of the scheme, for example, by having minimum investment amounts for the fund beyond community scale
3. make provision for and allocate funds to early stage equity investment in community project

Specific replies to Questions

4. How could the CEFC catalyse the flow of funds from financial institutions?

There are four ways that the CEFC could catalyse the flow of funds.

A.Early stage equity investment

We expect prospective equity investors to be conservative in nature. Modest funds may be available from local angel investors, local governments and regional development authorities, however these groups generally have insufficient funds or domain expertise to be called upon to fund the entire development phase.

We believe there is a role for the CEFC to contribute early stage equity investment to our project. By providing equity finance for feasibility and development, the CEFC would catalyse our project.

B.Senior and subordinated debt financing

We expect that it will be difficult to raise debt financing from a bank, especially if we do not have a power purchase agreement (“PPA”) in place. Commercially acceptable PPAs are not currently available. Banks will often require a PPA to provide a loan. If the CEFC were to provide loans to projects without a PPA, it would be catalysing investment.

By providing senior or subordinate financing to our project, the CEFC could change the risk profile, unlocking capital from more traditional funding sources as well as increasing project size to access economies of scale. We would expect that this would happen only after passing a strict due diligence process.

C.Loan guarantees

As an alternative to debt financing, a loan guarantee would be an effective way of unlocking debt financing for our project.

D.Power Purchase Agreements

As noted above, we do not expect it will be possible for our community energy project to obtain a PPA. Without certitude on the price that electricity will be sold at, it is more difficult to raise equity and almost impossible to secure debt financing. The CEFC could catalyse the flow of funds to our project by providing a fixed price PPA. This would allow for clearer marketing and identification of risks for equity and debt finance providers, unlocking funding for our project.

5. What experiences have firms in the clean energy sector had with trying to obtain finance; have term, cost or availability of funds been the inhibitor?

We expect term, cost and availability to all be issues in relation to obtaining finance for our project. We expect there to be very few lenders willing to back our project. We need more choice to reduce risk. The term of a loan needs to match the asset life of our project, rather than a much shorter duration. Lastly, the cost of financing needs to be competitive. We rely on a great deal of

volunteer support, it would be a pity to see this effort be allocated to excessive bank margins.

6. What non-financial factors inhibit clean energy projects?

Grid access: The Vic-SA interconnector is limiting the amount of wind and potentially other new renewable energy generation sources from being installed and contributing to the NEM grid and hence the RET.

Many areas of good renewable energy potential do not currently have good grid connectivity and CEFC assisting in providing grid infrastructure in those areas would greatly improve the viability of those projects and renewable energy generation in Australia.