Mount Alexander Sustainability Group

submission to

The Clean Energy Finance Corporation Review Panel

The Mount Alexander Sustainability Group (MASG) is a not-for-profit association established by the Mount Alexander community to facilitate action on climate change. To this end, MASG has been working to establish Mount Alexander Community Wind, a community-owned wind farm in our shire. Currently still in planning phase, this wind farm will supply 50-100% of the domestic electricity needs of our shire.

This submission focuses on the need to support community renewable energy projects like Mount Alexander Community Wind through the CEFC.

The success of Hepburn Wind, a 4 MW community-owned wind farm in Daylesford, Victoria, is testament to the potential of the community renewable energy (CRE) sector in Australia. Although CRE is a new model of development in Australia, it has played an important role in renewable energy development in the UK and Europe, and increasingly in the US and Canada also (Walker, 2008; Gipe, 2004, DWTOA, 2009; Hicks & Ison 2011).

The successes of the CRE sector in these countries has been supported by government policy, including finance options in the forms of guaranteed loans, rotating funds, grants and differentiated feed-in-tarrifs. Importantly, these funds aid the early stages of pre-feasibility and feasibility, when other sources of funding (commercial loans and investment) are not usually available. This is also true of Hepburn Wind, who received a $1.2 million grant (9.3% of project costs) from the state government in the feasibility stage. Such grants are no longer available in Victoria.

CRE projects rely on community investment to fund capital works. While economically viable in the long term, CRE projects often face cash flow issues in the short term as all the capital costs are up front, income can only be generated once the asset is grid-connected and full investment uptake may take years.

The CEFC could play a pivotal role in providing early-stage finance options for CRE projects and thereby catalyse community investment in and support for renewable energy across the

country.

MASG recently attended the Community Power Conference in Bendigo. It was clear from the conference that there are a significant number of community groups seriously seeking to establish community renewable energy projects and that, if given the right circumstances, this sector could flourish in Australia. A strong CRE sector would have the benefits of bringing community support for and understanding of renewable energy, new income streams into communities, embedded energy benefits, greenhouse gas reductions and community capacity building and development.

In light of this, 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 that are beyond community scale
3. make provision for and allocate funds to early stage (pre-feasibility and feasibility) equity investment in community project.

The positive contrition that community projects make to the broader social and political climate within which the renewable energy industry will develop cannot be over looked. We assert that the community energy sector warrants specific attention in the construction of the CEFC as it will underpin community understanding of and support for both clean energy policy and the roll out of clean energy infrastructure.

The economic, social and environmental benefits of these projects will play a vital role in building the broad social licence for renewables. A vibrant community energy sector is an economically efficient and socially desirable solution for building the social licence required to dramatically drive towards a clean energy future in Australia.

1. How do you expect the CEFC to facilitate investment?

We envisage the CEFC will have a broad mandate with the ability to provide financing options such as guaranteed loans, rotating funds, grants and differentiated feed-in-tarrifs.

By partnering with community renewable energy projects in the early stages of project development, the CEFC will enable and promote community investment in the project. In this way, the CEFC would provide interim finance until such a point that community capital

raising is complete and the renewable energy facility is generating and selling electricity.

Additionally, we would expect CEFC to operate where there is an absence of reasonable or efficient commercial alternatives. Specific ideas are outlined under Question 4 relating to catalysing community and institutional funding.

2. Are there principles beyond financial viability that could be used to prioritise investments, such as emissions impact or demonstration effect?

A key principle beyond financial viability is social licence to operate.

To create broad-based support, the community needs to both understand the technology and the local benefits offered. We are looking to create this understanding through participation in our project.

3. What are the opportunities for the CEFC to partner with other organisations to deliver its objectives?

We see an opportunity for the CEFC to partner with local sustainability groups, climate action groups and local councils who in the process of establishing community renewable energy projects. Also, there presence of national community renewable energy advocacy organisations, such as Embark and the Community Power Agency, could facilitate and support the funding processes, acting as a conduit between the CEFC and local projects.

We have received high quality support from both Embark and the Community Power Agency to date and would like to see them be able to continue in that role with our project and with others. However, we know that at present, lack of stable finance options and government policy support is a major inhibitor to this.

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.

1. 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 (pre-feasibility and feasibility) equity investment to our project. By providing equity finance for feasibility and development, the CEFC would catalyse our project.

This could be a low-interest guaranteed loan scheme to groups that meet certain criteria. Such a fund could become a rotating fund, where, once paid back by one project, it is released to another. Alternatively, it could come in the form of grant funding.

2. Senior and subordinated debt financing

Given the new and unfamiliar model of CRE in Australia, 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.

3. Loan guarantees

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

4. 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?

We are trying to obtain broad community backing and benefit sharing for our project, something that is often lacking in larger developments.

Issues that we deal with include a lack of resources to drive the project forward, as we for a large part on volunteer effort. We also need to access technical skills. At times it can be difficult to have access and dealings with industry participants, equipment, service, and finance providers. Even where there is a requirement to deal with us, negotiations with some counterparties, such as obtaining grid access, are one sided and weighted against our group.

7. Are there special factors that inhibit energy efficiency projects?

To date, it has been very difficult for renters to access energy efficiency programs and little incentives for land lords to make rental properties energy efficient. This effectively places a heavy burden of inefficiency on some of the poorer sectors of our community.

8. How do you see the CEFC fitting with other government initiatives on clean energy?

We see the CEFC as a key lever in achieving the goal of the 20% RET and laying the foundations for moving to more aggressive targets beyond 2020.

A well-designed CEFC that encourages community participation will deliver a broader range of projects at various scales with significant community support and associated social

benefits.

Background

What is Community Energy

Community energy projects empower communities to play a constructive role in response to climate change. They create environmental ‘leadership by example’, provide social cohesion and a sense of control over their energy requirements as well as lasting economic benefits for regional communities.

Key elements of community energy projects include:

- local participation in planning and ownership
- financial benefits remain in the area
- welcomed by the local community
- built and managed to create local jobs
- accountable to the local community
- scaled to the community’s energy requirements.

Importance / benefits

Although community ownership of renewable energy projects is a relatively new concept in Australia, it is common practice in several European countries and North America.

Empowering communities to be proactive in reducing carbon pollution

- Direct ownership changes attitudes at the local level, and leverages committed individuals in a community, giving them a positive outlet for action.
- Community ownership increases support for additional climate change mitigation measures and improves broader environmental awareness by establishing a connection between the community and its energy supply.

Delivering regional economic benefits

- Projects create jobs in regional areas, and generate new income streams for

communities adding depth and resilience to local and regional economies.

- Significant project profits remain in the community and deliver a genuine ‘felt’ benefit.

Tapping into a new funding source – the community investor

- Community ownership encourages greater investor base diversity and taps into a patient and lower-cost source of capital.
- Experience in the UK demonstrates that community projects tend to attract ‘serial investors’, who invest in a series of community related initiatives.

Enduring social benefits

- Locally-owned initiatives unite people around a common goal, creating social cohesion and a sense of purpose.
- Projects generally operate for 20-25 years, establishing a long-term sustainability dialogue with stakeholders and supporters.

Building social licence and accelerating renewable industry development

- Once successful local examples that directly benefit communities are established, opposition will be reduced.
- Local participation and contribution to decision making process often leads to smoother and quicker planning approvals.
- Small projects often lead to large ones. In Europe, community initiatives have led the way for large-scale corporate investment in renewable energy.

Bridging the gap between individual and corporate action

- The average rooftop solar installation delivers up to 1.5 kW of electricity, while a large-scale renewable energy project may deliver in excess of 100 MW. Between these two extremes lies an enormous opportunity for medium-scale initiatives.
- Community projects, typically in the range 1-10 MW, can deliver efficiencies that approach those of utility-scale infrastructure without sacrificing the social benefits of small-scale initiatives.

Delivering broader grid benefits

- Community renewable energy infrastructure promotes medium -scale distributed generation.
- Distributed generation reduces losses, can improve grid stability and reduces the load on the transmission network thus improving overall grid efficiency.

Barriers

Despite high levels of interest, the passion of committed individuals and promising business models, very few communities have yet progressed renewable energy projects past the conceptual phase. Specific barriers include:

Economics

- Financial challenges are heightened for communities as these types of projects do not have robust balance sheets to support the formation stages of the project.
- Capacity for a community to weather uncertainty and withstand shocks or delays during a project can be lower.

Access to capital

- Traditional equity and debt providers are reticent to commit funds as the community renewable energy sector does not yet have a long established track record in Australia.
- Institutional investors avoid smaller, one-off projects because due diligence requirements are proportionately high.

Non-traditional market player

- Developing a renewable energy project is highly complex and requires a range of specialist skills not available in most communities.

- The ease and cost of grid connection is site specific. The greater the electricity exported into the local grid by the renewable generator, particularly an intermittent one, the more complicated and costly it will be to achieve the connection.
- Off-take agreements are bilateral and very challenging to negotiate in the current environment.

Inadequate policy framework

- While Australia has well developed (but unstable) policies covering domestic-scale renewables and solid policy for large-scale utility generation, federal and state policies have neglected the middle ground where community initiatives naturally fall.

Inefficiencies in scale

- Larger projects are generally more efficient as fixed costs are spread across greater generation capacity.

- An inability to tap the volunteer work force available to community projects.

Capacity and skills

- To move projects forward, community groups need to transition from volunteer-based organisations to local social enterprises with paid staff.