



6 December 2011

**CEFC Secretariat**

By Email [cefc@treasury.gov.au](mailto:cefc@treasury.gov.au)

Dear CEFC Secretariat Members

**NEW ENGLAND WIND SUBMISSION ~ CLEAN ENERGY FINANCE CORPORATION**

New England Wind's submission to the CEFC Review Panel focuses on our community's participation in renewable energy.

The vision of the New England community wind project is for long-term energy self-sufficiency for the region, with the purpose of providing affordable, accessible, competitive, clean and renewable energy for New England.

We envisage a multi-stage project incorporating several separate community-owned wind farms, with the ultimate aim of creating enough energy to cover the electricity needs of New England and perhaps to export energy to neighbouring regions. This project will address energy usage, efficiency, embedded generation and distribution, through to security, storage, sustainability and education.

A completed feasibility study has shown overwhelming community support for community wind farms in New England and over 100 landholders have offered to host wind turbines on their properties. This project follows and builds upon the very successful *Farming the Sun* community solar project which won a NSW Green Globe Award for Sustainability 2011 and which resulted in a large increase in the uptake and awareness of solar systems in New England.

New England Wind is focussed on establishing an initial community wind farm of 8 turbines (16MW equivalent) requiring \$30m in capital. This is to be raised equally from community investors, professional investors and debt finance.

The project has now reached the point where technical expertise and consultants (legal, engineering, etc.) are needed to progress through the next vital stages of development. Meeting these costs, along with ongoing coordination fees, presents a huge challenge to the consortium working on this community project.



**NEW ENGLAND WIND** is a partnered community enterprise of  
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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; and,
3. Make specific provision for, and allocate funds to, early stage equity investment in community projects.

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 and social benefits of these projects are significant and will play a vital role in building the broad social licence for renewable energy development. 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 ranging through equity to senior debt. 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 wide range of local benefits offered. We are looking to create this understanding through participation in our project. Our community wind farms would offer significant opportunities for both education and tourism focused on renewable energy.

Projects with significant demonstrable CO<sub>2</sub>e benefits (savings, diversion or sequestration) should be given priority for receipt of CEFC funding.



### **3. WHAT ARE THE OPPORTUNITIES FOR THE CEFC TO PARTNER WITH OTHER ORGANISATIONS TO DELIVER ITS OBJECTIVES?**

Embark is the recognised and established lead for the development of community energy in Australia. Their role tracks similar successful 'peak bodies' established throughout the United Kingdom and North America.

The ethical and clean technology investment sector also should be considered given their established presence in this area.

Superannuation funds should also be considered. Australians' have an extraordinarily large and growing amount of wealth invested in superannuation which is largely untapped and continues to be difficult to tap for community and other renewable energy investment.

### **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 equity investment to our project. By providing equity finance for feasibility and development, the CEFC would catalyse our project.

#### **2. 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.

#### **3. Interest Subsidies**

An amount (say 10% of CEFC funds) could be reserved for a period of time determined by the average lifespan of projects, or the average length of payback for projects, with options to rollover at the end of such period(s).



Yields derived from investment of these funds could then be applied to subsidise infrastructure projects during their budgeted payback periods. This would reduce financial risk attributed to the maturing market for renewable energy projects; help leverage CEFC funds; and encourage financial institutions and other investors to partner with projects on a 'fully commercial' basis from inception.

It is recommended that, as a means of encouraging community engagement and awareness of the social, economic and environmental merits of these investments, priority for the granting of interest subsidies would be given to community based, majority-owned renewable energy ventures.

#### 4. Loan guarantees

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

#### 5. 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 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 rely 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. Negotiations with parties such as in relation to grid connection options, can be very difficult without upfront costs paid.



## **7. ARE THERE SPECIAL FACTORS THAT INHIBIT ENERGY EFFICIENCY PROJECTS?**

Arguably the greatest inhibitor of energy efficiency is the lack of mechanisms to return the payback on investments to the investor. Frequently the payback accrues to a third party and this is a near complete block to change.

For example, the current \$1/3Bn upgrade of the TransGrid network into north-eastern NSW could well be far better invested across a wide range of energy efficiency and demand management strategies which eliminate the need for the new connector which in part is required to service growing peak load demands. In this instance the investors would encompass a wide range of residents, organisations and landlords whereas the largest savings and return on investment will accrue to NSW electricity customers at large and TransGrid.

A peak load demand management tariff has been proposed as one strategy to overcome this hurdle.

## **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 and environmental 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.
- Increased awareness and education about renewable energy



### 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 to renewable energy 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 1-20 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.

### Capacity and Skills

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

Please feel free to contact us should you wish to discuss our submission further or require any additional information.

Sincerely yours

A handwritten signature in black ink, appearing to read "Adam F Blakester".

**Adam F Blakester**

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