

**CLEAN ENERGY FINANCE CORPORATION
EXPERT REVIEW
SUBMISSION**

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**PREPARED BY THE
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WITH ASSISTANCE FROM EMBARK**

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Introduction

North West Renewable Energy Community Group's submission to the CEFC Review Panel focuses on our community's participation in renewable energy.

The NWRECG are a group of thirty (30) individuals located in Mildura, Victoria interested in pursuing the development of Community (Medium 2 – 5MW capacity) Scale Renewable Energy Power Stations in our region.

North West Renewable Energy Community Group's Objectives

Short Term

Understanding and overcoming the barriers to community (medium) owned renewable energy power production through discussion, education, presentations and research.

Medium Term

Develop the Business Case for Community (Medium) Scale Renewable Energy Power Stations.

Long Term

Construction and Operation of Renewable Energy power stations in the North West Region of Victoria.

In summary, we would like the CEFC to:

1. Specifically include small and medium scale projects, with strong community participation 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.

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 will play a vital role in building the broad social licence for renewable energy supply. 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.

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.

Capacity and skills

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

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.

We expect a fair, equitable, transparent and diligent process.

We expect the CEFC to seek independent advice regarding the most appropriate support for the pre feasibility, development and commissioning stages of renewable energy projects.

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.

Also consideration the combined benefits of a number of projects contributing to grid balance and negating the need for non renewable generation plants.

One project getting off the ground will lead to neighbouring communities being available to capitalise on the newly developed skills and knowledge.

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

A partnership with Regional Development Australia (which currently has a network of people based in the regions) would help to engage and facilitate regional groups in a cost effective manner.

Partnering with organisations outside of the energy field which have expertise in public co investment in the commercial sector such as Screen Australia and Film Victoria could provide valuable assistance in CEFC's strategy development.

Partnering with organisations that already have experience in the renewable sector such as Embark and Hepburn wind could fast track the CEFC's appreciation of the practical obstacles facing new players in the energy sector.

There is potential to collaborate with many existing commercial hardware suppliers and manufacturer.

The community banking sector will be valuable in supporting community energy projects.

The education sector (tertiary, VET and secondary) could be valuable collaborators in enhancing the integration of new technology and skills into the emerging renewable workforce.

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.

Current examples of this approach are currently available at a federal and state level. For example Film Victoria and the Screen Australia have excellent models for supporting project development from pre feasibility through to implementation, whilst minimising risk. Models exist for small and large scale production, with appropriate levels of risk protection and sophistication for each.

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

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 are not at this stage with our project.

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

We are currently finding the financial factors to be our limiting factor. Specifically, our ability to fund pre feasibility activities is holding us up presently.

The regulatory and 'business as usual' structure of the NEM and ability to obtain grid connection for small to medium scale projects.

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

In our region, the need for adequate heating and cooling systems for both residential and commercial buildings, and industrial processes is vital to sustain our community and region socially and economically. The general belief that natural gas is the fundamental resource that is needed to meet the increase in the future demand of energy production, restricts the strategic adaptation and development of alternative technology that can meet our energy needs and provides our region with a technological advantage.

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.