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Clean Energy Finance Corporation (CEFC) Submission

By WISE, Woodend, Victoria
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WISE (Woodend Integrated Sustainable Energy Inc) is a not-for profit community group based in Victoria's Macedon Ranges with 350 members. WISE's mission is to help our community take responsibility for its energy and carbon future by nurturing community-scale renewable energy projects.

Current WISE projects include a 3-turbine community wind farm, a community GreenPower scheme and the retailing of biodiesel.

Government support for community-scale projects

To date most government programs and policies have targeted either individual households or large-scale developments.

However community-scale initiatives, such as the Solar Cities program, have enormous potential under the CEFC, as technological and social innovation occurs most effectively at this level. (Ison)

Such projects de-carbonize energy systems, distribute and localise energy supply; and democratise energy governance through community ownership and/or participation. (Ison)

Community scale projects are common in both Europe and North America utilising different financing models. The UK Community Carbon Network identifies over 150 such projects in the UK alone. In Denmark community-owned "wind guilds" are credited with the rise of the Danish wind industry. In Germany and Austria, citizen wind farms and bio-energy plants are becoming increasingly common.

WISE seeks the support of the CEFC to stimulate capital investment in community-scale projects across Australia.

Design recommendation

The community energy sector – specifically small to medium-scale solar, wind, geothermal, and mini hydro - warrants specific attention in the allocation of funding by CEFC to capture the economic (community owned), environmental (local



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generation means less distribution loss) and social (community resilience) benefits of these projects.

Community renewable energy projects underpin community understanding of and support for both clean energy policy and the roll out of clean energy infrastructure.

The WISE group believes that a vibrant community energy sector is an economically efficient and socially desirable solution to addressing climate change.

Set out below are some financing options that we have identified as being effective in stimulating investment in community scaled projects (see definition attached).

Conclusion

In its submission into the design of the Carbon Price WISE advocated strongly for a plan that uses revenue raised to by hypothecated to solving the problem – support for renewable energy deployment.

Support for community based projects encourages the most effective and acceptable solution at a scale that can capture economies in installation and operation.

Rural, regional and remote Australians are particularly threatened by climate change. They can help solve the problem by locally owned clean energy investment.

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FROM COMMAND AND CONTROL TO LOCAL DEMOCRACY: THE GOVERNANCE OF COMMUNITY ENERGY PROJECTS. Author: Nicola Ison



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Financing options

In exploring local opportunities for community-owned renewable energy generation WISE has undertaken research into a range of financing options.

Fortunately there are examples from around the world of creative capital-raising strategies that can make community-owned renewable energy projects viable. These strategies often involve partnerships between communities, industry and government:

- Communities benefit from part or full ownership of renewable energy projects in their area, rather than receiving token or geographically limited compensation. The millions of dollars of income can be spent on transformative local programs to make communities more sustainable. Community ownership reduces local opposition and smoothes the planning process;
- Industry benefits by gaining access to previously unavailable or controversial prime renewable energy sites. Their expertise in planning, engineering, project management and finance is essential;
- Government benefits by achieving greenhouse reduction targets through renewable energy projects that receive broad community and industry support. Governments can develop policy, regulation and incentives to make community-led projects viable.

Accelerated depreciation

Three characteristics of renewable energy projects make them prime candidates for accelerated depreciation (tax relief) from the federal government:

- They provide public environmental benefits;
- They are very capital-intensive (second only to mining projects - ABS 2007) making them very susceptible to interest rates; and
- Their technologies advance rapidly so that facilities are superseded by superior models and lose their capital value quickly.

Flip schemes

Communities can avoid the hurdle of capital-raising by taking on a commercial partner. The commercial partner raises all or a majority of the project capital (usually a mix of debt and equity) then enjoys all or a majority of the returns over a specified period – e.g. the first 10 years. After this period, ownership 'flips' (entirely or partly) to the community partner.

Flip schemes can be structured in various ways:



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Minnesota-style flip scheme – Rather than leasing their land to wind farm developers (a passive role), farmers in the US have become active project proponents. The equity split between farmer/commercial partner is usually 1%/99% for the first 10 years, then 99%/1% after the flip.

Wisconsin-style flip scheme – The community proponent raises a portion of the capital – e.g. by issuing shares (collective ownership) or bonds (to maintain ownership by a single community entity). This amount (typically 20% of total capital required) is loaned to the commercial partner. The commercial partner raises the remaining capital (e.g. 30% equity, 50% commercial loan). The commercial partner repays the commercial loan (principal and interest), plus interest only on the community partner's loan. Ownership then flips after 10 years with the community shareholders owning 100% of the project.

The internal rate of return (IRR) expected by commercial partners is typically 15%, so flip schemes usually require tax incentives to ensure a rapid payback period (e.g. accelerated depreciation and/or production tax credits – see above).

Debt

Government-issued or government-guaranteed bonds are a cheap way to raise project capital. Bonds are fixed-term, fixed-interest, tradable securities which can be issued to local and institutional investors. Climate Bonds could be securitized (pooled) across several community projects to gain efficiencies of scale.

If part of a larger wind farm, the community's stake in just one or two turbines could be funded solely through debt as it will represent only a small percentage of total project capital. The debt could be a traditional bank loan, low interest or interest-free government loans, or bonds as described above.

Feed in tariffs

In Victoria, small, privately-owned solar installations have received feed-in tariffs – the household is paid a generous 60cents/kWh premium for the electricity they generate, ensuring a more rapid pay back period. Feed-in tariffs can be based on 'gross' or 'net' export of electricity to the grid - the former being more generous (ie heavily consumer or tax payer subsidised) and not popular with state governments.

It could be argued that feed-in tariffs would be better spent on larger, more efficient technologies such as wind farms. So instead of encouraging inefficient individual installations, the government would support households investing in collectively-owned large facilities that delivered more bang for the buck.



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Capital grants

As with feed-in tariffs, governments have supported small renewable energy installations with capital grants – eg the \$8000 rebate under the federal Solar Homes and Communities Plan. Again this money would have been better spent supporting collectively owned, large-scale, efficient projects such as community wind farms.

The Clean Energy Finance Corporation should offer a range of funding options to community groups as well as making provision for several of the options being used concurrently (e.g. Capital grants and Feed in tariff)



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Guidelines for Determining a 'Community' Wind Project

Prepared by the Mt Alexander Sustainability Group, Embark and the Community Power Agency

A Community Wind Project has several distinguishing features that could be used as the basis for a policy that supports a community-endorsed, responsible and locally-beneficial approach to wind development in Victoria.

Table 1: Distinguishing Features of a Community Wind Project

| FEATURE | DESCRIPTION |
|----------------------------------|---|
| Scale | The project is scaled to the demand of the local community and in most cases this will be up to 6 turbines. |
| Local Control | Local individuals, businesses, community groups and council have control of the legal entity. |
| Community Fund | The project supports a generous Community Fund designed to channel benefits back to the local community. |
| Social Licence to Operate | Demonstrated strong local community support for the project. |
| Community Involvement | Community involvement in project development. |
| Local Investment | Opportunities for broad local investment will be facilitated. |

The many benefits of community approach to wind development are inaccessible to many communities under current Victorian legislation. This legislation makes community wind projects currently underway in Woodend and Castlemaine highly unlikely to succeed, due to blanket exclusion zones.

The benefits of a community wind project include:

- ñ **Community Support:** because projects are community owned and community driven, they develop in a way that is responsive, appropriate and accountable to their local community, necessarily building a broad cross-section of community support in order to succeed.
- ñ **Economic Development:** community wind projects bring a new source of revenue into regional communities, including landowners, shareholders and the broader community. They create on-going local jobs and use local labour and materials during construction phase where ever possible.
- ñ **Carbon Emission Reduction:** by supplying local electricity needs through a renewable source, community wind projects cut carbon emissions from otherwise coal generated electricity and cut back on transmission losses.
- ñ **Renewable Energy Industry Development:** community renewable energy projects create jobs and attract investment in renewable energy, in a way that suits communities and gives them control over the scale, site and structure of the wind farm.