



12 October 2016

Re: Parliamentary Inquiry into Community Energy Projects

Hepburn Wind welcomes the opportunity to provide a submission to the Parliamentary Inquiry and commends the Committee for visiting our wind farm as a first step in the consultation period and for the focus and prioritisation of community-owned renewable energy within Victoria.

Overview

On 22 June 2011, the two turbines of the Hepburn Community Wind Farm began generating electricity into the local distribution network, almost seven years after the project was conceived by Danish-born local builder, Per Bernard. In response to a local community's initial negative response to a large commercial wind farm development, Per catalysed the development of Australia's first community-owned wind farm at Leonards Hill, near Daylesford in Central Victoria.

The 4.1 MW wind farm, owned by community co-operative Hepburn Wind, is scaled to the needs of the local community — the wind farm's annual output exceeds the annual demand of the houses of nearby Daylesford and much of the surrounding area.

The Hepburn Community Wind Farm is owned by over 2000 members, the majority of whom are local to the region. With massive volunteer effort and nearly \$10m of community capital, the members of Hepburn Wind have shown that under the right conditions, regional communities will embrace the opportunities presented by wind farms.

Right from the start, Hepburn Wind committed to sharing the benefits of the wind farm widely within the community — not just with our members. We would argue that our benefit sharing model is the most advanced of any energy project in Australia.

Among other accolades, our wind farm has received the 2011 Victorian Premier's Sustainability Award, the 2012 Banksia Environment Award and the World Wind Energy Award as most outstanding wind farm development in 2012. The 'Hepburn Model' has inspired many other communities to pursue their own vision of harnessing local energy resources for community benefit. Our model has been showcased throughout Europe and Japan.

Hepburn Wind has a strong brand and reputation amongst the local community in the Hepburn/Daylesford region as well across Victoria and Australia. It is known as a first mover in the community space, a community enabler with strong ethics around involvement and consultation, and is considered a trusted voice that speaks on behalf of a committed community.



Community energy

A CE project is one that involves the community undertaking any of the following activities; initiating, developing, operating, owning and/or benefiting from the project.

The scope usually encompasses small utility scale projects, small scale projects (e.g. up to 1 MW) as well as distributed/aggregated CE projects. The community might also partner with an experienced developer to build a community-ownership opportunity into a much larger scale project.

Community projects are unique:

- a. provide proportionately large direct and indirect local benefits
- b. small, with some challenging diseconomies of scale to overcome
- c. offer a new model of engagement around renewable energy, benefitting the broader renewable energy sector.

CE models are motivated by more than commercial success. Whilst CE projects need to be financially sound and many (though not all) provide a return on investment, they are not purely commercial projects. That is, CE projects aim to provide outcomes and benefits beyond just financial returns.

Given the multiple (i.e. financial and non financial) aims of CE projects, the fact that they are often one-off and the small size, these projects typically require a degree of volunteer time, pro-bono and in-kind contributions to be successful.

There are a number of key components which contribute to the financial viability of a CE project:

- Size of project (in Kw of generation capacity)
- Level of volunteer contributions;
- Level of costs incurred in establishing a project;
- Method and cost of raising project funds;
- Level of costs once the project is operational; and
- Level of project income.

The impact of unstable politics and market

The impact of politics has greatly damaged our emergent community energy sector and importantly has removed our potential to make a return to our member shareholders over the past years.

Poor social acceptance of some large-scale wind farms led to the Baillieu government imposing the world's most restrictive wind farm planning laws. The combination of a two kilometre right of veto for householders and arbitrary 'no-go' zones effectively prohibited wind farm developments in most of the state. The VC82 planning amendment cost the Victoria dozens of wind farm projects, thousands of jobs, and hundreds of millions of investment. Although the current State Government has done some work in removing the 2km set-back to 1km, we still consider this inconsistent with standard international regulation which centres around noise standards and topographical elements. Certainly our wind farm with 65 neighbours within 2.5kms would never have been built. Further the remaining no-go zones and 5km set backs from regional towns needs to be



addressed for both community wind and broader wind development as a matter of urgency to unlock opportunity.

Social outcomes are intrinsically linked to the coming rapid deployment of wind energy in Australia to meet its national Renewable Energy Target of 33,000 GWh by 2020. There are social, political, regulatory and market drivers that are lifting the bar of community engagement in preparation for this.

The fracturing of 16 years of bipartisan support for renewable energy further impeded our co-operative and the broader renewables sector. A non-statutory review of the Renewable Energy Target (RET) in 2014 created a high level of uncertainty for investors and stalled development across Australia. The RET was finally resolved mid 2015 when the Federal Government and Opposition finally agreed on a reduced target.

Currently new investment is largely coming from state government initiatives, but there will be rapid development of wind energy as Australia is now set to build as much in the next few years as has been built in the last 15 to meet the federal RET.

Most of our shareholders are local to the area and are 'mum and dad' investors who have never owned shares before. We were all drawn to a business model that has the potential to build our local economy, strengthen the social fabric of our community and reduce the pollution in our environment. Together we made personally significant investments relying on the assurances that all major political parties were, at the time, united in their support for pricing carbon pollution and a stable Renewable Energy Target (RET). All along we were encouraged by a wide spectrum of politicians to develop a new business model for regional Australia.

In 2012, 720 Hepburn Wind supporters wrote to the Climate Change Authority in support of strengthening the Renewable Energy Target. In 2014 1427 supporters wrote in to the non-statutory Warburton Review, again voicing our support for the RET and held a public forum for the Committee to hear our members. In both reviews, we were joined by many thousands of Australians who want to see more renewable energy, not less.

Our community's voice is always loud and clear. The political impasse directly impacted our community enterprise and risked destroying all that we had accomplished. As an investment of great personal significance, our members watched the legislative repeal of the carbon price with great concern and then the following RET review.

During that time, we lost significant income as renewable energy certificate prices fell to seven-year lows of around \$25/MWh. By the end of the financial year in 2015, as the prospects for the scheme firmed up, albeit at a significantly reduced level, certificate prices inched up above \$50/MWh, currently they are over \$85/MWh, which is a welcome relief but knowingly mid-term.

The Victorian Government has set a clear target of 25% renewable by 2020 and 40% by 2025 and is pursuing strategies including a reverse auction mechanism to attract greater renewable energy investment to Victoria that would deliver a better outcome higher than just relying on the Federal RET alone. Victoria effectively saved Australia's renewables industry back in 2006 when it first introduced the VRET and we welcome their interest in re-establishing leadership in this area.



Inquiry Terms of Reference

Whilst the proposed scale of community energy may have limited effect on displacing the amount of energy generated via brown coal, we consider the role of community energy to be invaluable in acting as gatekeepers for the broader rollout of renewables. Community energy helps secure the social license to operate.

The best way to encourage the uptake of and expansion of community energy is to provide price security to the sector and capacity building. This can be done within the current mechanisms the State Government has put forward. We request that within the planned auctions there be a strong community energy tranche of 5-10% of the total auction: 100 projects by 2020, 250 by 2025. This will deliver price security and aid our co-operative to get on with expanding.

The definition for the CE auction could be made up of the following criteria:

- Community led project or community/developer partnership
- local shareholding inclusive of community investment (minimum 20%), but also including local council, water authority etc (> 50% total) .
- Project scale >100kW - 30MW
- local control and decision-making power related to the project
- local distribution of the social and economic benefits generated through the project.
- Project is appropriately scaled to local environment and/or community
- Project harnesses the skills and capital of the local community

It is vital that the CE auction is fit-for-purpose and contractually simpler for CE project proponents as well as Government. Many CE projects are designed and managed by volunteers. The resources, both in terms of time and cost, to deliver a typical auction application and adhere to the contractual and compliance activities over the life-cycle of a project (25 years plus), is onerous for a community group developing a relatively small project and in many cases impacts the financial viability.

The following principles should be considered when developing the CE auction.

- Encourage collaboration;
- Be simple to administer, with clear objective success criteria;
- Minimise political risk through not requiring ministerial or departmental sign-off on every eligible project;
- Enable projects over a broad range of sizes;
- Be tailored to value and deliver the multiple benefits associated with community energy particularly the social benefits, in addition to environmental, technical and economic benefits.

Trends in Europe are showing the impact of auctions on the CE sector as community scale projects typically cannot compete against commercial projects. The WWEA is now advocating for a 'diversity of players' in forthcoming auctions in Germany so that community energy can still participate and have a designated portion.

Sustainability Victoria was a key actor in getting our wind farm off the ground in 2009, providing a milestone grant of just under a million dollars. The CE auction could be an area where the statewide strategic coordinators of Sustainability Victoria (SV) could be of significant assistance. With the efficiencies that need to



be made across the government, it makes sense for people already working in the area and with existing strong relationships to play a key role. The community auction could be administered by Sustainability Victoria, who could also actively hold the hand of community groups to be eligible for the auction. The rounds could be open for a longer time period etc.

As the first mover in the space with a co-operative structure, we have pioneered usage of the co-operative model for community energy. There is huge opportunity for co-operatives to suit the community energy space especially as it eases the administrative burden for building multiple projects once the co-operative vehicle has been set up. In particular, We are now working on a micro-hydro project, a bioenergy joint venture project with our local Council and a range of small-scale behind-the-meter through to grid connected solar. We are lucky to be in a resource rich area with all technologies available to be developed.

Beyond the opportunity of local ownership, our benefit sharing model includes innovations such as a contribution to electricity bills for those living near the wind farm and a community fund projected to return in excess of \$1m to community-building projects over our first 25 years. After five years of operation, our Community Fund has contributed over \$90,000 to 43 community-building projects and just delivered its first Energy Fund project which is an EV charging station on the main street of Daylesford.

Our project has educated not only our membership, but many in our community and around the country. After construction, which involved more than \$7m of Australian content, we employ three part-time locals and have provided more than 30 regionally-based directors and staff with the range of commercial skills required to run a complex development, construction and generation enterprise. While the nascent community energy sector will likely remain a relatively small player in the Australian energy scene, it is poised to offer economic opportunity to a large number of Australians in the transition to a low carbon future.

Another barrier for our co-operative and future small to medium scale generators is the PiLoR which is the prescribed mechanism for calculating the amount that small scale energy generators pay to Local Government in lieu of rates. This needs to result in an outcome that does not unfairly disadvantage and present a barrier to the development and ongoing operational viability of community energy generators.

It should be possible for necessary changes to be incorporated in amendment Bills and/or regulations that are submitted to the Victorian parliament on a regular basis. One method to reach this, would be to waive the \$40,000 component of the default PiLoR formula for community projects. The threshold criteria could have a narrow definition around installed capacity (100kW-10MW) and community-ownership. This would remove one very tangible and unintended barrier to community energy projects in Victoria.

Community-developer partnerships should also be considered. Community-developer partnerships are where the community or a renewable energy developer initiates a renewable energy project and both parties agree to deliver it in partnership. This structure is used typically for large (multi-MW) renewable energy projects where a community investment vehicle is part owner, along with the renewable energy developer and possibly other entities. The community often leads community engagement and consultation activities while the developer leads the technical studies. In many cases, the developer owns a majority of shares and holds most of the decision-making power. Infigen/CENREC are examples of this type of project.

Appropriate legal structures for the community-owned component of the project depend on the desired outcomes but may include a trading cooperative, private company and public company limited by shares. This model is relevant for all large-scale renewable developments, not just wind energy. The incredibly successful Danish model of every new wind farm is legislated to open up for 20% community investment from the local area is one that should be looked at.



Hepburn Wind has catalysed an emerging sector and also developed solid relationships across the energy sector, with community NGOs and politicians. There are many indications that Australians want to see this community enterprise, and the broader community energy movement, succeed. We look forward to the findings of the Inquiry Committee.

Yours sincerely,

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Hepburn Wind