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email: planning.systems@delwp.vic.gov.au

Re: Community Renewable Energy Projects Discussion Paper.

Hepburn Wind thanks the Department for the opportunity to provide a submission to the Community Renewable Energy Projects Discussion Paper.

Overview

Hepburn Wind is a community co-operative which has built Australia's first community-owned wind farm. 2000 people, the majority of whom are local, have pooled almost \$10m to build 'Gale and Gusto' the two 4.1MW turbines, at Leonards Hill, in Central Victoria. The wind farm produces more energy on average than the houses in nearby Daylesford and much of the surrounding area.

At the project's core is the shared desire to take constructive action against climate change and in the process directly benefit the community. The project has demonstrated that, under the right conditions, communities will overwhelmingly support renewable energy and the benefits can be spread widely throughout a community.

Definition of community renewable energy projects

Hepburn Wind is often flagged as the quintessential community energy project, however people close to the project have a deep understanding of what is actually replicable in other communities and what learnings they would apply to future projects. 100% ownership is difficult to replicate in regional areas with projects as large as a wind farm. In additional economies of scale are important.

Community Energy (CE) projects are different:

- a. providing proportionately larger direct (and indirect) local benefits
- b. small, presenting challenging diseconomies of scale
- c. a new model of engagement around renewable energy.



If an inclusive definition of community energy projects is defined, and it is used to guide government interventions, then there will be more community energy projects in Victoria. this will increase the social license for renewables and lead to more Victorians benefitting from the energy transformation that is underway.

In regards to defining a criteria for State government purposes, we agree with the scope of the proposed Embark classification of which a portion of the criteria could be applied per project (not necessarily all):

- 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

In regards to community wind we propose at least 100 local investors as a threshold. It should be noted that Denmark Community Wind in WA has 160 investors, Hepburn Wind 2007. A criteria for local could be someone with a strong local connection (currently or at any time: live locally, own/lease local property, or work locally). Being a local is a personal identification and is difficult to challenge, yet almost never falsely asserted. We note that it is very difficult to imagine commercial developers trying to 'game' the above criteria.

It could be that the number of turbines is a better measure than total MW as the capacity of turbines available in the market can easily change over the development of the project. When Hepburn Wind was under development the ideal turbines were 2.0 MW but during development this changed to 2.05 MW.

Compared to Europe where there has been a huge deployment of sub 1MW turbines, and a large portion of these are community owned. In many of our neighbouring countries there is a thriving second-hand turbine market for sub 1 MW turbines coming from Europe. These have been used very successfully in numerous WA wind farms. Further, in some cases is quite possible that a modern 1.5 MW turbine could generate more power than a 2 MW turbines in the same location — the rating is an optimisation of the cost of blades, tower and generator leading to varying capacity factors between models.

Community-developer partnerships should be encouraged, however they will generally be large projects with the community might only 2 - 5% (or more) of the project. in these cases,



any government intervention should be applied in proportion to the community equity in the project.

PiLoR methodology for community scale projects

As an electricity generator, the wind farm does not pay rates, but rather the regulatory process sets out that generators are to enter into an agreement with the Local Government to make a payment in lieu of rates (PiLoR). A gazetted order provides a default formula: \$40,000 + \$900/MW (capacity), CPI escalated (from 2005). The generator and the Local Government are to agree on a PiLoR and may vary the amount, taking relevant project factors into account.

When it comes to smaller projects, they often are not in a position to negotiate with Council. Hepburn Wind and Hepburn Shire Council provide a case in point where negotiations between Hepburn Wind and the LGA broke down, denying HW the right provided by the Act. The arbitration arrangements allowed for in the Act were beyond the means of the community organisation to pursue, so Hepburn Wind was forced to accept council's position.

We have direct experience of how the current methodology is not fit for purpose:

- The \$40,000 base rate is clearly unfair to smaller projects. It makes no sense that the Hepburn Wind pays four times as much per turbine as the Waubra Wind Farm.
- If any impost is levied, it should be levied fairly.

It should also be noted that in most other states renewable energy projects do not pay rates to the council. As such, Victorian generators are submitted to what amounts to a tax that is not levied elsewhere, providing grounds for removing the PiLoR altogether. This is bound to be resisted by local governments that rely upon the income, especially in the Latrobe Valley and councils such as the Pyrenees Shire. When it comes to wind farms, after the construction period there is little to no impost on the LGA, ie. there is very limited grounds for seeing the PiLoR as a means of cost recovery. For other technologies it could be argued, there is even less impost.

The formulation was recommended by a 2004 Review Panel and small scale generators were not contemplated at the time. The formula therefore tilts the playing field strongly against small projects.

The change needed is to 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 CE generators as is the case at present.

To the extent that regulatory/statutory change is required to deliver this equitable outcome and remove barriers to development for small scale 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.

It is proposed by Hepburn Wind that small scale community energy generators (over 100kW) should pay an equivalent amount per installed capacity to that paid by large scale commercial energy generators. 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 will remove one very tangible and unintended barrier to CE projects in Victoria by removing the function that can create disparity for small scale projects.

We note that in regards to other type of renewable generators (aside from wind), the nameplate capacity of the facility may be a poor metric as each generation technology has a different expected capacity factor. As a result, Hepburn Wind most likely pays 12–15 times as much per MWh generated than Hazelwood Power Station — which is obviously inequitable. If Victoria is to retain a PiLoR, another methodology could be levied on actual generation (MWh) rather than nameplate capacity.

We strongly believe that CE creates positive opportunities for Victorian communities. As the viability of other community projects around Victoria will be exposed to this gap in regulation in the coming years as we transition to a clean energy future, we recommend that this barrier is addressed as a matter of priority.

Planning arrangements for community scale wind farms

The uncertainty around the cost of grid connection was a major issue for Hepburn Wind and will be for any project of a small scale that is unable to bring lawyers and expensive consultants into negotiations with the local network operator.

In Hepburn Wind's case the early estimates for grid connection were \$200k, and this was used as the basis for the business model and capital raising. During project development grid connection ballooned out to \$2m. Without the resources to push back on the network operator, the project had to accept very significant and unanticipated costs.

It is our understanding that Germany has a guaranteed maximum rate, on the order of EUR 200k for all small scale projects. A guaranteed maximum would significantly de-risk projects and result in a greater uptake of community energy projects.



If a project was only partly community owned, it would make sense that any community-only benefit would be pro-rated based on the capital proportion provided by the community.

In regards to the 'No-Go Zones' we would continue to expect that sensitive environmental and landscape areas (National Parks and Ramsar sites) should be protected from development.

We have heard from many in the 'No-go Zones', particularly around Woodend, the McHarg ranges and the Yarra Valley who are supportive of small local wind farms, especially community owned, and feel that the exclusions were politically motivated. While some locals feel the areas are 'special', we are yet to find Victorians who believe their local area is not equally special to them. Removing the zones altogether would undo a retrograde step made by an earlier ideological government.

Other issues

Financial support for projects is another vital pillar. The RESF fund that Hepburn Wind received was a very well designed program. The government's intervention was significantly de-risked by being spread over 26 milestones, with the last 3 representing over 80% of the funding. The project was able to leverage this support through the project, yet if the project had fallen over at any early stage the government's exposure was very limited. Sustainability Victoria, the administrator of the program, modelled the level of support required to provide a normal rate of return for investors, with the general principle that no party would receive above benchmark financial returns.

Another issue is the expense and rigour of a Generator License application through AEMO. The application is a duplication of other hurdles with no public benefit — this red tape reduction would be welcome. Community generators will often have more flexible retail relationships and they will be exposed to the \$10,000 charge every time their conditions change.

Kind regards,

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