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## Submission for Auction

Embarck welcomes the opportunity to provide a submission to the Renewable Energy Team at the Department of Environment, Land, Water and Planning for the Auction consultation. The targets already set by the Government, seek to ensure that 25 per cent of the State's electricity generation comes from renewable sources by 2020, rising to 40 per cent of generation by 2025, inclusive of rooftop solar. We commend the Government on setting these targets to create jobs, stimulate economic development and reduce greenhouse gas emissions. These targets will ensure an active transition from coal dependency in our state. We hope that all renewable technologies - especially bioenergy and battery storage will form an important part of the mix.

Embarck is a not-for-profit body established to facilitate the development of a vibrant community renewable energy sector in Australia. Inspired by the success of Hepburn Wind, Australia's first community owned wind farm, many other communities are keen to participate in, and benefit from, the transition to a low carbon economy. A list of [current projects and groups](#) can be viewed on the Embarck Wiki.

We are pleased to see that the ACT reverse auction model for wind energy could be replicated within Victoria. Importantly, the Victorian Government can improve on the ACT version by mandating/incentivising benefit sharing and co-investment by communities as well as contracts for local content so that the roll out of such projects are welcomed within their local communities and serve to benefit them. Embarck was commissioned by the ACT Government to author the [Best Practice in Community Engagement for Wind Guide](#) to serve as a guideline for proponents and to form part of the judging criteria. Community-developer partnerships for wind energy are a huge potential for Victoria where our wind resource is so significant, however there is also significant social risk. It is Embarck's perspective that this risk can be mitigated by mandating/incentivising levels of benefit sharing and co-investment in an auction process. Embarck was also successful in partnering with CWP who won the last wind auction, to deliver a community investment vehicle for their Sapphire project in the New England area.

## What is Community Energy?

Significant community ownership of renewable energy infrastructure has been integral to the broad acceptance and therefore deployment, of clean energy technologies in countries such as the UK, USA, Germany, Canada and Denmark. In these countries, community investment has been supported through feed-in-tariffs, direct subsidy or legislated minimum participation. Australia possesses almost none of these direct community support mechanisms.

The Victorian Government can play a key role in developing the right policy settings to unlock the community passion and capital that exists to drive Community Energy (CE) enterprises. We strongly believe that a vibrant community energy sector is an economically efficient way to unlock the power of the community to participate in the transition to a clean energy future and the creation of local jobs to support this emergent sector.

CE projects are initiatives that empower communities to invest in local solutions that help mitigate the global challenge of climate change. The projects create environmental 'leadership by example' and provide lasting economic benefits to regional and urban communities.



CE projects are:

- instigated by the local community
- scaled to the community's own energy needs
- funded and owned by the community
- welcomed within the community
- accountable to their host community
- built and managed to maximise local jobs

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.

## Key asks

### **1. Tranche for community energy of 5-10%% of the total auction: 100 projects by 2020, 250 by 2025.**

Setting a strong target for community energy such as 5% of the auction or 250 projects by 2025 and then designating the financial mechanism to deliver that target is a necessary trigger to encourage communities to build their own community energy projects. Embark strongly advocates that eligible renewable energy generators that demonstrate community ownership will be able to have access to a designated tranche of the auction. It should be well appreciated that CE projects offer a new model of engagement around renewable energy and this benefits the broader renewable sector. The ability of CE to act as gatekeepers to creating the social license we will need to deploy the Victorian targets should be a key point in the Government's consideration.

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.

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.

In the recent SV [Climate Change Conversations](#), CE was a constant theme of importance to communities and is a fit within the Climate Change Framework developed by DELWP. Embark recently facilitated nine workshops around the state on behalf of DEDJTR for the Guide for Community-Owned Renewable Energy for Victorian Communities. Historically, SV has played this role in regards to mentoring and support (as well as a milestone based grant) for Australia's first community-owned wind farm Hepburn Wind under the previous Renewable Energy Support Fund.

## **2. Minimum community engagement and benefit sharing eligibility and weighted criteria for community investment, community-developer partnerships and local jobs for the large wind auctions.**

Wind will make up a majority share of the large scale projects to be built in the near future. Government can further assist in de-risking the social and political environment for wind development, by advocating strongly for the benefits of wind energy and considering mandating higher levels of community involvement and benefit sharing in future wind projects across the state. This way, the government can use its purchasing power to insist on local jobs and co-investment to enhance the social license of projects on the ground. We suggest setting the bar high with a mandated minimum engagement and benefit sharing level and then adding extra weighting for innovation, community-investment and local jobs.

The ACT auctions have been able to cherry pick what could arguably be considered as the most socially accepted wind project proposals in Victoria. What remains in Victoria is a mixed bag of projects. Given the strong anti-wind farm presence historically in Victoria - the Government must consider how through mandating benefit sharing it can help some project proponents press the restart button with their host communities.

Embark is leading with the Clean Energy Council and Community Power Agency, the national research project 'Enhancing Positive Social Outcomes from Wind Development in Australia' which aims to evaluate and improve wind development. The project has ethics approval from UQ and its public advisors are Nina Hall (CSIRO) and Andrew Dyer (the Wind Farm Commissioner).



The purpose of the research is to benchmark and evaluate current community engagement and benefit sharing practices in wind development in Australia and to develop pathways for achieving positive social outcomes. By using a collaborative and iterative research process involving a range of stakeholders including wind developers, NGOs, regulators and community, this research will generate understanding of the strengths, weaknesses, opportunities and threats of existing models of engagement and benefit sharing.

Ultimately, this project seeks to contribute an evidence base for improving outcomes from wind development for communities, regulators and wind farm companies, and informing advancements in policy and development practice. Embark is happy to provide updates as this project proceeds through to completion in April 2017.

Better practice initiatives can consist of the following activities:

- Inclusive stakeholder process/consultation: landowners, local residents, farmers, broader community, Local Government
- Participation opportunities and compensation payments also for indirectly affected neighbours, residents and other stakeholders
- Guarantee of a financial and conceptual participation of citizens: minimum equity share of 25% in the hands of individual, local residents (not from the group of landowners)

Community-developer partnerships should be strongly encouraged. 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.

If the State Government wants to see genuine community participation in mid-scale renewables and more clean energy rolled out then it is vital that there is legislated strategy for great projects to be built, whether they are community led and initiated or developer led genuine partnership with community. 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.

### **3. Advocacy and education program for the transition**

The Australian Government's Environment Protection and Heritage Council consider that "building community acceptance of [wind] technology is vital to the continued development of the wind industry in Australia" (EPHC, 2008, p.2).

The Government needs to be proactive in not only offering financial incentives but working with industry and community to ensure that everyone is ready for the transition. For years, advocacy organisations such as the Australian Wind Alliance and Friends of the Earth have played the role of 'inoculating' communities. The scale of wind development we are about to embark on is going to change our landscape dramatically.

It is essential that the renewable advocacy and education in shepherding through the delivery of such projects should be delivered through Government programs and funding. We recommend that a 'Transition' education and engagement package is delivered consecutively with the auctions to ensure that our communities are ready for the rapid transition and so that the anti-wind movement of 2010-2011 doesn't kick off again. Sustainability Victoria could again be key in the deployment of these activities.

Germany's wind market has been analysed to include four crucial features:

1. research and development policy to support institutional change;
2. the formation of markets in protected niches
3. the entry of companies to embrace the opportunity, and
4. the establishment of a supportive advocacy coalition (Jacobsson & Lauber, 2006)

#### **4. Tranche for the La Trobe Valley**

The auction process is set to redistribute our energy system and will finance needed infrastructure, creating jobs and keeping money local - effectively strengthening rural communities. One community that will be negatively impacted however, is the La Trobe Valley. Given the high potential for the transmission network in the Valley to be utilised for battery banks we advocate that a designated tranche be set aside for the Valley and battery storage.

#### **5. Local content weighting**

Given the learnings of the ACT auction process and that local purchasing effectively lost out due to the competitive pricing element, and given the sheer scale of the Victorian Government auction, we consider that a different approach be taken so that multiple goals are delivered in regards to jobs and manufacturing. In particular we recommend a two-tiered weighting criteria, with the lower tier being Australian content and the upper tier being Victorian content and contracts for jobs and capacity building.

In order to be ready for the incoming business there needs to also be strong engagement with suppliers and training so that local communities can take part in the transition.

## Financing feedback

Additional key points are listed below in regards to the particulars of the financing and operations.

- Key to proponents ability to secure long term financing for projects is to ensure absolutely certainty of price on a per MWh basis. A fixed price of generation is preferred to a CFD. Where a CFD is utilised, any potential mismatches in calculation of the price (i.e. basis risk relating to use of a CFD with reference to a monthly market price) should be eliminated.
- Proposed contract tenures (i.e. between 10 and 20 years) should commence from project practical completion rather than execution of agreements.
- 20 years of operations (i.e. plus generation) are preferred to enable significant long term finance to be secured.
- There should be a single government owned / controlled counterparty to offtake agreements. Victorian Government guarantee of party obligations under the scheme must be explicit.
- Where a non governmental third party is utilised as the counterparty, the Government will need to ensure that the counterparty is not in a position to restrict access to the scheme in any way. Again, government guarantee of obligations must be explicit.



- Given the vertically integrated nature of retailers, and given the extent to which retailers have constrained growth of the renewable energy industry to date, there must be no requirement for bidders to secure any form of agreement with retailers in order to bid into the scheme.
- The Victorian Government's intended use of LGCs received through the scheme should be clearly articulated to the market, so the impact on market pricing of LGCs is understood by market participants
- Minimum generation volumes is significantly problematic for renewable generators, given their inability to schedule generation. If the government wishes to ensure that quality projects are built under the scheme it is proposed that a test related to minimum availability percentage is utilised rather than minimum generation.

Kind regards,

A handwritten signature in black ink, appearing to read 'Taryn', with a long horizontal flourish extending to the right.

Taryn Lane