

# CORRECTED VERSION

## ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

### **Inquiry into community energy projects**

Sydney — 15 February 2017

#### Members

Mr Nazih Elasmr — Chair

Ms Dee Ryall — Deputy Chair

Mr Jeff Bourman

Mr Peter Crisp

Mrs Christine Fyffe

Mr Cesar Melhem

Mr Don Nardella

#### Witness

Ms Allegra Spender, Chair and

Mr Andy Cavanagh–Downs, Founding Director, Sydney Renewable Power Company

**The CHAIR** — I declare open the Public Hearing for the Economic, Education, Jobs and Skills Committee’s Inquiry into community energy projects. All mobile telephones should now be turned to silent. I welcome Ms Spender and Mr Cavanagh-Downs from Sydney Renewable Power Company. In accordance with Victorian legislation and reciprocal provisions in other Australian jurisdictions, all evidence taken at this hearing is protected by Parliamentary privilege as if you were giving evidence in Victoria. Therefore, you are protected against any action for what you say here today, but if you go outside and repeat the same things, including on social media, those comments may not be protected by this privilege.

Any reporting of this proceedings enjoy qualified privilege for fair and accurate reporting as if the proceedings were in Victoria. The Committee does not require witnesses to be sworn but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty. All evidence given today is being recorded by Hansard. You will be provided with an approved version of the transcript for you to check as soon as available. The verified transcript, PowerPoint presentation and the handout will be placed on the Committee’s website as soon as possible. I invite to say whatever you’d like to say to us and then we have some questions and the Committee Members have some questions to ask you. Please state your name before you start, thank you.

**Ms SPENDER** — My name is Allegra Spender. I’m the Chair of Sydney Renewable Power Company. We are a community impact investment energy company and we’ve just completed putting 520 kilowatts of solar on the Convention Centre here in Sydney and we’re just completing a share offer. I’m going to hand over to Andy because Andy was with Sydney Renewable Power Company from the very beginning so he can give a great insight of the process that we undertook from the start to this moment now and he also has experience as being the Executive Director of Embark, which is a community energy charity, so he can also talk to a broader experience.

**Mr CAVANAGH-DOWNS** — My name is Andy Cavanagh-Downs. What I’m going to do here is just run through some things about Sydney Renewable Power Company, which hopefully give you an idea of what a solar project can look like and what we have done. On the screen there are just a couple of shots showing the installation of the solar panels at ICC Sydney, so that’s the redeveloped Convention Centre in Darling Harbour. We’ve installed just over 520 kilowatts of solar. It’s split across three different arrays across roofs, so it’s quite a large complex, and all of the power is used and consumed on the site by the operator of those facilities.

**Mr NARDELLA** — What percentage is it of the power that they actually use?

**Mr CAVANAGH-DOWNS** — I don’t know the exact number. I think it’s around 5% of the total consumption of the site.

**Mr NARDELLA** — Only 5% with 520 kilowatts?

**Mr CAVANAGH-DOWNS** — It’s a really big facility. You know, there’s concerts and functions. It’s enormous, the facility.

**Ms SPENDER** — I think one of the reasons was they wanted to make sure that it would all be consumed if literally nothing was happening, so it was really the base load power of the site as well. So it’s not dealing with, obviously, a big convention if those sorts of things are on.

**Mr CAVANAGH-DOWNS** — Just a couple of observations. We are something unusual in that we’re a volunteer-run for-profit public company. I’m not sure if such a thing exists anywhere else in the world. When we were coming together we really wanted to make sure that we could fund this thing. There’s a number of charities asking for money everywhere and it’s hard to raise \$1.4 million for a solar installation. It’s also hard to justify why you should give money when the benefit would go to a private operator. From the outset we thought it was really important that we structure this thing as

a for-profit company and that we could appeal to people to invest in this thing, create more renewable energy, but also receive some kind of financial return from that.

We did that exclusively and we've done that exclusively with volunteer labour, and I'll talk about that a bit more afterwards. Just as a rough timeline, we set up in 2012. We had initial discussions with Lendlease. We formed the company not long after that. Then the contracting was really developed a lot in 2013. I think Allegra was underplaying her role as being a founding contributor to the project. We initially had three directors and we rapidly expanded to six and we've had a core team of six directors ever since.

We started generating power at the end of 2016 and our share offer will be closing next month in March and the project will be operating until 2041. Its term matches the lease of ICC Sydney as well. So our operating period of 25 years also matches the public/private partnership term for the site. We're cash flow positive as of now because we issued our first invoice a couple of weeks ago and, as I said, we've got projected financial returns which are included in our share offer document, which I think was also circulated.

I just wanted to highlight what went into creating this project. It did fit in with a large public/private partnership so everything is with arm's length contracts. They're proper commercial agreements. We're a public company. There's no failures or anything because we're a community project. We have several major agreements in place. Firstly, we have the constitution for the company which we've managed to share with other community groups so that it's easier for them to set up projects, and I think the Lismore project in particular, you may have seen, drew upon this constitution.

We have the PV array agreement, which is the power purchase agreement, the main contract relating to the power sales and site access, insurance, maintenance and so on and so forth. Sydney Renewable borrowed money ahead of the share offer agreement. The Lendlease consortium wanted to ensure we had money. They were dealing with a volunteer-run public company so they rightly wanted to make sure that we actually had the money to pay for it.

**Mr CRISP** — Lendlease are in the PPP?

**Mr CAVANAGH-DOWNS** — They were part of the public/private partnership. Their finance arm led the consortium, Capella, and they were the constructing contractor for the development. There was an escrow arrangement to make sure we had the money. We created an offer document to sell the shares and we also had a verification test plan to test the system before we paid for it. Importantly, while that's a short contract, it did have a technical model supporting it, so they had to pass a production test. Then, lastly, we had a financial model which runs over 28 years on a monthly basis. I think there's over 250 pages of major contracts that have gone in there and there are two substantial models as well off the back of it.

We've had a very good core team. We've had six volunteer directors pretty much from nearly the start of the project. Those volunteers come from a range of backgrounds. We have a member of Fetch TV as our engineering leg; we've got a highly-qualified lawyer; the comms head for Google was our communications head; we've got accountants, financial markets people. You name it, we've got a really broad cross-section of society that has contributed to this project, so people beyond the renewable energy or energy field for that matter. Beyond the volunteer directors there are also other volunteers who have contributed, whether that be at market stalls or on specific pieces of engineering, digital marketing experts. We've managed to draw upon a lot of people who have been passionate about the project.

I think one of the reasons we've got to where we've got to is because we've got a viable business plan, and it sounds obvious but I think a lot of people don't dwell on these things, but we've really focused on making sure we are financially viable and that we are cash flow positive from the outset. The governance model has been very deliberate. We wanted to involve people as broadly as possible

so it was important us that an average person could invest in the project. Because of that we're a public company. That obviously created a lot of work because when you're setting up a share offer that's a 79-page document. All of the numbers are checked. All of the words are proofed. Everything is gone through in a lot of detail. So while it's very difficult, there wasn't a lot of ways for renters and apartment dwellers to invest directly in solar and we really wanted to provide that mechanism to them.

A share offer process is very difficult for a public company. It's taken a lot of effort to get that offer document together in particular, and we think it's very important to have full lifecycle planning so we've mapped out the project through our financial plan. We have a closure process as well so we basically hand over the panels at the end of the project as part of the building and we don't have any decommissioning risk on the back end of the project as well. I don't think any of us here are policy experts or anything like that so I'm not sure really what you're looking into or what you need to know but some of the things we wanted to observe were that we've done all of this because we care about climate change and we're passionate about carbon abatement.

It's probably not a very good analogy but if we were running a volunteer coal seam gas project we'd be pretty lonely. I think it would be very hard to solicit support from volunteers for some sort of coal seam gas project, but what we've found is we're inundated with support across society, across professions, to create this kind of outcome that we've seen. So I think what it shows is that people are passionate and do care about climate change and carbon abatement.

I think what we've seen elsewhere is that where those levels of community participation are higher, they do have a higher penetration of renewable energy, so it would seem it's a good thing. In terms of objectives that you're looking into, it would seem that there are a number of different drivers that you can address when looking at things, whether that be carbon, network issues, a smoother development process, social justice, local economy. For the number of projects you're wanting to see throughout Victoria, there are a number of different levers you can pull to create different outcomes and depending on what your objectives are may mean you target different things.

Obviously, I think through this process, if you are looking to stimulate community participation in renewable energy, there are a number of things that can be addressed at the same time through that process, whether that be regional issues. For example, with the Latrobe Valley—I think you're looking into the closure of Hazelwood—there could be transformation issues for the local economy there. There are obviously transmission lines in place so there's a latent asset that can be exploited. So there are potentially things you can do if you are looking to stimulate community energy that could have knock-on effects within Victoria.

I think we've also seen that there are network issues in areas. I know, for example, Mallacoota has some network issues given the nature of where the community is and the kind of distribution network it connects into. So if you're considering designing a program then you could look at regional transformation, network augmentation. Another thing that we found when we were talking with people is that people are very passionate about low-income households or distressed households and things that can be done to support those people. So, while it's away from our project, people have often said to us that that's something that they really care about and I think some sort of community program could also potentially deal with that.

One of the things that we understand you're considering is a Victorian renewable energy target and some sort of community allocation or recognition would obviously be a sensible thing, from our perspective.

**The CHAIR** — Thank you very much for that. How did your company choose the International Convention Centre as the site for a solar project and how easy was it to attract community investment?

**Mr CAVANAGH-DOWNS** — We approached Lendlease when they were bidding. They were in a

competitive bid process for the site. I think there were two tenderers left at that stage. We recommended that they included a community solar project as part of their final bid, which they did. When they won the bid, I understand the State Government was keen to see that this aspect of the project was incorporated. Does that answer that question for you?

**The CHAIR** — Yes.

**Mr CAVANAGH-DOWNS** — The share offer is still open; it's shutting next month. We have more applications than we have shares and we're treating applications as fully viable when someone has paid, so we don't judge an application before it's hatched.

**Mr MELHEM** — Just on that question, is there a commercial agreement between yourself and Lendlease or whoever the operator of the Convention Centre is to use the power?

**Mr CAVANAGH-DOWNS** — Yes.

**Mr MELHEM** — Are they the primary users?

**Mr CAVANAGH-DOWNS** — Yes, so every kilowatt hour of power we generate on the roof they have to pay for. So the operator pays for it.

**Mr MELHEM** — Is there a fixed price for that?

**Mr CAVANAGH-DOWNS** — It has a 25-year price schedule which increases at 3% per annum.

**Mr MELHEM** — Do you mind me asking what is the feed-in tariff?

**Mr CAVANAGH-DOWNS** — I'm not sure if I can disclose. I think it's commercial-in-confidence. As well as that, we also receive the LGCs that are created from the installation, so we have two principal revenue streams. The principal stream is the offtake agreement and LGCs via the renewable energy targets in place is the secondary.

**Mr NARDELLA** — What's the projected rate of return for shareholders on your prospectus, which is a public document, for any shareholders that are interested?

**Mr CAVANAGH-DOWNS** — We're in a partial operating year this year, but for the first full operating year it's just under 4% per annum fully franked. So if you compare on a fully-franked basis, say, to a bank deposit, which is not a like for like comparison, it would be considerably above, say, a long-term deposit you could access at the moment.

**Ms FYFFE** — Just going back to how you were formed, were you just a likeminded group of loose acquaintances and how you got to develop this and—

**Mr CAVANAGH-DOWNS** — Yes, in my Embark role, Oscar McLaren, who is a lawyer, approached us saying he wanted to contribute to a project. I knew Allegra socially and I knew Allegra was looking to volunteer on a project. So initially there were the three of us and then really Allegra brought in a number of the other directors through her network and contacts, and then, as we started to have a bit of a name in the community, more and more people just approached us.

**Ms FYFFE** — You talk about climate change, carbon problems and so on but were you looking at it as a business to develop or were you looking at it more altruistically?

**Ms SPENDER** — Altruistic. We're passionate about climate change and we want to see that change but we also think that business and impact investing has a role to play in that. So for us it's both. So we didn't want to run a charity because we thought there's a danger of sustainability but we thought if

you create a business that people can invest in and get a return, which may not be commercial but it's only a return that we're projecting, then we felt you could achieve not only carbon abatement but also sustainability, and Andy can talk to whether Lendlease would have contracted with either a community group or a non-profit.

**Mr CAVANAGH-DOWNS** — I think there would have been issues about sustainability, yes.

**Ms FYFFE** — At the end of the 25-year lease, you don't have any involvement in the solar panels but the ownership transfers over? They come to the end of their life so one would hope that they would replace them. Would you be looking at going in again?

**Mr CAVANAGH-DOWNS** — The site is on Sydney Harbour Foreshore Authority land so I think their normal operating procedure is to lease the land. The buildings and the panels are treated as one thing, so it's all integrated, in their eyes, and the buildings, fixtures and fittings, including the panels, get transferred back to the State Government at that time. So it matches nicely with their operating life, which is expected to 25 years. In 25 years' time who knows what's happening, but you would assume it would be a very standard aspect at that time.

**Ms FYFFE** — And we'd assume that the whole building is energy efficient with being remodelled to begin with?

**Mr CAVANAGH-DOWNS** — Yes. We weren't involved in any energy efficiency measures.

**Ms FYFFE** — So it is just an assumption.

**Mr CAVANAGH-DOWNS** — Yes, but obviously there are standards in place now. Whether they go beyond those or not we don't know. We weren't involved in the design of that aspect of their building.

**Mr CRISP** — You've explained your business model very well; thank you for that. Would you like to talk about what barriers the company faced when developing this project and where the headwinds were and some observations about the future?

**Ms SPENDER** — I'd say one barrier, as Andy talked to, was the complexity of what we were doing. It's a big project and you're dealing with commercial organisations on an enormous project. So as a volunteer-led group of people who all have their day jobs, that is a significant barrier. I'd say the other one is, as the offer document went through ASIC and it had to be approved, again, being volunteer-led, these were significant barriers from a work point of view. I think there's been self-education. People find our models probably, I'd say, unusual in the sense that we are volunteers in a for-profit company. So that's a bit strange for people. So I'd say there's a communication barrier from that point of view, but I think there has become an increasing understanding of impact investment and this idea of investing both for a financial and also a social and environment return, so I think that barrier has probably lessened over time.

What we needed to get us there was we had a philanthropist who gave us a loan so, while we haven't taken philanthropy money, we have taken a loan and that really was the catalyst, otherwise we would have needed to put up \$1.4 million over four years, which we could have perhaps done with someone but having a philanthropist who would do that, they got a term deposit rate. So they haven't lost the money but they've been willing to—

**Ms FYFFE** — Is this to satisfy Lendlease?

**Ms SPENDER** — Yes, exactly right, to satisfy them.

**Mr CRISP** — I was wondering how you built it—

**Ms SPENDER** — Yeah, exactly right, cash flow.

**Mr CRISP** — and how you manage the cash flow.

**Ms SPENDER** — That has been very significant. There has been some grant support from the OEH and from NAB and City of Sydney. I think we would have done it without them but it would have certainly been much harder. So it's been useful to do it and I think there are some things we wouldn't have done to the extent that we have. I think we would have done them anyway but I think it's certainly been helpful through that process. Andy, are there any other key barriers?

**Mr CAVANAGH-DOWNS** — Yes, I would say one of the things I was concerned about is, as volunteers, we are a public company and while we're happy to volunteer our time and see this outcome we also don't want to be sued or anything like that through a share offer process. So I think that is not insignificant, whether you'd put a lot of weight on it or not. We tried to do everything to minimise that risk for volunteers and certainly the grants that we accessed were useful in that respect in terms of paying for some legal advice. The share offer process is very complex; it's not easy. We could map out, say, 25 years of projection. We can only go out 12 to 24 months because of ASIC. So protecting volunteer labour I'd say is an important thing and then, as Allegra said, it's very hard if people don't understand you're a volunteer running a for-profit company. People say, 'Why do you do that?'

**Mr MELHEM** — That's going to be my question. Why are you doing it—

**Ms FYFFE** — Altruistic.

**Mr MELHEM** — apart from doing the right thing for the environment and so forth?

**Mr CAVANAGH-DOWNS** — Because we don't want to just sit around and wait for nothing to happen. People want to do something, and so if you're a lawyer or an accountant and you're sitting there in your day job, the best thing you've got is your skills. So the most valuable thing that a highly-qualified accountant can do is donate some of their time to create these outcomes. It's not to give \$100 here or \$100 there. It's giving that time and effort that's created this framework that we can then share with other people as well. So we've put in solar where it wouldn't have happened without us. Lendlease wouldn't have done it.

So, firstly, we've created solar where there wasn't solar and, secondly, we're creating templates and frameworks to share with other people which are already used by other groups so that they can then create projects themselves. That's the best answer I can give.

**Mr MELHEM** — So what's your deal with the shareholders? They're getting a return, hopefully or 5, 6, 7, 8%, whatever percentage it is. Is there some sort of expectation for reinvestment in the project in the future?

**Mr CAVANAGH-DOWNS** — We're very careful to say that we're just focused on this project. We're very happy to share things with other people. You can see from what we've done it's taken a lot of time and effort. I think there's a lot of expectation that everyone always does one thing and then they do 20 more or something like that. I think we just want to get this to bed.

**Ms FYFFE** — Do this one very well.

**Mr CAVANAGH-DOWNS** — We feel a lot of responsibility to community investors. People have put in a lot of money. We want to make sure we deliver on those obligations and expectations and, from my perspective, I treat that as more important than us doing another ten projects. So we want to make sure we deliver on what we've said we're going to do and we're very happy to share anything

that's of any use with anyone else so that they can do projects as well.

**Mr CRISP** — How did you build in the benefits to the local community into this complex model? You've made a note of that. I'm interested in how was that done, when will it be done, what will it be done on?

**Mr CAVANAGH-DOWNS** — There's a few things. One is just by having the panels put in place we would say is a community benefit in itself. Access to investment is another benefit, so allowing people to invest their portfolios with their views, if you like, on climate issues. And then one of the things that we've talked about, which we will see if shareholders want to do or not, is we were thinking of having an impact project every year whereby people can donate either some of their return or capital to an outcome within the local community every year. So it would be a democratic process. People can opt in if they want to. If they want to receive their investment return they can and take it but, you know, we might try to put solar panels on a local school or a wheelchair in a nursing home. We'll open it up to shareholders and say, 'What would you like to see come about?' So we'd like to stay relevant and have some sort of community impact, we think, in that way but it's up to the shareholders at the time.

**Ms FYFFE** — But not necessarily always in this field by the sound of it?

**Mr CAVANAGH-DOWNS** — Yes, it depends what's important to the community or the shareholders, really.

**Ms FYFFE** — I think your spare hours have gone now for the next 50 years.

**Mr CAVANAGH-DOWNS** — We can be as busy as we want to be.

**Mr NARDELLA** — With the company that you've set up and the share offer, et cetera, at the end the solar panels are gifted, and I understand what you're saying in terms of not having any residual decommissioning. That's why nuclear power plants are so bad but, anyway, I won't go there. Are there other opportunities for the shareholders in this particular company that you've set up to then undertake further projects along this route, and is there a way that the shareholders themselves will get that capital back at some stage, or is it that they will just get the interest payments over that period of time?

**Mr CAVANAGH-DOWNS** — I'll answer the last part first, if I could. It's not necessarily interest payments. It's more we're looking to create a return on their capital.

**Mr NARDELLA** — Yes, that was my thinking, a return on capital.

**Mr CAVANAGH-DOWNS** — What we expect to do is to return some combination of both the original investment capital and an investment return over time on an ongoing basis. So, again, if a normal public company receives capital they tend to sit on it and then return dividends only. It's very rarely they do capital returns. There's nothing to stop a company returning capital on an ongoing basis. We will probably favour returning capital regularly to shareholders. Unless we create other projects which are cash flow positive, we will just return capital to original investors; it's better than they have it.

**Mr CRISP** — Your plan will see a diminishing share price over time rather than appreciating which is the conventional company model?

**Mr CAVANAGH-DOWNS** — Exactly. I think companies were originally formed in Dutch shipping syndicates. You formed for a purpose. You use that capital. You return that capital efficiently and you wind up the company. That's probably more along the lines of what we're looking to do. On the other point, whether there will be other things over time, it's really a question for volunteers and

shareholders as we go along. So depending on if we think of something that's appealing enough that we can solicit volunteer contributions, if shareholders want to put their capital into it is the question.

**Mr CRISP** — Let me ask, around information sharing, whether you have any advice on how we help well-meaning individuals in communities get the advice and the help they really need to make a project work? You've made out that this is not easy work.

**Mr CAVANAGH-DOWNS** — I think if we did further projects we would look at loan-based structures as being more efficient. I think you saw the Lismore project. One of the things we took out of it and were very clear in our observations was that long-term power purchase agreements are quite difficult to accommodate because you get into very detailed testing procedures. Commercial installers tend to overestimate the output of a system. If you're raising community money, you want to make sure that it's going to work, and so it starts to get really a lot of work for maybe not a huge outcome, whereas if you lend money on a project you're going to get the same outcome but it's going to be a lot easier to structure and raise money off the back of.

So we've tried to share lessons and observations. We're very happy to do it with anyone that asks. But I don't know the most efficient way. For example, I think you saw Tom Nockolds from C4CE. We relay information to them. We put it on the website. We do what we can.

**Ms SPENDER** — I'd also say it probably depends a bit on the project. I think you guys saw ClearSky and they've got a great model but it wouldn't have worked in this scenario. So it's also horses for courses. There will be different types of projects that will suit different sorts of structures and being aware of that I think is important.

**Ms FYFFE** — As governments we like administration one size fitting all; it makes it easier.

**The CHAIR** — On behalf of this Committee I'd like to thank you very much for your time and for your evidence. Thank you.

**Witness withdrew.**