

# CORRECTED VERSION

## ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

### Inquiry into community energy projects

Melbourne — 21 November 2016

#### 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

Mr Roger Price, Chief Executive Officer, Windlab Limited (*via teleconference*).

**The CHAIR** — Good afternoon, Roger. Welcome to the public hearing for the Economic, Education, Jobs and Skills Committee's inquiry into community energy projects. All evidence taken at this hearing is protected by parliamentary privilege. Any comments you make outside the hearing are not afforded such privilege. Hansard is recording today's proceedings, and we will provide a proof version of the Hansard transcript so you can correct any typographical errors. Roger, before you make whatever statement you would like to provide to us, say your name, and after you have finished, we will be happy to ask you some questions.

**Mr PRICE** — Sure. My name is Roger Price. I am the Chief Executive Officer of Windlab Limited, an Australian international wind energy developer. First of all I would like to thank the Committee for giving us the opportunity to have input into your process. I apologise for the fact that I cannot be there in person today, having just arrived back from overseas.

Windlab strongly believes in the benefits of community engagement in renewable energy projects and in fact believes that the local community are vital stakeholders in any successful project. Accordingly Windlab pioneered an engagement model, which we deployed at the Coonooer Bridge Wind Farm a couple of years ago. We subsequently won the Clean Energy Council's Innovation Award for Community Engagement.

That model was one which ensured that we had very open and transparent communications with the whole community, which ultimately led to a good portion of the community and, importantly, the neighbours of the proposed wind farm all becoming equity owners in that wind farm as it entered construction. We think that sort of model is very relevant to the committee. We think it is very relevant to building greater support for the renewable energy industry, and we think it is also very important in terms of delivering or maximising benefit to the global communities who host these projects.

That said, wind energy, which obviously Windlab is expert at developing, is in fact a scarce resource. Developing a successful wind farm from a greenfield environment is an expensive process. It takes a long time. There is significant financial and operational risk, and to manage all of those things you need a high degree of expertise. So in our experience I think it is very, very difficult for a community to develop a wind energy facility on its own, and really we believe that the best mechanism is one that involves some sort of partnering between the community and the ultimate developer of the wind farm, which has been our experience. We are pleased to say that it has worked very successfully. So that is all I want to say as an opening statement.

**The CHAIR** — Thank you, Roger. I will ask the first question. Can you explain how Windlab involved the community in the Coonooer Bridge Wind Farm and how the project benefits were shared with the community?

**Mr PRICE** — Sure. When we first identified that site, as with all wind farms, you typically secure long-term land tenure with the landowner who will ultimately host the turbines. That is how the industry typically does things. What we did, which was a little different, was that as soon as we started to develop the project in earnest we spoke to the broader community and, importantly, we spoke to all of the neighbours of the proposed wind farm who lived within 2, 3 or 4 kilometres of the project area and invited them to participate in the development of the project by providing input and responses to us about what we were proposing. We tried as much as possible to be very open and transparent, and we did that by face-to-face meetings. We did not send them emails from our office in Canberra; we actually spent a very large amount of time in the community meeting one on one and meeting with groups of the community.

That was very important in terms of giving them transparency and awareness of what we were proposing, and it gave them the ability to participate in important decisions like: should the project be five turbines, six turbines or seven, and sharing with them the pluses and minuses of those sorts of decisions.

As the project began to look more mature and get closer to a point where it was finished we also then formalised the arrangement with the community, and we did with this the community's input. What we did was we basically gave everyone who lived within 3½ kilometres of a proposed turbine a small equity share ownership in the project. So when the project reached the point of construction and we arranged finance for the project, those 33-odd neighbours ended up with an ownership in the project of about 3.7 per cent. Noting that this is a project that is worth more than \$50 million, they received an ownership stake, as I said, of about 3.7 per cent at financial close and they will benefit from that ownership stake now over the next 20 to 25 years of operation of the project, making the same return on every percentage owned that Windlab and the other owners of the project make.

We also did a number of things to cement that in place. That project is owned by what we call a special purpose vehicle, so an individual company the only purpose of which is to actually own that wind farm. When we formed that special purpose vehicle we appointed a board of directors, which included someone from Windlab and someone from the major investor in the project, but we also gave the community the right to appoint an observer to that board of directors so they share all of the information that all the other equity owners of the project receive. So as a result of that they know what is happening with the project, they are involved in major decisions and they are treated like any other equity owner of the project.

**Ms RYALL** — Thanks, Roger. You talked about financial and operational risks. Can you tell us a little bit about what you perceive those as?

**Mr PRICE** — In wind development a wind resource that will produce electrical energy which is cost competitive is actually quite a scarce thing. They are not plentiful; they are not everywhere. What produces a financially viable wind resource is as much about the way the atmosphere interacts with the land—how it accelerates over hills or through valleys—as opposed to the weather itself. So as a result of that, identifying a wind resource that can produce electricity at a competitive price is a very difficult thing to do. You cannot just say, ‘I want one over there’, and it will happen. You have got to actually find these resources. More so, when you do think that you have found a place that is windy enough to produce competitive electricity, what you do not know is whether your site is as good as someone else’s site in the market. As we have learnt through competitive auction processes in, like, the ACT wind auction or the Victorian Government’s large-scale generation certificate offtake contract, people have to bid for this, and the best price wins. Unless you have got the best wind resource, you cannot produce the best price.

So you can invest literally millions of dollars in developing a wind farm only to find that it cannot compete in the market. Ultimately you will not get someone to buy the electricity, and if you cannot find somebody to buy the electricity, you ultimately cannot finance and build the project. So it is not unusual for a wind farm development to take anywhere between 3 and 10 years. It is not unusual for a development to cost anywhere between \$3 million and \$10 million, and ultimately all of that is at risk until you can be confident that you can produce electricity at a cost-competitive price. If a community were to develop a wind farm in its own right, that ultimately would be exposed to those risks.

**Ms RYALL** — And the operational risks—the financial?

**Mr PRICE** — Ultimately again you require expertise to manage a wind farm, and without that expertise you are exposed to—it is really performance risk. Can the wind farm operate at better than 98 per cent availability? Can you make sure that it is operating at the times when it is windy so you produce the most electricity? All of those things require deep expertise and experience across multiple projects and multiple megawatts of capacity to be able to deploy that expertise properly.

**Ms RYALL** — So based on what you have just said and certainly the capital outlay and the research that needs to go behind that, would it be fair to say that in your view, therefore, these are not community projects, as in it would be very, very difficult for a community to establish a wind project that actually provides cost-competitive electricity. Is that what you are saying?

**Mr PRICE** — Yes. Look, I think in isolation that is correct, without the involvement of quite rare expertise in that actual development process. So on a standalone basis, I think that is true. On another basis, though, the community are very, very important stakeholders in a successful wind farm, and I think what we are looking to achieve is a situation where there is a strong partnership between the developer of a wind farm and the local community. I think that Windlab has been able to demonstrate that that can be done successfully, not just at Coonooer Bridge Wind Farm, but I am pleased to say that we have now reached financial close and we are entering into construction on our next farm, which is a wind farm called Kiata, which is near Nhill in Victoria. That has a similar model to Coonooer Bridge, so we have been able to demonstrate, I think, on a number of occasions that that partnership approach of engaging with the community early and openly means that we can provide significant benefit to the local community, and it recognises the importance of the community as a stakeholder in the project.

**Ms RYALL** — Okay. So you are a commercial entity.

**Mr PRICE** — Yes.

**Ms RYALL** — So we were just talking earlier about the definition of a community energy project. Would that therefore be your definition of a community energy project—one where someone with the capital and the expertise works with the community to develop something?

**Mr PRICE** — Yes, that might not be the only appropriate definition, but I certainly think it is a relevant one or a relevant part of the definition.

**Mr NARDELLA** — Roger, so you get out the wind atlas and have a look at where 98 per cent of the time the wind blows, sort of, because the wind atlas sort of tells you that, and you would then go and target those particular sites, I would imagine. You would then say, ‘Well, look, Farmer Smith’—it could be ‘Ms ’ or ‘Mr ’—‘has this block of land and that’s where we’re going to go’, and therefore the only, in a sense, community involvement, understanding that the policy was a 2-kilometre buffer, is to then mitigate your risks by saying, ‘We’re going to give a community benefit of up to 3.5 kilometres by 3.7 per cent equity to’, let me put it as bluntly as I can, ‘shut these people up so we can get our project up and running’. Is that a bit cruel? Is that a cruel way of looking at this, or is that just good business sense in trying to make sure that there is a path of least resistance so that everybody gets a bit of a cut and therefore they are not going to whinge and complain and knock out your company’s ability to be able to build a wind farm?

**Mr PRICE** — Look, our view is not that. Our view is that we do believe that the local community are very important stakeholders in the project. I think it would be folly for someone to think that a person who lives, whether it is, 1 kilometre, 500 metres or 3 kilometres from the turbine, who ultimately will have that turbine in their community for the next 20 to 25 years, is not an important stakeholder. I think they would be kidding themselves; I mean, they are an important stakeholder. There is a lot of nuance in this, which is: is it five turbines, is it seven turbines? Can you put a turbine in the ideal location, or do you have to put it down in the valley? Are there issues around visual screening or noise mitigation? There are various ways of dealing with those things. You can either do that in an open and transparent way and take the input from the community as important feedback for the development of that project, or you can keep it at a very high level and not do those things.

Our view is that by taking that input and by sharing those important nuances that ultimately create a successful project with the community ultimately means that you can get a better wind farm. And we think that it does also make economic sense, because if you produce a better designed wind farm, a better optimised wind farm and if you have got community support, you will have ultimately produced a wind farm that will provide a better financial return for the investors that come into that project. So we see it as more of a matter of alignment rather than anything else.

**Mr NARDELLA** — But your alignment, really, is just for landholders. You do not go to Horsham and say, ‘We are raising equity, this is a community project and you’ve got access to provide 10 per cent funding for this’. What you are doing is in essence looking at mitigating your risks, certainly on the basis of that transparency, openness, discussion and knocking on doors—doing all that stuff. But you are mitigating your risks on the project, as you have highlighted. There is not any equity for anybody else, from what you have said, other than the landholders within a specified predefined or post-defined distance from the wind farm.

**Mr PRICE** — I think the answer to that is a little bit more complicated, and it is a bit of yes and no. In Australia we have forthright and controlled circumstances under which you can offer equity to a broad range of participants. So you have to issue a prospectus and go through ASIC approval and all those sorts of things, which costs an enormous amount of money if you want to make a broad, open offering to the public.

**Mr NARDELLA** — Yes.

**Mr PRICE** — There is another way around that, which is you can restrict that to only making an offer to high net worth individuals, which are the people that are worth, you know, \$2.5 million or more, and what we have found in local communities is that there are not too many of those, so what we have done is we have found what we think is an optimised solution. So in the case of Coonooer Bridge, for instance, whilst we did grant a chunk of equity to the people who lived around the wind farm, we also gave those people and their families the opportunity to invest in the wind farm, to invest their own money in the wind farm, on exactly the same terms as the incoming equity investors up to a maximum of 10 per cent of the project, and again that is to meet corporate regulations. So we did make that opportunity available, but we did not do it for the broader community, because we are somewhat restricted by the Corporations Act and ASIC regulations.

**Mrs FYFFE** — Thanks, Roger. Building on the work that your company has done interstate and overseas, what lessons are there that we can learn from those jurisdictions in relation to the development of wind farms with community involvement?

**Mr PRICE** — I think the key thing for a government—and whether that is a government that is ultimately just an approval authority or whether it is a government that wants to take a more innovative position, like the Victorian Government, which has obviously run the large-scale generation certificate offtake contract and is looking at potential reverse auctions to build 4000 to 5000 megawatts of capacity in Victoria over the next 10 years or so. Ultimately it is important that the government values the relationship between the developer and the community, and that can take many, many forms, but I think having a way of evaluating and attributing value to that relationship is ultimately a way of ensuring that more developers will engage in an open, transparent and productive way with the community.

**Ms RYALL** — In terms of failures—I think you mentioned that in your submission, and you may have said something earlier about it—what are some examples of failures, and what do you think caused them?

**Mr PRICE** — Fortunately Windlab is in a situation where we enjoy a very high success rate, but that is courtesy of the fact that we are fortunate to have a suite of atmospheric modelling and wind energy prediction tools which were originally created by the CSIRO, which give us a much more scientific and measured approach to developments, so we are able to manage that risk perhaps better than any. We tend to have a much higher success rate. But at an industry level there is anecdotal evidence around that as few as 1 in 10 proposed wind farms actually end up being successful. If you take the case of Victoria, there are about 3000 megawatts of potential capacity that is approved in Victoria, and much of it is starting to get to the point where the development approval is now lapsing because they have been approved so long but they have not been built. Those projects people have spent millions of dollars on developing but they have not been built, and the reason they will not have been built is because they will not be competitive in producing electricity at a competitive price.

As a result of that, people put lots of money into these projects, and ultimately they do not succeed. Before you get to that point, however, lots of projects will not succeed because of things like you may have been lucky enough to find a windy hill, but you realise that it is way too expensive to connect it to the electricity network, which again makes the project not viable. You will find, as you go through the development process, there is a host of environmental issues that you need to be able to identify, detect and manage. That will be everything from golden sun moths to birds to raptors to bats—to all sorts of flora and fauna—which ultimately you need to make sure that the wind farm does not unreasonably disturb or endanger in any way. And projects again can ultimately fail for those reasons. You need to do a number of years of bird monitoring, and what you will find in some locations is that at a particular time during the year there will be a migration panel which will fundamentally mean that the wind farm cannot go ahead. All of these things can ultimately impact a successful wind farm, and someone's ability to identify those risks and manage those risks is vital in ultimately making sure that that investment is managed and ultimately becomes a successful wind farm rather than someone putting a lot of money into an opportunity that ultimately does not go anywhere.

**Ms RYALL** — Sure. You mentioned anecdotal; is there any research?

**Mr PRICE** — No, I do not think there is. I am certainly not aware of any formal research into success rates, but one example, for instance, and this will not be absolutely accurate because I am working off my memory, is I believe there is something in the order of 13 000 to 15 000 megawatts of wind farms announced in Australia. That is three times more than we actually require to meet the renewable energy target. Straightaway you can surmise that two-thirds of those projects, at least in the medium-term, will not be constructed because they are more than is required to meet demand. That means there are a lot of projects out there that will not get completed for a host of reasons. That is one yardstick that you could measure by.

**Mr MELHEM** — Community investment is what I want to talk about. You might have seen that in Denmark new wind farm developers must offer at least 20 per cent ownership to the local community. What are the pros and cons of making community investment in wind farms mandatory? Is 20 per cent ownership viable?

**Mr PRICE** — I think it is possible. It would need to be considered, though, within the context of the Corporations Act and your ability to raise capital under the current regime. I think that would be potentially difficult. What often happens in Denmark, because it is a small country with limited land, is that wind farms

usually consist of two or three turbines. If you had to manage a prospectus process for two or three turbines, I do not think the economics would make sense, so I think that is a potential issue.

**Ms RYALL** — I just wanted to ask what the return was.

**Mr PRICE** — On?

**Ms RYALL** — On, for example, the wind farm that you have.

**Mr PRICE** — I think that is commercially confidential.

**Mr MELHEM** — Are you happy with the return?

**Mr PRICE** — An investor in an operating wind farm can expect to make a good infrastructure-style return, so in very round figures that would be in the realms of 10 to 12 per cent per annum.

**The CHAIR** — Mr Price, thank you very much. On behalf of the Committee, I would like to thank you for your time and your contribution.

**Mr PRICE** — Okay. That is my pleasure.

**Committee adjourned.**