

# CORRECTED VERSION

## ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

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

Daylesford — 30 May 2017

#### Members

Mr Nazih Elasmr — Chair

Ms Dee Ryall — Deputy Chair

Mr Jeff Bourman

Mr Peter Crisp

Mrs Christine Fyffe

Ms Jane Garrett

Mr Cesar Melhem

#### Witnesses

Mr Barry Mann, Committee Member, Renewable Energy Action Group, and

Mr Ralf Thesing, Vice-President, Macedon Ranges Sustainability Group.

**The CHAIR** — Welcome to the public hearing of 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. We will provide the proof version of the Hansard transcript so you can correct any typographical errors. I invite you to make a statement or a brief contribution and then allow us some time for questions. Please state your name for the Hansard record.

**Mr MANN** — Barry Mann, from the Macedon Ranges Sustainability Group and part of the Renewable Energy Action Group.

**Mr THESING** — My name is Ralf Thesing. I am the Vice-President of the Macedon Ranges Sustainability Group.

**Mr MANN** — Some time ago we wrote a submission in response to the parliamentary inquiry regarding community energy, specifically in relation to the project that we have been trying to get up for the last several years, which is a community wind farm. I guess the main difference between what you see here at Hepburn, which is a community-owned wind farm, and the type of projects that we want to get up is basically our project, due to their larger scale, is a community-industry partnership. This kind of partnership model has some examples throughout Australia—for example, there is one by Infigen Energy up near Blayney in New South Wales where the community wished to raise capital to purchase one of the turbines from the wind farm.

Our model is similar; however, due to the work that we have done—a significant amount of work—to do with finding a site, measuring the resource, community engagement, holding forums, going to farmers markets, petitions and all of that kind of thing, we have basically arranged with an energy industry partner a certain amount of sweat equity in the project. That sweat equity has a dollar value, and that is basically gifted sweat equity in recognition of the work we have done. It also allows for investment vehicles for smaller and more numerous community investors. The idea there is that we first go to the local community, in Macedon Ranges shire, and seek investment to the amount that they can bear. Once that pool of investment is exhausted we go further afield. As far as we are concerned the community can basically be living anywhere. If they want to invest in it, we are happy that they can. We have a nominal amount of 20 per cent community investment, including our percentage of sweat equity. That 20 per cent may be 30; it may be 15. It just depends on what the community is willing to invest in it. The principle is that the community investment is essentially uncapped. They can invest as much as they want, which is why we want to go further afield than just the Macedon Ranges shire. We want to open it up further afield, if that is required.

The remainder of the equity is held with our industry partner, WestWind, who are based in Gisborne. So they are a local company who are very knowledgeable in community-industry partnerships. They have done a lot of them in Germany, which is where they are based. They have been in Australia for probably 15 years now and have developed wind farms in Lal Lal and Mount Mercer. They have been following what we have been trying to do. We know each other very well, and we are at the point where we are now reviewing and finalising a heads of agreement between the Macedon Ranges Sustainability Group and WestWind. This will basically define the commercial terms of the project.

Out of that the sweat equity—how it would be returned to the sustainability group is in the form of revenues made by the wind farm. The wind farm at this stage is believed to be basically five turbines on pine plantation land, Crown land, that is leased by Hancock Victorian Plantations. That is subject to the Victorian Plantation Corporations Act. These are the legislated barriers. That is one and the other one is VC82, which is essentially the no-go zone that was put over Macedon Ranges shire as well as other parts of the state in 2010. That essentially bans wind power in the shire.

We then became an advocacy group, trying to either get it overturned completely, which is what we believe should happen, or at least some kind of exemption for a project that is community led or community involved. We have seen the experience here with Hepburn. It has been going on for quite a

while. It has found it difficult to return dividends to shareholders. It got in before the VC82 ban; their timing was better than ours. Otherwise they would have been banned as well.

All the discussion papers, this inquiry and other submissions we have written are about basically trying to get away from the box of community ownership, which is 51 per cent or whatever it is—a majority shareholding—because the scale of the Woodend project is estimated to be between \$40 million and \$50 million. The community cannot raise that kind of money. I know Hepburn had to loan quite a bit of money from banks. They got quite a bit of money off the government to help them get started. We have not had any of that; we do not have any of that. Therefore we have gone down this partnership road, because we see that as the only practical way for the community in terms of the sustainability group and the community support, which over the years has not wavered. It is still there. We still get asked about it. ‘Can we invest in it?’. We get these questions all the time—achieve the project.

The community exemption of course has led to the question, ‘What is community energy?’, and I guess our submission was more based around a set of principles instead of hard and fast majority ownership and that kind of thing. So basically a social licence from the community; that is an obvious one. The community accepts the projects and that you have this uncapped ability for the community to invest in it and that there is a direct return to the community in terms of financial, social and environmental. Our project is based on those principles. It is a different model from your classic majority shareholding that Hepburn Wind is. We think that whatever the definition that comes up it needs to allow for the fact that communities are different and have different scales of projects and that this hard and fast ownership model will severely limit the uptake of community energy.

**The CHAIR** — Ralf, would you like to add anything, or will we go straight to questions?

**Mr THESING** — I am looking forward to your questions. The only thing I would like to add to it is that it is a community-led initiative, so maybe some other cooperations have come about by developers wanting to build a wind farm and then looking for the social licence and approaching local sustainability groups to get that social licence somehow. This project has always been led and initiated by our sustainability group, and we actually went out and spoke to different potential partners. We chose the development partners, so it is quite different to maybe other projects out there.

**The CHAIR** — Thank you. My first question is: has the Macedon Ranges group engaged with renewable energy developers to design and implement the project? What lessons have you learned from such partnerships, and can you explain more about the developed partner based in Gisborne?

**Mr MANN** — We are currently in the process of finalising the heads of agreement with WestWind. That defines the terms and defines the equity and how the project will be structured. I guess in terms of experience in partnering with industry, we are not quite at that point yet with them because we are in that kind of fairly complicated situation where WestWind wish to invest in doing all the planning approval work—they want to do that, but they will not until VC82 is finalised so they know exactly how these things can be structured.

Also, in terms of the Woodend site, the Plantations Act—there is another site that we are looking at, which is also a very good site, that WestWind have done some preliminary planning work on and it is probably more ready to go than the Woodend one because it does not have the Plantations Act barrier but it still has the VC82 barrier. We are kind of in a period of hiatus. We cannot really move until these legislative and planning barriers are sorted.

**Mr THESING** — Yes. In regard to experience, I think whilst we have not been able to progress the project into the planning permit phase, I think we have come through a very important and difficult phase of actually partnering with a development company, so we have had a lot of discussions about how they are going to recognise what we have done in the last seven years to bring the project to this stage. Whilst we have not really entered the building or permit phase, we have taken the first big hurdle, which I think is getting ready for marriage, I suppose, because it is a very long-term project. So we were very cautious

about what sort of criteria do we assess different developers by, and in the end it comes down to trust in their track records. The fact that they are a local company to the shire was also a big criterion for us.

**Mrs FYFFE** — Thank you for coming out on a day like today. In your submission you recommend that the former strategic coordinators of Sustainability Victoria be appointed as a support agency for community energy. Why are you recommending them in particular? Just because you know them or ...

**Mr MANN** — We consulted when we wrote the submission. We talk a lot with various organisations such as Embark. When we first started the wind project Sustainability Victoria did have a focus on, for example, assisting Hepburn Wind, and there was also a grant through Sustainability Victoria for the wind masts that we have up at the moment. So I guess there has been this historical relationship. That relationship changed, obviously, when their focus changed as the government changed. Our experience and history with Sustainability Victoria is they have always been very supportive with both Hepburn and ourselves. That was the recommendation, I guess. It was not specifically ours; I guess it was kind of an amalgam of what were also some recommendations that came out at Embark and our own, based on this historical relationship.

**Mrs FYFFE** — Thank you.

**Mr CRISP** — In exploring the value of your sweat equity, I know that, say, WestWind are prepared to engage local government, but in building your sweat equity have you had any discussion with a local government around the project and how to build that?

**Mr MANN** — Yes, we have had various discussions with the council—the previous councils and the current one. They are supportive of the project.

**Mr THESING** — More the current council than the previous one, yes.

**Mr MANN** — Right, yes. They are very much aware of what we are trying to do. In terms of the sweat equity, I guess council have not really had an active involvement in, say, assessing the site and quantifying the resource and dealing with Hancock and all the various other things we have had to do. But we meet the councillors when we are having our stalls at the farmers' market. They come along; they have a chat. As far as we can see, we certainly are not getting any negative kind of perceptions from them.

**Mr CRISP** — Can I ask you a difficult question which you do not have to answer?

**Mr MANN** — Okay.

**Mr CRISP** — What value do you put on your sweat equity? It can either be a dollar value or a percentage of the project value. You can or cannot answer it. I am curious, but it is optional because it could be considered commercial in confidence.

**Mr MANN** — At the moment it comes out at about 5 per cent.

**Mr THESING** — That is 5 per cent of the end value of the whole wind farm once it is built. The first stage would be the planning permit—getting to the planning permit stage—and at that stage we would own 20 per cent of the project. Then you go out and ask for investment from the community. You could also in theory sell a project once you have a planning permit, like you can sell a property when you have a building permit, and the value of that whole thing would be assessed somewhere.

We are going to own 20 per cent of the project once we get a planning permit and once we go into the investment phase, and the target, as Barry mentioned, is the community. We will have a very active role in encouraging the community to invest in it. As Barry said, we have already had a lot of inquiries, and some people are really keen to get this going. So the intention is that the community will own 20 per cent of the project once it is completely built and operational. MRSG, the sustainability group, will own, by that stage, 5 per cent of the overall value because of all the investment that has come in. So we are talking about a \$2.4 million value at the end of the planning permit.

**Mr MANN** — At the end of the planning permit, and our equity is 20 per cent.

**Mr THESING** — Yes, 20 per cent of that, so \$800 000.

**Mr MELHEM** — But the end project is still looking at \$40 million to \$50 million?

**Mr THESING** — Yes.

**Mr MELHEM** — And how many turbines, again, are we looking at?

**Mr MANN** — Five.

**Mr THESING** — We are thinking about five turbines, yes, and the reason for that is, really, the lessons learned. We are both investors in Hepburn Wind as well, and, as Barry mentioned, they were not able to pay any dividends so far. From discussions that we had with Hepburn Wind, Embark and so on, we understand that the size of the project is not really commercially viable. So from other feedback that we have got as well and the numbers that we have run, we think a five-turbine wind farm is the size that you need to make it profitable so that the community investors will also get a reasonable return. I personally do not want to go out and convince people to put their superannuation or their savings into a project when I am not 100 per cent certain that they will actually get a return.

This is not a donation project. We have done that as well. We have put solar panels on community buildings, and we have asked people to chip in \$1000 if they can, or \$100 if they can. That was purely a donation, and they do not expect any money back from it. Now we are talking completely different sums of money. They will not be able to donate \$20 000 or \$30 000. We are talking about normal people here, not millionaires. They are keen to find an investment for their life savings or their retirement savings, and they need to have a return for that. So I am personally very committed that it is a financially viable project, hence the size of the project. We think that a one or two turbine project will not be able to return money.

**Mr CRISP** — Just so I have got the dollar values right—it is a 40 to 50 million dollar project. Macedon Ranges Sustainability Group will have 0.8 of a million of that. Then there is going to be raising up to 2.5, or is it 4, to get 20 per cent? Or it does not matter—whatever you raise, then the developer puts in the rest?

**Mr THESING** — It depends how much we want to get into the numbers now, but there is also a developer profit. So when you get the planning permit we will have invested, as MRSRG, \$600 000 or \$800 000—a figure around that that we still need to finalise—in sweat equity. So it is not cash that we are putting in; we are putting in a lot of time—and it is all volunteer time—and we have over the last seven years. So that is what is being recognised. WestWind will put in internal time as well from their employees, their staff, plus real money that needs to go out to pay for permits and things like that. So overall it is estimated that it will cost \$2.4 million to get a planning permit.

Then if we ask investors to put their money in, the project has a far lower risk profile at that stage because we already have a planning permit. So the return that additional investors will get is going to be lower than the return that WestWind is looking for and that we are looking for for the first 2.4. So what I understand usually happens is that the value of the project will probably double. Let us say \$800 000 will become \$1.6 million at the time when we ask for new investments, so that the initial investors, WestWind as well as us, will get a higher return on investment than the investors that come on board later on when the risk of the whole project is a lot lower—if that makes sense—because there is always the option that will not get a planning permit.

**Mr MELHEM** — Following on from that, we actually went to Europe and looked at a number of projects, and one of the main attractions was return on investments. I would not mind if either of you could comment on that. So you have got the environmental impact, which is why we want to do the right thing, but if you do not have that hand in hand as far as return on investments, no system will work. It seems to me that is what you are advocating. So you have got to have both.

**Mr THESING** — Yes.

**Mr MELHEM** — So there is no point in just basically throwing money in and giving away money. So you have got to have both.

**Mr MANN** — Absolutely, yes.

**Mr MELHEM** — That is hence why you are trying to put that project together. Learning from the Daylesford project, this can actually do both.

**Mr MANN** — Yes. The experience in Europe over the last 20 or 30 years is to get the community to invest in it and get a return from it, and that helps the acceptance of the whole thing. I know it may be seen as slightly cynical that the hip pocket kind of overrules all the environmental and social benefits, but it certainly does help. As Ralf said, we cannot go out to the community and say, ‘Invest in it, but you may or may not get a return’. They would just laugh at you. So we have to be sure that this thing is going to make a return, and that will make the whole community acceptance just that much easier.

**Mr MELHEM** — With the new technology—the issue with coal, it is going to be more expensive—is that one of the attractions? Going back 10 years ago, 15 years ago, I mean renewable was very expensive. So basically now what you are saying is you can actually make money out of it?

**Mr THESING** — Absolutely. There is no question that the wind farm will be very profitable. That is partly the reason why we are going for five turbines and large turbines, because the going down of the cost of wind power is due to technical advancements. The turbines are more efficient. Yes, they have become larger, but they are much more efficient than even 10, 15 years ago. That is why we are not aiming for the same type of turbines that Hepburn Wind have got here. We would like to get the latest and greatest. We would also recommend in any ruling around what a community wind farm is that, for instance, you would not put a limit on the output of any one turbine or the height of any one turbine, because technology will definitely move ahead. I do not foresee that they will become taller and taller all the time, but it is more likely that they have reached an optimum—maybe now or they very soon will—but the efficiency of the turbines is still going to increase. So we will get a higher output per turbine in the future. Based on the current technology that is available, we think that five turbines is what we would need to make it a very profitable investment.

The two benefits are that a lot of people want to do something tangible that they can see will make a difference, and they do not want to get power out of the power point that has come from somewhere—most likely the Latrobe Valley—with all the health impacts it has there. One attitude could be, ‘That’s not our problem. We’ll just get energy, and it doesn’t harm us’. But a lot of people want to have more control of where that is coming from and want to have more independence, so that is why they are looking for energy produced within the shire. The profits of the project would stay within the shire, so that is why we have got a lot of support from the community

**Mr MELHEM** — One last question from me. What impact will the feed-in tariff, for example, have on your proposition? So going back again 10 or 15 years, the feed-in tariff was at a very high rate—for example, 60 cents per kilowatt at one stage, now down to about 11 as of 1 July this year. Is that a major factor in your investment decision?

**Mr MANN** — No, the feed-in tariff is more for smaller scale solar. For this kind of scale wind, it does not apply. It is more about the price of the large generation certificates in the renewable energy certificates.

**Mrs FYFFE** — I just want to explore this. You are putting the sweat equity, as you say, at \$750 000 to \$800 000. When you have got the planning permits to go ahead, how would it work if the majority of the people who have contributed to reaching that stage want to sell it for a profit? Because we have seen companies over the years who have done that—found sites, specifically got the planning permit and then tried to sell it—and a lot of them have not gone ahead. What is the structure of your group to prevent that if the majority of the people who have invested in it want to sell?

**Mr THESING** — Our group is a not-for-profit organisation. We have got a tax deductible status, so the group cannot make a profit. The members on the committee or the members of the group cannot make a

profit, so there is no way we could sell up and dish out the money that is in the group or in the bank account to the members. If we would ever have to dissolve the group because potentially there would be no committee members—I mean, that is the fate of some other small not-for-profit organisations that nobody is willing to step up and form a committee—the group dissolves and has to give whatever is left in the bank account to another not-for-profit organisation. That is the only way it can dissolve. So Barry has put in most of the time—I do not know how many years of your life you have put into this project—but he will not see any profits out of this. That is not going to happen.

**Mrs FYFFE** — You would like the government to encourage partial community ownership of alternative energy places. The word ‘community’ helps when you are trying to get permits and so on, because people feel nice and warm towards that. Is it something that you would like to be more mandated than encouraged, that any development must have a community ownership?

**Mr MANN** — I think, specifically to do with wind, it certainly helps overcome certain barriers that some communities will put up. As much as I was speaking before about the European situation, there is a lot of community investment in community power over there.

**Mrs FYFFE** — But they are more subsidised than you are getting here—or have been up till now.

**Mr THESING** — Yes, but still the acceptance issue, as I was saying before, is more easily overcome if they are obviously getting return from it.

Being mandated — I am not sure about that. Any community that wishes to instigate a project, like we have, and wants to follow through with it to completion and see that return and get some community investment should definitely be allowed to do it. The whole idea of being banned from doing it was just mind-boggling—that a community is prevented from doing something it wants to do. I would not say any kind of legislative, ‘Yes, the community must do it’, but they certainly should be allowed.

**Mr THESING** — I would also add that making it mandatory for any wind farm development to have a community ownership aspect would probably prevent it. It really depends on the location. In the Macedon Ranges we are highly populated. It is a very beautiful area. Nobody wants a large-scale, 200-turbine development—nobody—but we would like to just produce enough electricity to power ourselves. In different locations, potentially offshore in the ocean, I do not think there is any community that would own those or would want to own those turbines, or if it is in far remote areas of Australia maybe there is not enough community to get community investment, so I would say it really very much depends on the location of the project.

**Mr CRISP** — The 20/12 investor rule limits the number of investors in the community in any energy project. How have you addressed that issue?

**Mr THESING** — Yes, there are different models, and we are still working through a lot of them, so we have not come to a final decision on this. But one option could be that you can have, I think, up to 20 investors in certain models and one of the investors could be another organisation. So one of the investors could be—what are they called where you can have endless investors?

**Mr MANN** — A co-op.

**Mr THESING** — A co-op. It really depends how much money people are willing to invest. A co-op, for instance, can have unlimited investors, but each investor has one vote. So as long as it is a small size of investments I think everybody will be comfortable with that, but if someone puts in half a million dollars, they would probably want to have a larger say than someone who is putting in \$500. We are looking for investment models where we can have some serious investors, if they are going to be found, willing to step up and have a lot of money, versus we want also a large base of investors. So we are looking at both ends of the market, if you want to call it that—a lot of people with small amounts of money who want to be involved, who want to see something happening in the shire, and then maybe some individuals who are going to have a self-managed super fund and have a serious amount of money that they want to put in.

**Mr CRISP** — Quick one, Barry: are all the green stars happy?

**Mr THESING** — I actually went out, not with Barry but with another committee member — it would have been in 2009—and we steeled ourselves for those visits. We thought, ‘This is going to be tough’. But out of the 13 houses, I think, that are within the 2-kilometre zone, most of them were supportive. Actually the thing that they asked us was, ‘Oh, if a wind farm goes up, does that mean the motorbikes are not allowed to come anymore, because they haunt us every weekend’. I live very close as well—that is reality. But we had two people who had a negative reaction—who were worried, I would say, about this and wanted to know more and initially were not supportive, which is understandable. Based on our expectations, we thought we would have a really hard time going from house to house, but the support that we found was surprising—very surprising.

**Mr CRISP** — Thank you.

**The CHAIR** — If there are no further questions, on behalf of the Committee, I would like to thank you both for coming and for your contribution and your time. Thank you very much.

**Mr THESING** — Thank you for the opportunity.

**Witnesses withdrew.**