Alister Huth's submission to the CEFC Review Panel focuses on our community's participation in renewable energy.

In summary, I would like the CEFC to:

1. specifically include community projects as a part of the package
2. not rule out community sized projects in the design of the scheme, for example, by having minimum investment amounts for the fund beyond community scale
3. make provision for and allocate funds to early stage equity investment in community project

I believe as a family share holder in Hepburn Wind that community involvement in projects such as wind farms is an excellent way of building community support and acceptance. Underpin community understanding of and support for both the clean energy policy and the roll out of clean energy infrastructure.

The economic and social benefits of these projects will play a vital role in building the broad social licence for renewables. A vibrant community energy sector is an economically efficient and socially desirable solution for building the social licence required to dramatically drive towards a clean energy future in Australia.

1. How do you expect the CEFC to facilitate investment?

I believe the CEFC will have a broad mandate with the ability to provide financing ranging through equity to senior debt. Additionally, I would expect CEFC to operate where there is an absence of reasonable or efficient commercial alternatives. Please refer to Question 4 relating to catalysing community and institutional funding.

2. Are there principles beyond financial viability that could be used to prioritise investments, such as emissions impact or demonstration effect?

A key principle beyond financial viability is social licence to operate.

To create broad-based support, the community needs to both understand the technology and the local benefits offered. This is achieved through community involvement.

3. What are the opportunities for the CEFC to partner with other organisations to deliver its objectives?

4. How could the CEFC catalyse the flow of funds from financial institutions?

There are four ways that the CEFC could catalyse the flow of funds.

1. Early stage equity investment

By providing equity finance for feasibility and development, the CEFC would catalyse projects

Community groups generally have insufficient funds or domain expertise to be called upon to fund the entire development phase. CEFC assistance here will enable project to commence quickly.

2. Senior and subordinated debt financing

I understand it will be difficult to raise debt financing from a bank, especially if a power purchase agreement ("PPA") is not in place. If the CEFC were to provide loans to projects without a PPA, it would be catalysing investment.

By providing senior or subordinate financing to projects, the CEFC could change the risk profile, unlocking capital from more traditional funding sources as well as increasing project size to access economies of scale.

3. Loan guarantees

As an alternative to debt financing, a loan guarantee would be an effective way of unlocking debt financing for projects.

4. Power Purchase Agreements

Without certainty on the price that electricity will be sold, it is more difficult to raise equity and almost impossible to secure debt financing. The CEFC could catalyse the flow of funds to projects by providing a fixed or minium price PPA. This would allow for clearer marketing and identification of risks for equity and debt finance providers.

5. What experiences have firms in the clean energy sector had with trying to obtain finance; have term, cost or availability of funds been the inhibitor?

6. What non-financial factors inhibit clean energy projects?

Obtaining broad community backing and benefit sharing is often lacking in larger developments. Community based projects overcome this lack of acceptance.

Community projects are largely run by volunteers. They need to access technical skills to facilitate access and dealings with industry participants, equipment, service, and finance providers.

7. Are there special factors that inhibit energy efficiency projects?

8. How do you see the CEFC fitting with other government initiatives on clean energy?

A well-designed CEFC that encourages community participation will deliver a broader range of projects at various scales with significant community support and associated social benefits.

Background

What is Community Energy

Community energy projects empower communities to play a constructive role in response to climate change. They empower communities, and provide social cohesion.

Key elements of community energy projects include:

- local participation in planning and ownership
- financial benefits remain in the area
- welcomed by the local community
- built and managed to create local jobs
- accountable to the local community
- scaled to the community's energy requirements.

They promote "If it is to be it is up to us" Ten very powerful words in a community.

Importance / benefits

Although community ownership of renewable energy projects is a relatively new concept in Australia, it is common practice in several European countries and North America.

Empowering communities to be proactive in reducing carbon pollution

- Direct ownership changes attitudes at the local level, and leverages committed individuals in a community, giving them a positive outlet for action.
- Community ownership increases support for additional climate change mitigation measures and improves broader environmental awareness by establishing a connection between the community and its energy supply.

Delivering regional economic benefits

- Projects create jobs in regional areas, and generate new income streams for communities adding depth and resilience to local and regional economies.
- Significant project profits remain in the community and deliver a genuine 'felt' benefit.

Tapping into a new funding source – the community investor

- Community ownership encourages greater investor base diversity and taps into a patient and lower-cost source of capital.
- Experience in the UK demonstrates that community projects tend to attract 'serial investors', who invest in a series of community related initiatives.

Enduring social benefits

- Locally-owned initiatives unite people around a common goal, creating social cohesion and a sense of purpose.
- Projects generally operate for 20-25 years, establishing a long-term sustainability dialogue with stakeholders and supporters.

Building social licence and accelerating renewable industry development

- Once successful local examples that directly benefit communities are established, opposition will be reduced.
- Local participation and contribution to decision making process often leads to smoother and quicker planning approvals.
- Small projects often lead to large ones. In Europe, community initiatives have led the way for large-scale corporate investment in renewable energy.

Bridging the gap between individual and corporate action

- The average rooftop solar installation delivers up to 1.5 kW of electricity, while a large-scale renewable energy project may deliver in excess of 100 MW. Between these two extremes lies an enormous opportunity for medium-scale initiatives.
- Community projects, typically in the range 1-10 MW, can deliver efficiencies that approach those of utility-scale infrastructure without sacrificing the social benefits of small-scale initiatives.

Delivering broader grid benefits

- Community renewable energy infrastructure promotes medium -scale distributed generation.
- Distributed generation reduces losses, can improve grid stability and reduces the load on the transmission network thus improving overall grid efficiency.

Barriers

Despite high levels of interest, the passion of committed individuals and promising business models, very few communities have yet progressed renewable energy projects past the conceptual phase. Specific barriers include:

Economics

- Financial challenges are heightened for communities as these types of projects do not have robust balance sheets to support the formation stages of the project.
- Capacity for a community to weather uncertainty and withstand shocks or delays during a project can be lower.

Access to capital

- Traditional equity and debt providers are reticent to commit funds as the community renewable energy sector does not yet have a long established track record in Australia.
- Institutional investors avoid smaller, one-off projects because due diligence requirements are proportionately high.

Non-traditional market player

- Developing a renewable energy project is highly complex and requires a range of specialist skills not available in most communities.
- The ease and cost of grid connection is site specific. The greater the electricity exported into the local grid by the renewable generator, particularly an intermittent one, the more complicated and costly it will be to achieve the connection.
- Off-take agreements are bilateral and very challenging to negotiate in the current environment.

Inadequate policy framework

- While Australia has well developed (but unstable) policies covering domestic-scale renewables and solid policy for large-scale utility generation, federal and state policies have neglected the middle ground where community initiatives naturally fall.

Inefficiencies in scale

- Larger projects are generally more efficient as fixed costs are spread across greater generation capacity.

Capacity and skills

- To move projects forward, community groups need to transition from volunteer-based organisations to local social enterprises with paid staff.