October 2020

Submission VRET II

Introduction

Victoria is the national leader in community energy. Across the country, there are 105 community energy groups, 50 of whom are based in Victoria where they are developing and operating a range of community energy projects. Typically, these are household solar bulk buys and small-scale community solar farms (<100kW). However, there is a strong desire for more mid-scale community wind or solar farms like Hepburn Wind that are led by social enterprises, co-operatives and not-for-profits. These groups can provide a core pathway to mainstream zero-net emissions plans and actions across Australia, building on their existing work in community energy which serves the VRET and ERTs of the State Government.

Responsive state government-led policies and programs, such as the Community Power Hub Pilot Program in Victoria, have enabled communities to plan and develop their own energy projects through the formation of organisations and partnerships. These programs have unlocked a massive volunteer effort across the state that strengthens local economies, grows clean energy capacity and improves the social licence of renewables. Many of these groups are tackling climate change beyond community energy and 100% renewable electricity actions (electricity) and are looking at zero-net energy (transport and stationary energy) and zero-net emissions (transport, agriculture, land use, stationary energy, waste and waste water).

Key to achieving these ambitions is developing mid-scale (1-10MW) community energy projects on under-utilised distribution and low-voltage lines. Although ad hoc grant funding schemes are being released under Sustainability Victoria and Victoria's Department of Environment, Land, Water and Planning, these programs are not significant enough to capitalise on the desire and momentum of communities across the state to develop mid-scale renewable energy solutions. Moreover, these programs do not provide the key missing policy lever: a financial mechanism to provide long-term income security for these projects. Such a mechanism will spur and support a substantial pipeline of mid-scale community energy projects across Victoria.

As the peak body for community energy, the Coalition for Community Energy and the member groups associated with this submission believe **the following policy solutions are fit for purpose:**

1. **A carve-out of the Victorian Renewable Energy Target (VRET)** for mid-scale community energy projects, via a Community Energy Target (CET) of 100MW by 2025. By simply allocating a portion from the existing VRET, this would secure the feasibility of mid-scale community projects and provide confidence in attracting funding. This could deliver between 20-50 mid-scale projects across Victoria.
2. **Determine a portion of each VRET Round that is allocated to delivering to the CET.**
3. **Establish a Community Energy Incentive (CEI)** to deliver the CET. While households can access Solar Victoria subsidies and large-scale projects can access the VRET auctions process, mid-scale community energy projects of 1-10MW are caught in a policy vacuum. A financial incentive to support projects at this scale is proposed. The incentive could be a Feed-in-Tariff (FiT) for mid-scale community energy projects of 6-7c premium above the PPA/wholesale rate for 15 years. Alternatively, the FiT could be established as a contract for difference mechanism, so that the FiT rate falls when market prices are high. Other types of incentives include a Guaranteed Floor Price or an Annual Payment.

These policy solutions would be tailored to the specific needs of non-commercial, community-based energy proponents, recognising their unique contribution to the energy market and the necessary assistance these projects require. The CET would involve a clear Expression of Interest (EOI) process to enable potential projects to be developed through the high-risk phase and a financial mechanism such as a Feed-in Tariff, Guaranteed Floor Price or an Annual Payment (i.e. the CEI). This multifaceted approach will give mid-scale community energy projects the footing needed to progress and deliver economic, technological, environmental and social benefits to local communities.

The CE sector has called for these policy solutions in the 2016 *Parliamentary Inquiry into Community Energy Projects* (C4CE submission here), 2019 *Parliamentary Inquiry into Tackling Climate Change in Victorian Communities* (C4CE submission here) and in various letters and lobbying briefs. In 2019, we presented this petition with over 630 signatories, calling on the state government to implement a Community Energy Target.

In the following sections we describe the core policy gap and the proposed pathways the Victorian State Government can take to enable mid-scale community energy development. These pathways are distilled into a series of recommendations at the end of the document.

The VRET gap

The Victorian Renewable Energy Target (VRET) Auctions have enabled the deployment of large-scale solar and wind facilities at increasingly lower costs, significantly dropping the market price for consumers. However, these auctions effectively exclude mid-scale community energy projects, even though they play a critical role in developing social licence and have the potential to unlock network benefits, delivering energy assets where larger projects can't.

The proposed VRET II is lacking an appropriate method to incorporate mid-scale community energy projects, which are typically delivered by non-commercial entities or organisations with a capacity of 1-10MW. Evidence from overseas has demonstrated that genuine community proponents are often unable to compete with larger industry players in auction models. The World Wind Energy Association has advocated for a 'diversity of players' in German auctions so that community energy groups can participate within a designated portion that is set aside for them.

Lack of Federal Government policies

The need for a CEI is further amplified by the lack of Federal Government policies as the CEI could be a more secure option than Large Generation Certificates (LGCs). Renewable energy generators derive a significant portion of their income from the generation and sale of LGCs under the federal government's Renewable Energy Target (RET). In the last few years the value of LGCs has fluctuated around $80 (per MWh). The RET scheme grew to its maximum value in 2020 (33,000 GWh/annum) with a continued requirement to provide LGCs to 2030. It was anticipated that LGCs would have an ongoing value up to 2030. However, during 2019 it became apparent that there would be an oversupply of LGCs going forward. This along with a relaxation of surrender shortfall rules by the federal government's Clean Energy Regulator resulted in a dramatic fall in the price of LGCs over the last 12 months. LGCs now sit at around $30 per LGC. The value is expected to further decline and could be close to zero from 2023 onwards.

Furthermore, the COVID-19 pandemic has materially affected the wholesale price of electricity. Throughout 2019 the Victorian wholesale price fluctuated around $80/MWh. With a significant decrease in consumption throughout Australia since March, the wholesale price has dropped dramatically. In Victoria the value is now around $30/MWh. With the declining value of LGCs, and ongoing wholesale market fluctuations, a state-based approach is needed to ensure the viability of mid-scale community energy generators.

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Incorporating community energy into VRET rounds

In 2017, the Victorian Government sought 650MW of renewable energy through the Victorian Renewable Energy Target (VRET) Auction. However, the auction exceeded this - delivering 928MW. Given there is a target of 600MW for the VRET II Auction Scheme, there is still an opportunity to allocate an additional carve out for a CET. The 600MW will provide enough to power every hospital and school in Victoria, Melbourne's train network and a range of other Government infrastructure and services, however the key point of difference for a CET is that community energy proponents want their electricity to serve local consumption needs, rather than be pooled into larger retailing contracts, to service off-site consumption.

It is vital to select a CEI mechanism that provides funding certainty over most of a project's lifetime in a way that grants alone cannot. Experience from the Hepburn Wind project shows that grants are helpful to de-risk the development phase of projects but do not provide financial security in the long run as costs and market conditions change over time. This heightened risk profile is one of the main reasons why there are so few mid-scale energy projects. The recent impact of Covid-19 on the spot market price highlights risks that markets can create for projects.

Recommendation 1:
Deliver a carve-out of the VRET for community energy, called the Community Energy Target, with a portion of each VRET round dedicated to it.

Eligibility

Appropriate eligibility criteria are crucial for ensuring that community energy projects deliver intended benefits in terms of ownership and decision-making, capacity building, and community development. Importantly, by establishing these policy levers, the mid-scale development market will attract more players who wish to collaborate with and support community energy projects. Key to ensuring communities secure these benefits is to have robust criteria to support this.

We recommend the following eligibility criteria be adopted:

- community-led project or community-developer joint venture
- Minimum 20% local shareholding (i.e. community investment) with at least 50 shareholders through a public share offer
- project scale: 1MW - 10MW
- local control and decision-making power related to the project
- local distribution of the social and economic benefits generated by the project.
- project is appropriately scaled to the local environment and/or community
- project harnesses the skills and capital of the local community

Recommendation 2:
Use robust criteria for project proponents to ensure genuine community energy projects are enabled.

Creating a pipeline of mid-scale projects

To create a substantial pipeline of mid-scale community energy projects, it is key to go beyond the current ad hoc grant process of the New Energy Jobs Fund and instead create a more stable process associated with the VRET and proposed CET rounds. Some elements of the VRET process could be useful, such as the EOI process. The EOI process would need to occur early in the development cycle (at concept/site selection) and:

- 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.

The next stage of progress for community energy proponents would be to access development phase milestone-based grants for community renewables (~$150k per grant), similar to what has been deployed under NEJF and the Renewable Communities Programs. Once these projects have been successfully developed, they would move onto the final phase of securing the CEI. It should be noted that there are several existing projects that have received development grants that could easily go straight into an arrangement in the coming VRET Round II, should a stream for community energy with the right eligibility criteria be developed.

Recommendation 3:
Create an EOI process and development grants to de-risk community energy projects.

Suitable mechanisms for CEI

In many countries, such as Malaysia and Germany, Auctions have been used to facilitate large-scale renewable energy projects, while feed-in tariffs have been used for smaller to medium scale developments. These policies work well in conjunction as Auctions provide a substantial bulk of renewable energy development and drive down prices, while a mid-scale FiT can help foster community access and grow renewables social licence. An 'either or' approach however has resulted in the growth of only one scale.

The known best pathways to deliver a CEI are:

- a FiT paid by State Government on a per MWh of generation basis;
- a minimum floor price (as explored by the Federal Labour party in the lead up to the last Federal election) which would be project specific but likely to be $70-$140per MWh; or
- an annual payment (as explored by DELWP in the 2015 VRET Consultation Paper) where successful proponents would receive a fixed payment each period (irrespective of generation levels) and source further revenue by selling electricity and potentially generating and selling LGCs.

The term needs to be a minimum of 15-20 years to prevent project failures later in the lifecycle when the assets are ageing and more vulnerable.

Recommendation 4:
Implement a Community Energy Incentive (CEI) - a financial incentive for mid-scale community energy projects such as a feed-in tariff, guaranteed floor price or annual payment.

Contracting and retail arrangements

The following section describes how new retailing models offer specific and unique benefits for community energy generators. Using the example of Hepburn Wind and Indigo Power we suggest that community energy generators should be able to account for their generation within the local area or with aligned consumers, as this is a key driver for many projects. In many cases (such as in the co-operative rules of Hepburn Wind) the primary activities of community energy groups are directly linked to meeting local consumption needs.

Within the VRET II Auction consultation paper, contracting is proposed to occur through a sleeved or unsleeved PPA to cover the Victorian Government's own usage. While this is commendable in the context of large commercial renewable energy projects, a key part of a community energy project is its connection to a geographical region.

Increasingly, new retailing models are making this possible, with white label service providers enabling community energy generator's to notionally sell their output to local consumers. Such opportunities create potential benefits for the given community, potentially lowering electricity costs over time and growing income streams. Such models should be enabled within the CET as they could play an important role in increasing the financial sustainability of community energy generators and related enterprises.

Recommendation 5:
Community energy projects under this scheme should be given flexibility for how they trade electricity to prioritise local supply arrangements.

Dispatchability, energy storage and network support service

In light of recent bushfires affecting many regional areas we suggest that community energy be prioritised as a way to build resilience. Building resilience in regional communities will be crucial in responding and adapting to the effects of climate change. Investment in community energy projects has consistently shown these projects deliver local economic benefits, improve community cohesion and result in reduced carbon emissions.

Additionally, investing in regional resilience in the form of support for community energy projects can lead to government-wide savings. For example, mid-scale renewable energy projects and community-scale batteries can help meet local electricity needs, especially during and after extreme weather events and natural disasters when traditional grid infrastructure may be compromised.

In lieu of the huge infrastructure changes that need to occur to host our energy transition, such as the proposed large-scale transmission projects, there are already capacity issues and likely build-out delays that will occur as well as significant social licence challenges. Community energy projects act as important gatekeepers to social licence for the broader renewables industry and are very well suited to the mid-scale (1-10MW). At this scale, they are achievable for communities - both financially and from an asset management perspective - and can fill up the existing distribution and low voltage network. Utilising the distribution network for mid-scale community energy projects will ensure we can more rapidly transition and not wait for new large-scale transmission infrastructure to meet the VRET. Projects supported under this scheme could be required to have energy storage as part of the project development.

Social licence

The community energy sector is a gatekeeper for renewables' broader social licence. Community energy projects provide proportionately large benefits to community members, generating good will among those affected by amenity or social impacts created by these developments. They also provide a normative good, giving community members greater ownership over their energy system. Furthermore, community energy projects have been champions of best practice in community engagement, pioneering new tools to improve social outcomes and the reputation of the industry. As large-scale renewables and transmission infrastructure goes up across the state, this transition will need to deliver genuine benefits to produce legitimacy in the eyes of affected communities.

Mid-scale projects can be owned and operated by community groups, being within the latter's fundraising and asset management capabilities. Additionally, mid-scale community energy projects can help solve capacity constraint issues on transmission lines by filling up the smaller distribution network as we await further transmission development, as proposed by AEMO's Integrated Service Plan. This approach will help to build the social licence for renewables while simultaneously maximising use of existing infrastructure.

Conclusion

We hope you will consider how to best unlock mid-scale community energy, producing a pipeline of local jobs and delivering significant regional economic development across the state. There is a great opportunity to enhance our sector with the right policy instruments.

List of key recommendations:

1. Deliver a carve-out of the VRET for community energy, called the Community Energy Target, with a portion of each VRET round dedicated to it.
2. Use robust criteria for project proponents to ensure genuine community energy projects are enabled.
3. Create an EOI process and development grants to de-risk community energy projects.
4. Implement a financial incentive such as a feed-in tariff, minimum floor price or annual payment (CEI).
5. Community energy projects under this scheme should be given flexibility for how they trade electricity to prioritise local supply arrangements.

The following members of C4CE support this submission