C O R R E C T E D V E R S I O N

ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

Inquiry into community energy projects

Daylesford — 30 May 2017

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Witness

Dr David Perry, Chair, Hepburn Wind.

The CHAIR — Welcome to this 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 afford such privilege. Hansard is recording today's proceedings. We will provide a proof version of the Hansard transcript so you can correct any typographical errors. I would like to invite you to make a contribution and then give us some time so members can ask some questions.

Dr PERRY — Sure. Thank you very much.

The CHAIR — Please state your name before you start.

Dr PERRY — My name is Dr David Perry. I am currently the Chair of Hepburn Wind, a director and also a member and shareholder. Hepburn Wind is a 4.1-megawatt community-owned wind farm, the first community-owned wind farm in Australia. I will only give a very brief introduction of the project, since we have Simon Holmes à Court following me, and he is the founding chair and gives a very comprehensive and fantastic introduction, so I will not second-guess him.

Suffice to say we have 2000 local members—mostly local members, I should say. And we have rather unique challenges, being the first of our kind, a very small-scale operation and having many, many stakeholders—both our members and the local neighbourhood council and so on. As I said, I am going to skip over the kind of introduction and leave it to Simon, so this is going to be a little bit twisted around. I will jump straight to, I guess, the challenges of the project and what we would like to see change in the future.

Our biggest problem really is around the political uncertainty in the market—uncertainty for the price that we receive for energy. We have other challenges as well, but we have gone from a point where there was consensus around targets and priorities for renewable energy to a point where that consensus has gone, and even now the situation is quite uncertain. We have gone from a point where we were projecting energy prices in the order of $130-plus a megawatt hour. A couple of years ago when the renewable energy target was in doubt we went down to $65 a megawatt hour. Now it is back up to in the order of $150 to $200 a megawatt hour. This is just in a couple of years. And just in the last week there have been some changes in the accounting of the renewable energy target, where there looks like more certainty of supply, and the price has gone down again in the order of 20–30 per cent on the renewable energy target side of things.

You can imagine the challenges of running any business in the context of that uncertainty around the revenue that you are going to have just a few months from now, let alone five or 10 years from now. Unlike the vast majority of wind farms across Australia, we are fully market exposed. Price varies on a half-hourly basis, and that is the price that we get. Sometimes that is very good and sometimes it is very bad. All things considered, however, given the scale of operation—we do not have a big balance sheet like the AGLs and Origins of the world—we would prefer, and I do not think I am speaking out of turn, to be able to lock in a price for the next five, 10, 15 years, a price that we can all live with and plan for the future. Unfortunately we just have not had that option. At the close of our project no-one was willing to write a power purchase agreement that would make us sustainable, and even now we do a little bit better in the market, but there is always still uncertainty and so it would be difficult to do that. So to the extent we can improve that with a renewable energy target in Victoria and an auction scheme, whatever it might be, and take advantage that, that would be fantastic from our perspective, especially if it has consideration of the different sizes of projects.

So, for instance, if there is a minimum of 10 megawatts, we are still the largest community-owned wind farm. We are still only at 4 megawatts, whether that be a conglomeration of small projects or a carve-out of the VRET of, say, 5 per cent to 10 per cent to allow our project to receive ongoing funding or to have expansion. We are looking at, for instance, doing large-de-risk scale solar on site and we are currently investigating that. We would love to expand if we could. As I guess was alluded to with the previous presentation, the more scale you have, the better returns you can potentially get, given many of our costs are fixed around insurance, operations, overheads, staff and so forth.

I guess the other thing I want to get across is that I am a volunteer. The other board members are volunteers. While we do have some staff members, we are fairly constrained with our scale in how many people we can take on and the breadth of skills we have in the organisation. Contrast this to a large-scale either developer or operator of a wind farm, who will have legal counsel, they will have engineering experts and they will have different management teams. Trying to combine all that organisational knowledge into a volunteer-based structure is very, very challenging in getting access to the experts we need.

We get a lot of fantastic in-kind contributions, but again it is an issue of sustainability. I guess the ask there is that to the extent there is a desire to support community energy, it should be aware of the fact that it is being driven by volunteers, and they have got day jobs and other things going on, and we might not be able to afford the kind of sophistication around contracts and milestones and so forth that these bigger players can do given they have a big payroll and they have a big balance sheet and that kind of thing. We can certainly do some things and work to milestones, but it is still a different part of the environment. I think that is about all I have, so thank you very much.

The CHAIR — Thank you, David. We will go straight to questions. In your submission you mentioned the use of community developer partnerships for large-scale projects. What are the benefits and risks of this model, and if you were setting up your wind farm now, would you use the same model?

Dr PERRY — Sure. This is the idea that you have a large-scale developer coming in and then you would have community buy-in in one form or another. It could be that there are one or two turbines that are completely carved out into their own organisation and then there is a management structure that actually operates them, or it could be that the local community has a shareholding in it and obviously all the statutory requirements of that given the difference between sophisticated and non-sophisticated investors and scale and that kind of thing.

The benefits of that model would be that it is largely de-risk. You have a much bigger player with a large balance sheet doing all the heavy lifting. The downsides would be that there is less community involvement and control. The community is unlikely in that situation to have majority control of that project, so if something is happening that they do not like, while they might have a share of the benefits, they do not necessarily have the control. That is an important aspect of Hepburn Wind. You have local benefits both in terms of the return to members or the plan for return to members, the payments to community groups and sponsorships and so forth. But there is also the notion that anyone from the community can come in, get a vote, be on the board and control the wind farm, and I am an example of that, living in the local area now.

I think that is an important thing, and it is a risk for these large-scale projects—that those community interests will be kind of washed over. But it is really down to the developers to be sensitive to that and set up appropriate controls and governance structures so that the return and some aspect of control is also given to the local community.

Mr CRISP — I will go straight to the passion, and then we will get back to the detail a bit later. The micro hydro project at Daylesford was flagged in the submission. How is that progressing, and what is the scale of the project?

Dr PERRY — It is very small. I would encourage you, if you feel like a walk at lunchtime, to go down to the lake and have a look. You will find a little wooden shed there with a wind turbine—a micro hydro system from the turn of the century to originally power Daylesford. This is very small scale; it is in the order of 10, 20 kilowatts. The value here is really around education and, I guess, restoring the historic legacy of this piece of infrastructure that has been there for a very long time. The current status, I believe, is that we are checking to make sure that the pipes going from the dam wall at Lake Daylesford down to the hut with that turbine are all in good condition and that there are no major works required. The plan is really to drop a turbine straight in there, restore the shed and make sure it is all safe electrically and wire it straight up to the grid. Then you can go down there, tourists can go down there, visitors and locals, and see it operating as it once was.

Mr CRISP — In looking at how local economies benefit from wind farms I am interested in knowing—in your experience with Hepburn Wind—how many jobs were created through that process of establishing your wind turbines.

Dr PERRY — I guess it depends how you define local, whether it is council area or within the state or Australia generally. I think the local content of the turbines—it is a $12 million to $13 million project; I think there is about $7 million worth of local expenditure, but that can include electrical contractors across the state. We have two employees locally, Taryn Lane and Jess Eve. They are the community manager and administration officer respectively, and they are both part-time. Combined there may be half an equivalent full-time. We would love to bring more people on of course.

Then there is the broader supplier network. We have a local electrical contractor who lives in Glenlyon, and he is on call to support the wind farm when things break down, when small things need to be fixed. We have had work done recently with the EV charging station. That was from another electrical contractor. Our accountants are in Ballarat and we are very happy with them. So to the extent we can find local suppliers, both for the maintenance and ongoing operations of the turbines, we certainly try to do that, and it is an ongoing priority as we move forward.

Mr MELHEM — I would like to explore further the financial aspect of the project and I understand that you are one of the pioneers in investing that much money in turbines. I think I might have missed it—have you paid any dividend yet?

Dr PERRY — No, we have not. We have still got accumulated losses, so we are looking at other means of returning to members, but we cannot pay a dividend just at the moment—or we can, but it would not be efficient to do so in terms of tax and other things.

Mr MELHEM — So when is it planned to start paying some dividends based on current forecasts?

Dr PERRY — Dividends are probably too far out to forecast, as in not years off but it depends how quickly we can pay off the accumulated losses. We are looking at doing a return to members in the terms of a share buyback or a return to capital this year, but we have yet to confirm the details, and that is a decision for the board to make about the scale of that that they would be comfortable with. To be clear, we do have the cash flow situation to support a return, but we also have a depreciation bill that goes over the 20-year life span of the wind turbines, and if we do not have enough cash to cover all our expenses and the depreciation, then we are unable to pay a dividend. We could do it, but it would involve pushing money between organisations that would increase our ultimate tax liability, so it is more efficient for the moment to pay off those accumulated losses and return to members in the form of a share buyback.

Mr MELHEM — Is that where individual shareholders, for example, are able to recover some of the investment costs due to depreciation when they are doing their tax return? There is some sort of return by writing off. I am trying to find what sort of incentive the shareholders are actually getting out of it. Whilst they are not getting any dividend paid up, surely they will be getting some sort of depreciation when they are doing their financial tax returns.

Dr PERRY — What we are looking at, and again I emphasise …

Mr MELHEM — Does that go to the organisation or individual shareholders?

Dr PERRY — What is that; sorry?

Mr MELHEM — The depreciation. If I invest, for example, $100 000 in shares in the business, I am not getting any dividend but am I getting any tax write-off, for example, when I am doing my tax return? You can take that on notice if you like.

Dr PERRY — Sure, and I would emphasise as well that all our annual reports and all our accounts are open for anyone to have a look at. That is obviously important. At the moment—and again I emphasise the decision has not been made around the quanta of this and so forth; it actually has to be approved by

members. In the case of a return to members it would basically be cancelling a proportion of those shares and giving them that cash. In that case the face value of the shares stays the same and there is no tax issue either way; that money is just in hand. In terms of a dividend, when we are able to pay that, to be able to pay a dividend we would also be liable for tax ourselves, and then there would be franking credits going onto those dividends when we are able to pay them.

Mr MELHEM — One final question. So how do you compare—and I think you touched on that earlier—your current model, which is totally owned by the community, a two-turbine $30 million investment? It is going to take you a while to get a return on your investment, and we have heard from a number of witnesses in the last six months in relation to the importance of attracting investors and having a return on investment. Would you now consider partnering with, let us say, large providers to basically ease the burden and make that a bit more attractive for investors, notwithstanding the comment you made about the community control, because at the moment you have full control?

Dr PERRY — I think, for the scale of our project—and I think you would have to get quite a big-scale project before this would change; it would not really change the fundamentals of the project—a large player, if they could not get a power purchase agreement for five, 10, 15 years into the future, would not be interested. You would have to be a very large company before you were willing to take that on board. We have taken it on board, for better or worse and out of sheer bloody-mindedness more than anything else that we wanted to see it happen, and so we made it happen. We now go to things like this to try and push for some political stability so that the prices that everyone anticipated the electricity market would be looking like are exposed to us as well. So if you had a large player I do not think they would be interested.

We have a partner in the form of Meridian Energy, which help us with operations and so forth, but in terms of equity investment, with the scale of our project, I think it would be a hard sell short of guaranteeing that revenue going forward. I think that is the most important thing, far above anything else as far as the financials and structures go.

Mrs FYFFE — I am just concerned about the future. You are more than halfway through the life of the wind turbines that you have got …

Dr PERRY — Maybe a quarter.

Mrs FYFFE — No, they are about 25 years, are they not, and you have been going since 2011?

Dr PERRY — Yes, but we have been operating for five or six years, and we will not necessarily demolish them at the end of their life either.

Mrs FYFFE — All right, so I got that wrong, but with all voluntary committees people move in, move out and move on to other things. It is not making money at the moment. How are you going to manage then when the time comes for replacement, whether it is removal, modernising or whatever happens with the wind turbines you have? How do you see the committee handling that, because it is a huge responsibility?

Dr PERRY — It is, and I think there is still intrinsic value there. I guess a lot of organisations will take the view that the decommissioning costs are covered by the residual value of the wind farm, both in terms of the boring kind of scrap value of a lot of steel but also the fact that you have got a site that has electricity connected and you have got grid approval. Those things have value over and above what the wind farm is doing, so if it was gone tomorrow that site would still have value that you could sell on.

I think it is very hard to predict the future in the energy market—has been our lesson. If I were to guess at the moment I would say that we would probably put taller towers in, bigger blades and bigger turbines but keep the same footprint, provided the community was on board with that.

Mrs FYFFE — So you would have to raise more funds to do that.

Dr PERRY — It depends on how things look. The energy market in the last six months has been fantastic and there is money coming in a lot quicker. If that were to continue or if we had guaranteed income, then it would not be such an issue and we could make those plans, but it is very difficult to say what the price of new infrastructure would look like in 15, 20 years time. Certainly no-one would write you a quote for it. So we certainly want to build up a cash surplus as well as dividends and make sure that we have loan facilities available so that we can do an expansion or refurbishment and repowering of the site when the time comes.

Mrs FYFFE — When the wind turbines are actually built you do not have to put a bond up to anyone, do you, for the modernisation or dismantling or anything of the wind turbine? You have not had to put a bond up to anyone, so that your organisation has not got a pool of money to handle that at the end of the term of the life of those wind farms. I guess I have got a horror of a *Mad Max* scenario where you have got wind turbines bending over, falling over and blighting the landscape.

Dr PERRY — Have you been up to our site in Daylesford?

Mrs FYFFE — Yes, but not on an official visit.

Dr PERRY — I can certainly see that if you had a really large wind farm, which would be quite an endeavour, that would be a concern, but in our case we are looking at a concrete pad that is a quarter of the size of this room—a couple of house slabs worth—a bunch of steel that anyone would happily take off your hands, because it has intrinsic value, and some copper cables. It is the sort of site that you could decommission in a few months if you had to, and there are probably companies who would do it purely for the scrap value of all of the steel, so I am not too concerned. I think it has a lot more value than the steel itself and everything that is still residual, but it is also an impetus for us keeping the site over and above the scrap value and making sure that the grid connection is reliable and that the rest of our plant is maintained, and we can do that. Even though the depreciation basically brings the value of the site to zero, that will not really be the case; it is only true in terms of tax. The grid connection will still be there, and that will last a lot longer. That could potentially last 50 years, and then we do ongoing maintenance to make sure that is the case.

Mrs FYFFE — I guess I ask because if you have a quarry, if you are digging down into the ground, you have to put up a bond for rehabilitation. The same things do not seem to apply here, and that is one of the things I was thinking about.

Dr PERRY — Yes, I think the site remediation in this case would be a lot more straightforward if you were to do so. It is probably more akin to putting up a mobile phone tower or something like that rather than digging a really big quarry or something like that. Mind you, there are wind farm sites that actually build their own quarries to supply local roads, so that is kind of interesting. They will get a bit of both with that.

The CHAIR — David, how can the grid connection be made simpler for community energy projects?

Dr PERRY — I guess the thing I keep coming back to is having certainty of price in the market. That would make our jobs a lot easier, because it means we could actually plan for the future in terms of service providers about the expectations we set with members and so forth. At the moment we set budgets a year in advance, and we do not dare go much further. We obviously have forecasts that go further, but it is basically dependent on factors that are outside our control. To the extent that that can be made simpler in terms of having certainty of price and less political uncertainty, that would be fantastic for us. The permitting processes and so forth, again, are very much geared to large-scale organisations, and to the extent that governments and councils can be accommodating of smaller-scale projects and making sure the councils have the ability to properly understand and interrogate those projects I think is useful.

We have talked about it before, so our project—just for clarity—went to the local government rather than to the state government for planning approval, and that puts them in a rough situation, so to the extent that local governments can be supported in taking these projects on board and making sure that they are doing the right thing and that, also on the positive side, they have support. Imagine if you are a volunteer like me

and you are trying to write a planning permit, and this is the first one you have done. At the moment it is just kind of covered by the NGO space, but if it could be covered by government-supported facilities as well, which have the economies of scale to work across different community projects and give advice, that would be certainly useful to do. But as I keep coming back to, what is fundamental is the certainty of price: if you have got the certainty of price, banks will write you contracts, they will give you loans and everything becomes a hell of a lot simpler.

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

Dr PERRY — Thank you.

Witness withdrew.