SUBMISSION ON VICTORIAN TRANSMISSION INVESTMENT FRAMEWORK - REZ COMMUNITY BENEFITS

Overview

The Clean Energy Council (CEC) is the peak body for the renewable energy industry in Australia. We represent and work with over 1,000 of the leading businesses operating in the solar, onshore and offshore wind, storage and renewable hydrogen sectors. We are committed to accelerating Australia's clean energy transformation. The CEC thanks VicGrid for the opportunity to be involved in the consultation on Victorian Transmission Investment Framework – REZ Community Benefits.

Victoria has set targets of reaching 65% renewable energy by 2030 and 95% by 2035. These targets are commendable and represent an essential element of the state's response to the energy transition and climate crisis. Because much of the state's best wind and solar resources do not overlap with the previously dominant source of electricity (ie. Latrobe Valley brown coal generators), Victoria's transition to renewable energy requires the timely construction of new transmission lines to connect clean energy projects. Delays to transmission means delays to clean energy projects.

Victoria has an emission reduction target of 75-80% by 2035 and the bulk of these reductions will be achieved by transitioning away from coal and to clean energy. However, investment in clean energy projects is slowing and 2023 saw the lowest level of new financial investment commitments to large-scale generation projects – just 1.3 GW - since the Clean Energy Council began recording data in 2017.

Victoria's initial progress as an early mover to clean energy is to be commended but there is a chance this early progress will be lost as the transition to clean energy slows. It is essential that any regulatory or policy framework adequately support investment in new renewable energy projects.

General Comments

CEC supports the idea of having a proportion of proponent-provided benefits being pooled for the purpose of delivering more transformational/legacy benefits where it makes sense to do so, such as areas with multiple projects and when funding is delivered by proponents.

With the above in mind CEC does not support the mandated Community Energy Fund as proposed in the draft plan as it is not delivered by proponents, dilutes the relationship between proponents and community stakeholders and access fee contributions are unclear.

Any additional funds levied on projects or transmission must balance the need for the transition to deliver low cost electricity to consumers and for it to happen at pace. Further considerations are that (1) development of renewable energy projects is getting more expensive, (2) most proponents already deliver sizable project-level benefit-sharing funds and (3) the Payment in Lieu of Rates (PiLoR) scheme results in developers in Victoria contributing more funds to councils than anywhere else in the country.

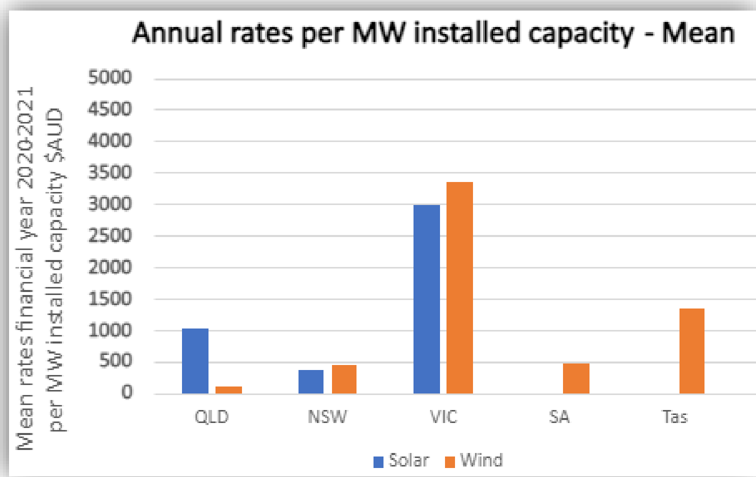
CEC is of the view the current proposal does not balance the above considerations and as currently drafted could increase electricity prices and/or pose a threat to investor confidence.

Feedback on REZ Community Benefits Plan

Part 1: Existing Contributions and Increasing Cost of Development

Clean energy projects already make significant contributions towards regional benefit funds in the form of PiLoR payments. The community benefits these funds enable could be more widely communicated by local or state governments. Victoria is the only jurisdiction to calculate rates based on improved value without some exceptions for electricity infrastructure. In Victoria, anyone with a generator licence from the Essential Service Commission is eligible to negotiate with the relevant local government to determine the exact amount of rates a project pays. However, the PiLoR methodology establishes a starting point for negotiations that is already the highest in the country.

For example, based on publicly available information CEC calculates that a hybrid 150 MW battery energy storage system (BESS) and 300 MW solar farm in New South Wales would be liable to pay $10,000 annually to the relevant local government *(CEC acknowledges that Voluntary Planning Agreements in NSW would likely result in this project paying more than $10,000)*. Using the currently published PiLoR rate if the same project was in Victoria it could be liable for $750,000. This represents a 75 x increase in published council rates from NSW to Victoria. In 2020 CEC surveyed members on rates paid across the country, the data showed that per MW, projects in Victoria were paying between $3000 and almost $3500 per MW, well above the 2nd highest of almost $1,000 per MW in Queensland. CEC is also aware that some individual projects in Victoria are contributing between $250,000 - $350,000 annually in PiLoR.



As outlined in the draft plan, projects also often have their own benefit funds. In 2020, CEC surveyed members on benefit fund contributions, the data showed that $3,500,000 of the $10,000,000 that was allocated nationally, was allocated in Victoria for benefit funds for the calendar year. This represents the highest concentration of benefit funds in the nation. It's highly likely these contributions would be higher today as the number of projects has grown.

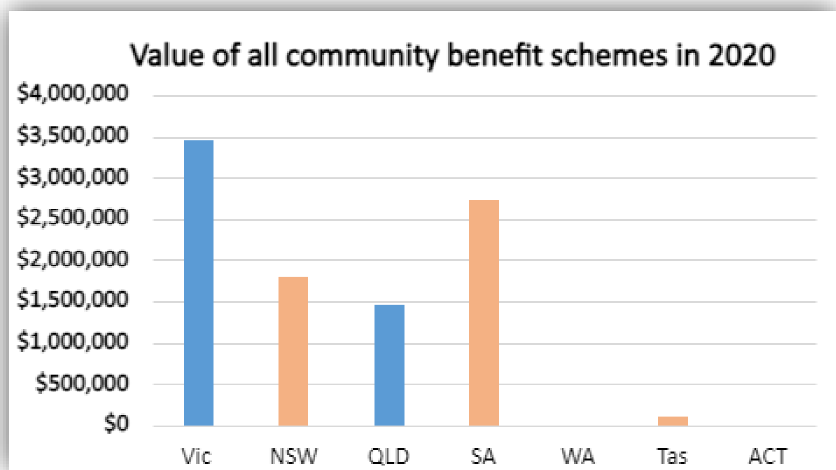
Case study – Golden Plains Wind Farm Community Energy Program

The Community Energy Program by Golden Plains Wind Farm in Victoria is offering eligible residents $1,600 off their electricity bill each year. Mark Bruty, spokesperson for Golden Plains Wind Farm said, "We are committed to making renewable energy accessible and beneficial for our local community". Golden Plains Wind Farm provides enough renewable electricity to power 750,000 homes.

To deliver the Energy Program, Golden Plains Wind Farm has teamed up with electricity retailer Energy Locals. "Energy Locals is excited to partner with Golden Plains Wind Farm and provide eligible residents with the opportunity to reduce their carbon footprint and save on their electricity bills." said Luke Melisi, Chief Commercial Officer for Energy Locals.

The Community Energy Program was developed in collaboration with the local community and is great example of what's possible when renewable energy developers and residents come together to imagine benefits.

Projects have finite resources and CEC has heard from members that mandatory contributions to a REZ Community Energy Fund would be reallocated from project-led benefit funds. Project-led benefit funds prioritise people living closest to a project, so a change in policy that results in a reallocation of funds away from those closest to a project, towards people living further from the project does have negative consequences.



It's important to note that social licence/social contract cannot be purchased and the reason benefit funds generate acceptance by communities is because of the relationship they facilitate, not because of the money they outlay. Planning and delivering benefit funds requires the developer and community representatives coming together and discussing how the community wishes to benefit from the energy transition. To deliver funds in a way that benefit communities, developers must also comprehensively research and understand community stakeholders. It is knowledge and relationships that are facilitated by the benefit fund that results in positive attitudes towards a project, not necessarily the outcome of funding. Importantly, any change that would result in less of these interactions occurring, such as diverting funds away from project-led benefit sharing, risks damaging community perceptions of the energy transition.

CEC also submits that it's critical that benefits funds are delivered by projects and proponents. Under the current proposal the Community Energy Funds are delivered by VicGrid. CEC is not convinced this model would generate positive attitudes among community stakeholders towards clean energy projects as it decouples the impact (the project) with the positive outcome (the relationship). PiLoR is a good example of why the existence of funding alone does not result in positive community attitudes if industry is removed from the delivery and governance of the funds. It's essential industry is well represented at community reference groups and that it is communicated by government stakeholders that benefits are being enabled/delivered by the renewable energy industry and by specific renewable energy projects.

It's also important to consider other costs that are impacting projects' bottom lines such as inflation, higher wages and state planning departments requiring an increasing number of assessments in the planning and assessment stage. All these expenses add up and projects do not have an endless supply of credit. An accumulation of additional expenses could result in Victoria becoming an unattractive location for investment. CEC does not want to see a death by a thousand cuts scenario evolve but project delivery numbers and feedback from our members suggests this is starting to become a possibility. CEC notes that the last wind project to reach final investment decision in Victoria did so almost 2 years ago (Nov 2022). Looking more broadly the picture is also bleak without a single wind farm reaching FID in 2023 and according to AEMO not a single new project of any technology was connected to the NEM in the first quarter of 2024. Without projects being approved, financed and constructed there will be no benefit funds, access fees or neighbour payments.

The draft plan references how the renewable energy transition will '*deliver cheaper and more reliable renewable energy to homes*'. Within this context, additional costs (whether access fees, neighbour payments or REZ Community Benefits) needs to be balanced against the overall desire to deliver cost-effective power to all Victorians.

Part 2: Practical solutions to delivering regional benefits

As more and more projects move into an area, such as future declared REZs, there are opportunities to facilitate collaboration across developers to enable the pooling of existing funds to deliver larger and transformative benefits. CEC has heard from members that collaboration and pooling of funds is desirable as when there are multiple projects in an area with only a small community *"there is only so many times you can resurface a tennis court".* However, project-led benefit funds lack the scale to deliver transformative benefits on their own. Collaborating and pooling between projects would create opportunities for innovative solutions that are desired by the community and delivered by proponents. This collaboration will become increasingly important as the transition matures and density of projects in specific areas increase. VicGrid should consider how it might facilitate collaboration between proponents of projects in close proximity, to enable those projects to deliver more transformative benefits.

If VicGrid is determined to mandate proponent contributions towards REZ Community Energy Funds, CEC submits that VicGrid should explore opportunities to lowering electricity bills for families and residents living in REZs. Jurisdictional schemes are already enabled under current National Electricity Rules so a legal framework for this type of solution exists. Proponents could contribute an agreed amount, based on per MW for each technology, into a pool of funds. Residents could then apply for a rebate from their retailer. This would achieve two things, firstly it would lower the prices of electricity for anyone living in a REZ which would generate positive attitudes towards the energy transition, and secondly, the more projects that are built in a REZ, the greater the reduction in bills would be. An additional benefit of this approach is that it could be delivered without the need for residents to change their electricity retailer. CEC submits that this is a simpler solution to VicGrid establishing and duplicating governance arrangements that are already in place through project-led schemes, such as community reference groups/committees. CEC notes that a jurisdictional scheme like the one above would require consulting with retailers and understanding how this could be delivered in the easiest way possible.

If VicGrid is determined to proceed with Community Energy Funds as proposed in the draft it would be beneficial to establish a recommended rate of total benefits that are expected of projects. Having a clearly understood rate allows developers to accurately model the economics of their projects. The recommended rate could be calculated on per MW for each technology type, starting off with wind, solar and BESS. This recommended rate would capture individual benefit sharing schemes from proponents, PiLoR contributions to local councils, neighbour payments and access fees that are funding the proposed REZ Community Energy Fund. Developing a recommended rate would require a discussion and agreement on how to slice up the funds that are available from proponents. NSW is establishing suggested rates for benefit sharing for wind and solar based on MW capacity, that also includes payments to councils so there is precedent here. Any recommended rate would need to be unique to Victoria to account for PiLoR and would need to be developed in close consultation with industry to ensure it is feasible.

Recommendation 1: In place of mandatory Community Energy Funds contributions, VicGrid should consider how it might facilitate collaboration between proponents of projects in close proximity, to enable those projects to deliver more transformative benefits.

Recommendation 2: VicGrid should explore opportunities to lowering electricity bills for families and residents living in REZs.

Recommendation 3: Noting recommendations above, if VicGrid wishes to continue with the proposal as drafted, prior to recommending access fees and contributions towards the REZ Community Energy Fund, VicGrid should consult with industry and stakeholders to develop a recommended rate of total benefits that would include project led benefit sharing schemes, PiLoR contributions to local councils, neighbour payments and the proposed REZ Community Energy Fund collected through access fees.

Recommendation 4: VicGrid should consult with industry to establish transitional arrangements to ensure viability of projects that have already committed to specific benefit-sharing structures that were modelled on existing assumptions.

Part 3: REZ Community Energy Fund Design and Governance

Noting recommendations above, if VicGrid wishes to deliver the currently proposed REZ Community Energy Fund as outlined in the draft, CEC submits the following should be considered. In October 2019, the Clean Energy Council released a report on benefit sharing options for renewable energy projects. The Guide to Benefit Sharing Options for Renewable Energy Projects provides a comprehensive study of the various community benefit sharing options available to the proponents of large-scale renewable energy projects.

CEC submits that the key principles in this guide should inform the development and decision making of the REZ Community Energy Fund. Firstly, the key principle of 'Appropriate' that states:

"benefit sharing is tailored to local circumstances, culture and needs, helping to address (not create or reinforce) patterns of conflict or inequality. It makes sense and is appropriate in the local context. The benefits are perceived as being appropriate and proportionate to the scale of the project and the level of change or disturbance experienced by local people. Given that community members living closest to the project will generally experience greater impacts, they should receive a proportionate benefit. The local community provides guidance on how benefit sharing can create a positive, lasting and meaningful impact for their local community. The developer works with the local community to develop specific benefit sharing strategies that respond to their unique local context and need"

And the following principle of 'Flexible' which states,

"Benefit sharing is an aspect of project development that will greatly benefit from being open to community involvement, influence and negotiation. Having the flexibility to respond to local context will ensure benefit sharing has the best and biggest positive impact (for locals and for the project). The lifecycle of renewable energy developments is significant (25 years or more), and much can change in a community during that period of time. It is therefore important to build in flexibility so that benefit sharing can evolve with community needs."

With the above in mind CEC considers the eligibility criteria in the draft plan too narrow. At worse this could possibly result in decisions being made about the fund that are not in line with what the community wants. While some communities may want benefits that are directly correlated to the energy transition, others may want something entirely different, like improvements to housing, health services or education. Further, many existing community benefit funds at the project level already deliver the types of outcomes mentioned in the draft plan, such as energy efficiency and energy upgrades.

Further, the draft plan indicates that input will be provided from Community Reference Groups including Regional Partnerships and other cross-government reference groups. While this is admirable, practically there is a risk additional stakeholders will dilute the community's voice. While ensuring those administering the REZ Community Energy Fund have access to cross-government insights to inform opportunities for funding is positive, it's important that the communities' wants and needs are prioritised in decisions about distribution of shared benefits.

Recommendation 5: The plan should be redrafted to ensure the distribution of the REZ Community Energy Fund prioritises the needs and wants of the community hosting projects above all other criteria.

Recommendation 6: VicGrid should ensure industry is represented at Community reference groups that oversee REZ Community Energy Funds.

Landholder Benefits Feedback

It is unclear in the draft plan if landholder benefits are payable by generation companies building transmission lines to connect their projects. CEC submits the landholder benefits as outlined in the draft proposal should only apply to transmission that is part of the grid, and not transmission that connects a generation asset to the grid.

CEC submits that landholder payments from developers already exceed those typically paid by transmission companies and secondly that generation companies do not have property access rights and therefore negotiations begin from a very different place. CEC considers government intervention in this space as unnecessary and could result in unintended consequences.

For transmission companies the suggested framework in the plan of $8,000 per kilometre payments of typical easement area per year for 25 years needs to be clarified to understand if this is to be applied to landholders already hosting existing transmission infrastructure. There is a risk that existing hosts will request to be similarly compensated.

There should be transparency as to what the compensation for Traditional Owners on crown land interests looks like. The expectation within a REZ could lead to broader implications at a state level which need to be understood and considered.

Payment of landholder benefits post-easement registration needs to be reconsidered within the framework. Landholders should be paid at the commencement of construction to incentivise participation. A better alternative is to consider an 80% / 20% split at start of construction / on registration

Recommendation 7: Landholder payments should be a 80% / 20% split at start of construction / on registration

Neighbour Benefits Feedback

CEC submits that 'transmission company' needs to be further defined and specifically whether this includes any transmission constructed to connect a generation project. CEC notes the wording in the draft plan stating that the neighbourhood payments would apply to "*all new transmission projects approved under the Victorian Transmission Plan*", but would appreciate confirmation that this does not apply to connections lines between generation projects and the main grid.

CEC submits that neighbour benefits should only apply to permanently inhabited dwellings.

Recommendation 8: Neighbour benefits should apply only to permanently inhabited dwellings.

For further information relating to this submission please contact

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