



# INNOVATIVE FINANCING AND CO-OWNERSHIP

Innovative financing is emerging internationally as a strong social acceptance pathway<sup>8</sup>, but it is yet to be widely tested in Australia. Innovative financing refers to a public offering for co-investment in a portion of a renewable energy project or it may be structured as co-ownership.

Investing in a local energy asset can operate much the same way as investing in a local bank. In addition, it creates a direct connection between the development and local investors/owners and delivers benefits in the form of financial returns. Importantly for the project, it creates a group of stakeholders who are literally invested in its success. It is also a way to act to support the move to a lower carbon economy, while making reasonable returns on an investment. Currently, there are few direct investment opportunities in renewable energy as ethical or environmental funds are yet to create investment opportunities that meet the demands of many potential investors.

Co-investment or co-ownership can:

- > empower communities to participate in the renewable energy transition
- > enhance regional economic benefits
- > create greater community wealth and community assets
- > provide a way for the community to directly invest in large-scale renewable energy
- > assist community groups and individuals to engage with other locals with common values
- > build a basis of local support and advocates for the project.

Research from the US and Germany has shown that community co-ownership increases the local economic benefits of wind energy projects by 3.5 to 8 times compared with projects that are absentee owned<sup>9</sup>.

There are currently two fully community-owned wind farms in Australia – Hepburn Wind in Victoria and Denmark Community Wind in Western Australia. The first public investment in a large-scale renewable energy project in Australia is the Sapphire Wind Farm Community Co-Investment Initiative. The project received \$7.5 million in local community pledges and officially opened for investment in 2019.

Many variations of these themes exist, and the key is to support the community to explore options that best suit them. An alternative approach to standard financing models is that a local group undertakes some of the community engagement activities and receives in-kind support in exchange for “sweat equity” (an interest earned in return for voluntary labour) provisions should the project go ahead. The sweat equity could be an exchange for a single shareholding that would deliver annual returns to enable community or environment groups to undertake local activities.

This has been used in the Denmark Community Windfarm, where a local environmental organisation was gifted 200,000 shares in return for sweat equity related to community engagement activities. The returns on these shares are contributing to a grant program run by the organisation.

The following sections explore the differences between innovative financing and ownership models. Each section outlines the method, models, partners and platforms that can assist it to become a reality.

## COMMUNITY OWNERSHIP

Community ownership is where an entirely community-owned vehicle such as a cooperative or company owns and operates a renewable energy asset. This generally applies to mid- and small-scale projects, and there are now more than 100 community-owned renewable energy projects across Australia. The largest such projects are Hepburn Wind, the Denmark Community Wind Farm and SolarShare’s Majura Community Solar Farm.

For more information, see the Victorian Government’s *A Guide to Community-Owned Renewable Energy for Victorians* (Lane, Hicks, Thompson and Memery, 2014).

## COMMUNITY CO-OWNERSHIP

Co-ownership is where a community-owned vehicle owns a portion of a renewable energy asset and plays an active role in decision-making about the project. The community vehicle may have initiated the development and own a controlling interest in the project (i.e. more than 50 per cent) or it may have a smaller role. Typically, the community vehicle carries risk and responsibilities for the life of the project and is responsible for the aspects of development that capitalise on the community vehicle’s strengths, such as delivering community engagement, relationship building and communications.

Community co-ownership occurs most commonly with joint venture projects with a community and developer (community-developer partnerships). This is where the community or a renewable energy developer initiates a renewable energy project and both parties agree to deliver it in partnership. This structure is used typically for large-scale renewable energy projects where a community investment vehicle is part owner, along with the renewable energy developer and possibly other entities. The community vehicle often leads community engagement and consultation activities, while the developer leads the technical studies. In many cases, the developer owns a majority of shares and holds most of the decision-making power.

Infigen's Flyers Creek Wind Farm and the Macedon Ranges Renewable Energy are two examples of this model. The Macedon Ranges Sustainability Group's renewable energy plans have been in development for almost a decade. With recent changes in planning to allow the group to progress the project, it has partnered with Windlab. The parties intend to jointly develop, build, own and operate a community energy park in a pine plantation near Woodend in Victoria.

## CASE STUDY

### COMMUNITY-DEVELOPER PARTNERSHIP TO DELIVER A WIND FARM

#### FLYERS CREEK WIND FARM, NEW SOUTH WALES, CENTRAL NSW RENEWABLE ENERGY COOPERATIVE AND INFIGEN

The Central NSW Renewable Energy Co-operative (CENREC) was created to facilitate the community purchase of the equivalent of one turbine in the proposed 38-turbine Flyers Creek Wind Farm, which will be located between Orange and Blayney in NSW. Using a community-developer partnership model, the cooperative has played an important role in community engagement and education around the project.

The expectation is that CENREC will raise the funds for investment in a share offer in the cooperative, which will be run independently of Infigen. CENREC will then invest directly with Infigen, which will pay CENREC a return for its distribution to members/use as per their cooperative purpose. While the maximum value of the total community investment or the finer details of the governance and structure have not yet been finalised, it's expected that CENREC will run as a cooperative and will have an interest in the Flyers Creek Wind Farm and any other projects they may be interested in. A representative from Infigen currently sits on the CENREC board.

Once constructed, the wind farm will provide a direct injection of approximately \$1 million per annum to the local community through payments to landholders, permanent staff and community fund contributions, in addition to returns paid to cooperative investors. The community benefit fund element involves contributions of \$107,000 per annum (plus CPI) to Blayney Shire Council.

## COMMUNITY CO-INVESTMENT

Community co-investment is where a community investment vehicle invests in a renewable energy asset and in return acquires rights to a portion of the earnings of the renewable energy project but has no decision-making power or control over the operation of the project. The investment could be in the form of debt, royalty rights or equity.

Community co-investment can be facilitated in two main ways: via a purpose-built community investment vehicle or a third-party investment platform. The community investment vehicle could be a company, cooperative, association or trust. Third-party investment platforms include management investment funds and crowdsourcing platforms. The returns on community investment are linked to the performance of the project as a whole and may be variable or fixed. While the investment and its return are not associated with individual turbines or panels, there may be a symbolic connection developed to a certain turbine or part of the solar panel array through the community engagement aspect of the co-investment.

Co-investment is a common method for medium- and large-scale renewables globally. For example, in Denmark, it is legislated that every wind project must offer up 20 per cent for local community investment. This is an emerging model in Australia, with Sapphire Wind Farm in New South Wales being the first commercial project to open up to public investment. Co-investment in local renewable energy assets is a method to further enhance regional economic benefits. It can create greater community wealth via a community stake in the asset and a deeper sense of connection to renewable energy developments.

Building on the model developed by CWP Renewables for the Sapphire Wind Farm, several other developers are actively exploring this model, including OSMI's proposed Delburn Wind Farm in the Latrobe Valley and WestWind's Golden Plains Wind Farm. As part of WestWind's commitment to sharing financial benefits with the community, a program is being initiated to allow host landholders and those living within approximately 10 km of the wind farm to invest in the project.

<sup>8</sup> Hicks, J., Lane, T., Wood, E. and Hall, N. (2018). *Enhancing Positive Social Outcomes from Wind Farm Development: Evaluating community engagement and benefit-sharing in Australia*. Clean Energy Council, Melbourne.  
WISE Power Consortium. (2015). *Report of Innovative Financing Models for Wind Projects, Expected to be supportive of Social Acceptance* (No. D3.3 p. 47). [http://wisepower-project.eu/wp-content/uploads/20150401\\_WISEPower\\_Deliverable\\_3-3\\_Final1.pdf](http://wisepower-project.eu/wp-content/uploads/20150401_WISEPower_Deliverable_3-3_Final1.pdf)

<sup>9</sup> Lantz, E and Tegen, S. (2009). *Economic Development Impacts of Community Wind Projects. A Review and Empirical Evaluation*. Conference paper. National Renewable Energy Laboratory.  
Gottschalk, M., Hoppenbrock, C., Kucharczak, L., Schäfer, S. and Wetzels, H. (2016). *Regionale Wertschöpfung in der Windindustrie am Beispiel Nordhessen*. Kassel.

## GOVERNANCE AND REGULATORY CONSIDERATIONS

Pursuing a community co-investment and co-ownership model requires the establishment of a legal vehicle to facilitate and govern the community involvement. In particular, it is necessary to choose a legal model that allows a significant number of owner/investors. Private companies are limited to 20 investors signing up within 12 months, a total investment of \$2 million and a maximum of 50 investors overall. As such, private companies are unlikely to be attractive for community co-investment or co-ownership in medium- and large-scale projects. In order to raise community capital without running into limitations around the number of shareholders or the amount of money invested, there are several legal models and model variations currently available in Australia:

- public company
- cooperative
- trust
- sub-trust in a managed investment fund
- proprietary limited company working with an accredited crowdfunding-approved intermediary.

In the context of the proposed project, it is important to consider and seek legal advice on:

- how any new structures set up for the community investment would interact with the existing asset and financing structure
- ongoing administrative and governance requirements
- requirements regarding capital raising and disclosure documents
- whether these structures can be used in conjunction with one another.

The legal models available for community investment vehicles in Australia are listed in the following table, along with the key features of each.

Some of the key questions to consider when developing a model are:

- Is it a co-ownership model or co-investment model?
- Is it better structured as an equity or debt instrument?
- Will there be a role for community members in governance and decision making?
- Will it be an investment on the same terms as other investors (i.e. fluctuating with performance) or will it have a floor and cap or a fixed rate of return?
- Will there need to be limits on who can be a member (e.g. geographic requirements)?
- How large a stake is the community able to invest or own?
- How will the community investment be structured in regard to other financiers?
- How will risks be managed for the various parties?
- Is the investment risk appropriate for the type of investor?
- What are the regulatory risks and who is taking them?
- Are there any relevant tax implications?



Landowners at the Sapphire Wind Farm. Photo credit - CWP Renewables

**Table 2:** A summary of the features of different legal models.

		<b>TYPE OF LEGAL MODEL</b>					
<b>FEATURES OF THE LEGAL MODEL</b>		Proprietary (private) company	Proprietary company with crowdfunding intermediary	Trust (unit)	Sub-trust of managed investment fund	Public company	Cooperative
Separate legal entity that can act as a community investment vehicle	✓	✓	✗ <small>(is a form of legal agreement, not a legal entity in its own right)</small>	✗	✓	✓	
Facilities limited liability of members/unitholders	✓	✓	✓	✓	✓	✓	
Ability to have membership requirements (who can/cannot be a member)	✓	✓	✓	✓	✓	✓	
Ongoing level and cost of administrative responsibility for community investors	Medium	Medium	Medium	N/A	High	Medium	
Ability to raise capital by issuing shares (or equivalent)	✓ <small>(subject to certain exemptions)</small>	✓ <small>(subject to new equity crowdfunding legislation)</small>	✓	✓	✓	✓	
Ability to pay dividends /distributions	✓	✓	✓	✓	✓	✓	
Limitations on the number of investors	✓	✗	✗	✗	✗	✗	
Limitations on the amount that can be raised through investment	✓	✓	✗	✗	✗	✗	

## PLATFORMS

There are several platforms that are already active in, or keen to facilitate, community investment participation with renewables that can simplify the process. Developers are required to work with platforms to roll out co-investment models if they wish to access some regulatory exemptions (e.g. to enable crowdfunding or to avoid needing an Australian Financial Services Licence). The following is a selection of the platforms available, and it is expected that they will expand over time.

### DomaCom

DomaCom Australia Limited is the manager of the DomaCom Fund, which is the first fractional online investment platform available to retail investors in Australia. It was developed to fractionalise large assets into affordable investment amounts that are accessible to retail (mum and dad) investors and provide them with exposure to assets that are otherwise generally not available to them (and often only available to institutional investors). The DomaCom Fund is a registered managed investment scheme under the Corporations Act and the Australian Securities Investment Commission. DomaCom Australia Limited holds an Australian Financial Services Licence, which allows investors to invest under its general advice licence and means that DomaCom can also offer a liquidity facility. The DomaCom Fund has its own professional trustee (Melbourne Securities Corporation Limited) and custodian (Perpetual Corporate Trust Limited).

CWP Renewable partnered with DomaCom for the Sapphire Wind Farm Community Co-investment, which was the first time the platform had gone beyond property and into renewable energy. Domacom can fractionalise equity and debt instruments related to renewable energy projects. The clear benefit of the platform is that it provides strong due diligence and removes the need for a community investment vehicle, thereby eliminating the requirement for a long-term community administration and governance role.

See [domacom.com.au](http://domacom.com.au)

### Birchal

Birchal is an Australian equity-based crowdfunding platform. Brands and companies profile their business on Birchal to engage with new and potential stakeholders. Birchal was one of the first licensed platforms to allow everyday Australians to buy shares directly in private and unlisted public companies under the new Australian Equity Crowdfunding Legislation. This legislation has certain caps, such as a limit of \$5 million raised per annum and a cap on the total project value of \$25 million. Therefore, it is best suited to mid-scale renewables projects or to partial investment in larger renewable energy projects.

See [birchal.com](http://birchal.com)

### Future Renewables Fund

The Future Renewables Fund by superannuation provider Future Super is another recent innovative platform. The fund directs funding to new solar farms through both equity and debt financing. It is supported by the Array App, which focuses on targeting a broader, younger investor base into Australian renewables. The target return of the fund is 5.2 per cent per annum after fees and expenses and including distributions. The fund is also partnering with Impact Investment Group to deliver new solar farm developments.

See [www.futurerenewablesfund.com.au](http://www.futurerenewablesfund.com.au)





# COMMUNITY CO-INVESTMENT IN A WIND FARM

## SAPPHIRE WIND FARM, NEW SOUTH WALES, CWP RENEWABLES

The Sapphire Wind Farm located in northern New South Wales is owned by Grassroots Renewable Energy Trust (Grassroots Trust), which is a joint venture between CWP Renewables and Partners Group. The Grassroots Trust wants to share the financial benefits of its projects with its local communities, and therefore pioneered a community co-investment approach at the Sapphire Wind Farm that it will extend across its project portfolio. The Sapphire project was the first commercial large-scale wind farm in Australia to be opened up for public community investment.

The investment model was co-developed with the local community through a testing process that addressed details such as governance structure, investment length and rate of return. It was implemented through an innovative partnership with DomaCom Australia, an online fractional investment platform that is scalable and cost effective.

### PROCESS

The community co-investment initiative undertook extensive consultation using a multi-stage process.

#### Step 1: Introducing the concept

In 2017, public events were held in Inverell and Glen Innes with over 300 attendees at which Danish community renewables expert Søren Hermansen discussed the European experience with renewable energy community investment.

#### Step 2: Design and road test the process

The project team worked with local stakeholders to design and road test the survey and promotional plan. Three focus groups with 40 attendees were held that included residents, banks, representatives from sustainability groups, government agencies, local universities, the Community Consultative Committee, landowners, self-managed superannuation fund account managers and the site project team.

#### Step 3: The discovery phase

Eight 'discovery sessions' were held with 130 participants at six locations: Inverell, Tamworth, Armidale, Moree, Wellingrove and Glen Innes. Promotions was done through a social media campaign, a letterbox drop for neighbours, local newspapers, events and partner networks. This was coupled with an online survey that was open for two months and asked community members for investment 'pledges'. Around 500 people responded to the survey. In parallel to the public-facing consultation, there was considerable in-house work to understand and reach agreement about community investment within CWP Renewables and Partners Group. This was important given the pioneering nature of this approach – all stages had to receive approval from the Sapphire Wind Farm Board prior to the community investment testing.

#### Step 4: Assess and decide

The community survey findings were assessed and a decision was made to proceed. The decision was communicated to the local community via email and media in 2018. Key changes were made to the proposed model to incorporate community feedback from the survey.

#### Step 5: Development

The model deployed was co-developed from this feedback and an innovative partnership was established with DomaCom Australia, an online fractional investment platform. This partnership removes the administration and governance responsibility for community investors and is easily replicable across the industry.

#### Step 6: Implement

The investment offer was formally opened from February 2019 to June 2019. The opportunity was formalised legally and marketed to the community via Sapphire Wind Farm and the DomaCom websites, email lists and social media. Roadshows occurred across the region to market the offer and to enable community investors to have support in the investment application process.

## FIRST LARGE-SCALE PROJECT IN AUSTRALIA TO BE OPENED FOR PUBLIC COMMUNITY INVESTMENT

### CO-DEVELOPMENT

The co-investment model was tailored to local community needs through focus groups and the survey. The key changes made by CWP Renewables from the proposed model were:

- a 10-year term instead of a seven-year term
- minimum investment \$1250 instead of \$5000
- fixed rate of return rather than variable
- remove the need for a purpose-built community investment vehicle and the ongoing community role in administration and governance that this would require due to low interest in this component.

### KEY TERMS

- Minimum investment of \$1250 per investor account and maximum of \$200,000.
- Six per cent unfranked return paid quarterly.
- \$1 per unit.
- Length of term is 10 years, with capital return payment at last payment cycle.
- Total fund cap of \$10,000,000.
- Investors from NSW and ACT were able to participate, including individuals, businesses, family trusts and self-managed super funds.
- The DomaCom partnership removed the administration and governance obligation for the community. Instead, the structure is a sub-trust fund managed completely by DomaCom.
- Community investors can apply to be on the Community Advisory Panel and act as a conduit for wind farm tours, unit sales and ongoing communication between the co-investment community, Grassroots Trust staff and DomaCom.
- The co-investment functions as an unsecured loan to Grassroots Trust and is ranked below other secured creditors, but before equity shareholders.
- No hidden fees. DomaCom's fees are paid by CWP Renewables and Partners Group so there are no charges to investors. This includes the investment offer campaign, due diligence and ongoing platform costs to manage the investment of 0.44 per cent of total funds per annum.

### KEY RISKS

Several risks were relevant to a community co-investment, including:

- Minimum level of community investment not reached, which is related to value for effort. If there was insufficient investor interest, the co-investment may not proceed.
- No guarantee of returns for community investors. Like other investors, community investors are also at risk of losing some or all of their capital.
- Liquidity risk. An investor cannot withdraw from the sub-fund until the sub-fund is terminated. DomaCom does offer a facility through which investors can seek to sell their units to another party and will promote available units to existing shareholders and via the Sapphire Wind Farm e-newsletter list. However, there is no guarantee of another investor purchasing the units being offered for sale.
- Financial risk and inability to service the loan and pay out the loan on maturity. There is a risk that the Grassroots Trust and its partners may find themselves in financial difficulty and not be able to meet their commitments with regard to the terms of the unsecured loan. This was deemed to be a very small risk given that a significant amount of the Sapphire Wind Farm's output has been sold under long-term contracts to the ACT Government, Sydney Airport, the Commonwealth Bank and others.
- Damage or loss to the wind farm.

Each of these risks and the associated mitigation strategies were clearly outlined in the Supplementary Product Disclosure Statement.

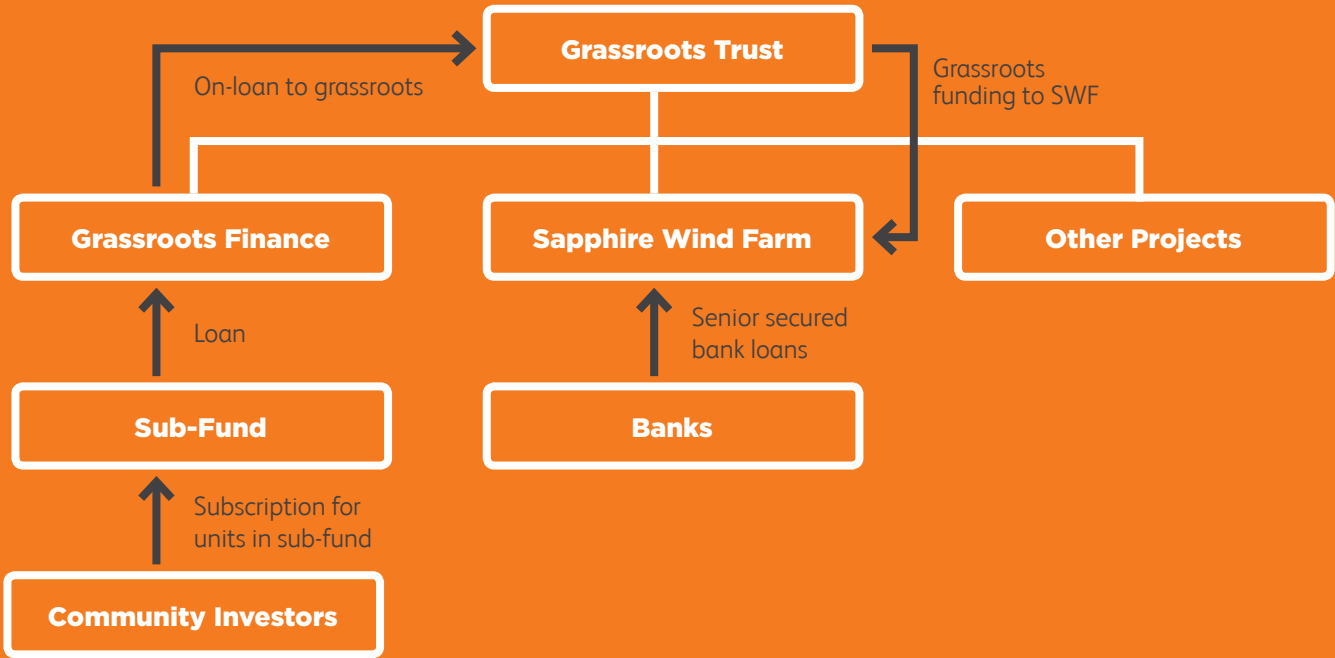
### HOW IT WORKS

For CWP Renewables, the preferred approach was using a subordinated debt instrument. Investors in the Sapphire Wind Farm Community Co-Investment Fund were not directly exposed to the operational performance of the wind farm. The underlying asset is a loan agreement between Grassroots Renewable Energy Finance Pty Ltd and the trustee and custodian of the DomaCom Fund.

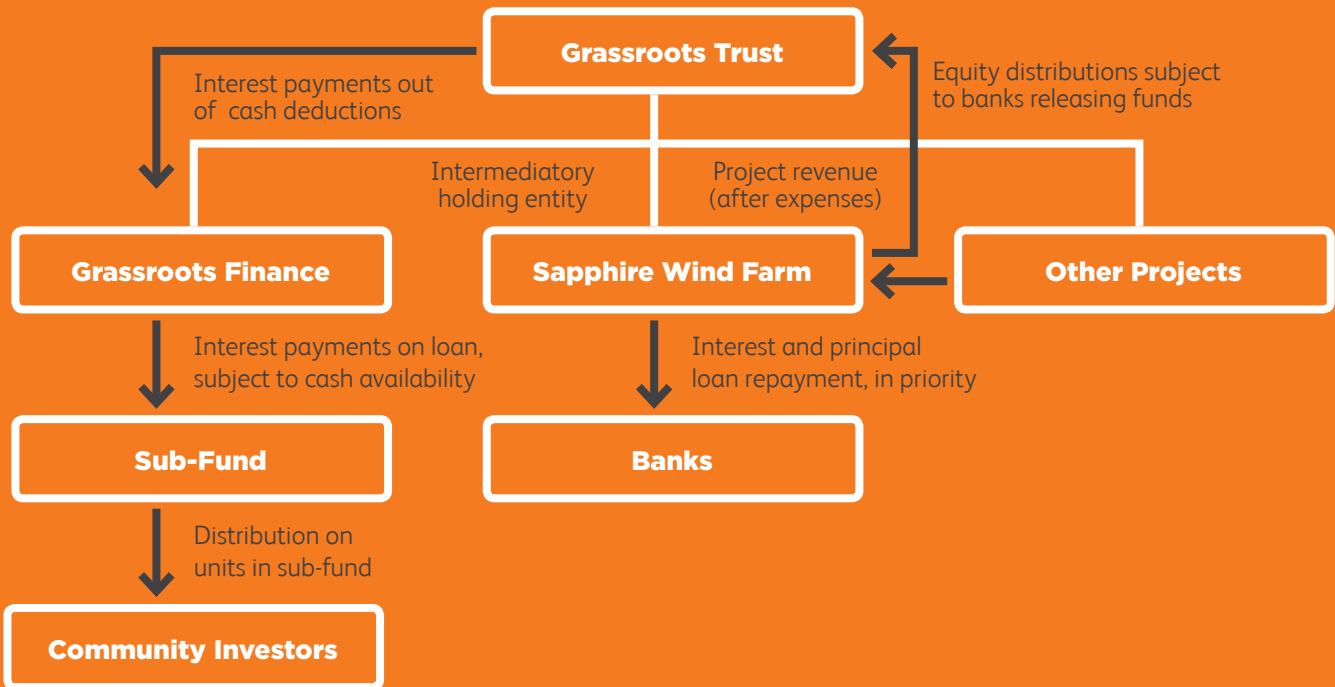


# COMMUNITY CO-INVESTMENT IN A WIND FARM (CONT.)

**Figure 1:** Structure of the community co-investment and how the money flows through to investors and identifies senior bank debt (\$330 million) that has contributed to the funding (approximately \$580 million) of the Sapphire Wind Farm.



**Figure 2:** Project cash flow.



## SAPPHIRE WIND FARM

### KEY AGREEMENTS AND DOCUMENTATION

- Community Investment Testing Report
- Sapphire Wind Farm Community Co-Investment Fund Supplementary Product Disclosure Statement
- Product Disclosure Statement of DomaCom Fund
- Loan Agreement
- Limited Scope Due Diligence report.

### KEY LEARNINGS

#### Timing

- The pioneering nature of the model meant that there were delays and multiple stages to the process. As a result, the level of community interest lost some momentum as the proposal progressed. With the benefit of experience, the process will be more efficient in future projects.
- Timing of the investment offer. Offering the community co-investment after construction completion reduces risks to community investors, but there is also a need to align with local community engagement resourcing, which can often stop following construction.

#### Determining the community of benefit

- Due to the strong feedback from participants in the survey, the opportunity was first made available to the community surrounding the Sapphire Wind Farm, with priority given to investors in the following order:
  1. landowners hosting Sapphire Wind Farm wind turbines and neighbours located within approximately 5 km of the wind farm
  2. residents of the Inverell Shire and Glen Innes Severn Council areas, on a first-come first-served basis
  3. all other residents of the Federal Division of New England, which includes the local government areas of Armidale Regional Council, Glen Innes Severn, Inverell Shire, Tenterfield Shire and Walcha Shire. Although outside of the Federal Division of New England, the Gwydir Shire Council local government area was also included as residents may identify as local to the wind farm region.
- Since the initial investment offer was undersubscribed, the Grassroots Trust made the decision to open up the investment offer to all residents of NSW and the ACT.

### Consider the conversion rates

- Determine the minimum community investment level required for the co-investment to be viable. Conversion rates (shares sold) are always less than the pledge amounts.
- Consider other external factors. For example, the drought in the New England significantly impacted conversion rates due to economic uncertainties and personal cash flow constraints

### SUCCESS OF THE APPROACH

The community co-investment initiative outcomes included:

- the first Australian public community investment into a commercial large-scale wind farm – delivering high engagement and a sense of ownership for the local community
- tested the local desire to invest and had strong local partnerships with community energy and sustainability groups to deliver it
- received \$7.4 million of pledges from 500 people, 74 per cent of whom lived locally to the Sapphire Wind Farm
- pioneered a new and highly replicable model with the DomaCom fractional investment platform, which reduces risk for community investors and developers
- received approximately \$1.8 million of community investment from almost 100 investors into the Sapphire Wind Farm
- created a community co-investment structure and approach that can be easily replicated to other projects and scaled in size.