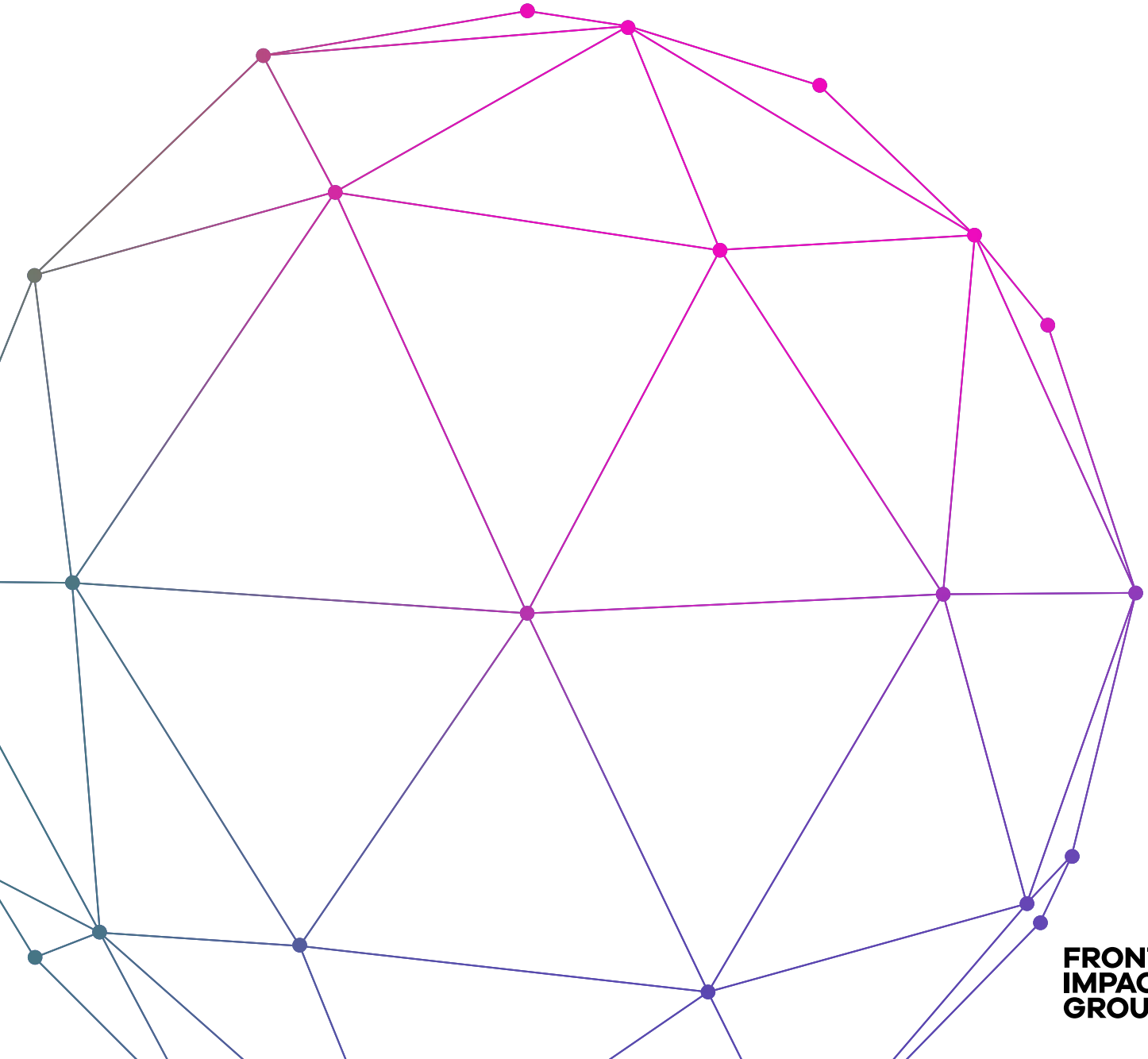
Funding Basics Guidebook
for Community Energy Projects



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Advice to users of the guide

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Foreword

SECTION A

SECTION B

Thank you to the following entities that were interviewed and/or provided insight into the guidebook.

Project Steering Committee

Financial Stakeholders

CF Project Developers

- City of Greater Bendigo
- Clear Sky Solar
- CORENA
- Demark Community Wind
- Farming the Sun
- Geelong Sustainability Group
- Hepburn Wind
- Lismore Community Solar
- Mitchell Environmental Group (BEAM)
- Moreland Energy Foundation
- Mount Alexander Sustainability Group
- Pingala
- Repower Shoalhaven
- Solar Share
- Sydney Renewables
- The People's Solar
- Yarra Community Solar
- Yarra Energy Foundation

FOREWORD

On behalf of Frontier Impact Group and our project partner, Coalition For Community Energy (C4CE) and the Funding Toolkit Steering Committee I would like to offer my sincere gratitude to, and appreciation for, all the stakeholders who have been involved in the development of this toolkit. Their generosity, time and knowledge have contributed to the development of a set of tools which will facilitate the uptake of community energy (CE) projects across Australia.

I would like to specifically acknowledge the support of the following key entities:

ARENA - for their continued efforts of inspiring renewable energy adoption across the country and their advice, support and guidance has been invaluable. Taryn Lane from Embark and Nicki Ison and Tom Nockolds from Community Power Agency together representing the Coalition for Community Energy (C4CE). Their insight and experience in community stakeholder engagement, and the development of new community investment models, has been critical in understanding the key issues around financial literacy and what was required to enable more communities to successfully fund CE projects.

Project steering committee members – the NSW Department of Environment and Heritage and the Clean Energy Finance Corporation – for their insight and guidance through the development of this toolkit.

A big thank you to:

- *Mal Campbell who is co-author of this toolkit*
- *Dan, Alison and Phoebe from the Frontier Impact Group team who have contributed*
- *The teams at Baker and McKenzie and Norton Rose who have undertaken reviews for us*
- *Latitude Group for their amazing work on the design of the toolkit.*

The ability to develop CE projects can require a lot of patience as in the past they have taken years to establish. However as new operating models for CE projects evolve and toolkits such as this are produced it is hoped that projects can be developed more efficiently. I am forever amazed by the passion and enthusiasm in the community, and their tireless efforts to create a clean energy future for us all, and am delighted to have had the opportunity to develop this toolkit.

On behalf of the project team I hope you find this toolkit useful in enabling the funding for your community energy projects.

Yours sincerely,

Jennifer Lauber Patterson
Managing Director
Frontier Impact Group

Hepburn Wind launch festivities
Photo courtesy of Embark

Hepburn Wind turbines
Photo courtesy of Hepburn Wind

INTRODUCTION

Community Energy (CE) projects are starting to gain momentum in Australia. The stakeholder engagement to develop this toolkit revealed that one of the areas that can improve the take up of CE projects is for CE project developers to understand the options for funding their CE project and the necessary steps for achieving successful funding.

The term 'funding' in the context of the toolkit relates to the raising of both equity investment and debt finance as well as donations, in-kind contributions and grants to the point of successful final funding prior to construction and commissioning.

This Funding Basics Guidebook aims to improve financial literacy and provide guidance for CE project developers to improve their chances of successfully funding projects.

Through each of the project development phases the guidebook provides the following:

- An overview of key funding options available
- The potential merits, limitations and drawbacks associated with these options
- The role of grants, donations and in-kind (volunteer) support
- Tips for gaining successful funding outcomes.

FUNDING TOOLKIT FRAMEWORK

The Funding Toolkit is designed to assist CE project developers to work through many of the financial hurdles required to get their project to final funding and ready for construction.

Hepburn Wind turbine
Photo courtesy of Embark

2.1 Defining Community Energy Projects

Community Energy (CE) is where a community comes together to develop, deliver and benefit from a clean energy project.

CE projects are considered to be ones that involve the community undertaking a number of the following activities:

- Initiating
- Developing
- Operating
- Owning and/or
- Benefiting from a renewable energy project.

Any of the first four of these items is sufficient for the project to be considered within the scope of the toolkit.

2.2 Project Development

The Funding Toolkit considers four stages of project development when factoring in the funding requirements for CE project development as described below.

The **concept phase** describes where a CE project idea has been conceived and various options for the development of the project have been discussed at a high (conceptual) level.

The **prefeasibility phase** evaluates key project elements in more detail and includes an initial financial model and scope. The various project-based guidebooks associated with the Funding Toolkit incorporate financial templates that are supplied in order to assist with the financial modelling process.

The **feasibility phase** incorporates confirming in more detail all of the project element options including establishing more certainty around project costs and revenues. Once these are firmed up, project proponents will be in a position to then validate outcomes of the initial modelling undertaken during prefeasibility and develop a more detailed level of modelling required in order to achieve final funding.

Final funding refers to the phase where all project elements have been developed in full detail including firm construction costs, confirmed revenue streams established, all contracts have been agreed and the project is ready to be funded. Once final funding is achieved, a project should be able to move into construction.

FUNDING TOOLKIT STRUCTURE

The overall Funding Toolkit is set up on a modular basis and is comprised of a series of guidebooks. The core Funding Basics Guidebook supports project-based guidebooks with the first project module being for Behind the Meter Solar PV Projects. This structure has been adopted to allow for future expansion of the Funding Toolkit that may include Grid Connected Solar PV, Solar PV Storage, Bioenergy and Wind projects.

Behind the Meter CE Projects are connected to the internal electricity installation of the host site (e.g., a commercial building or factory) and the electricity is used at the host site first with only any excess power exported to the grid.

As part of the Behind the Meter and other project-based guidebooks, financial templates are provided to assess the financial viability of the project and provide investors and financiers with information to allow them to assess the projects.

Detailed guidance is provided within these guidebooks on how to:

- Complete the financial templates
- Address key elements at each stage of development to increase the likelihood of successfully funding a project.

See the disclaimer in relation to use of the financial templates.

The case studies included in these guidebooks provide real operating examples of how projects raise funds and demonstrate application of the toolkit guidebooks.

FUNDING BASICS GUIDEBOOK STRUCTURE

This guidebook is structured to assist CE project developers understand the basics of CE project funding and discusses a broad range of funding types. It includes references to a number of operating CE project examples to demonstrate the relevance and application of the particular concepts. The general layout is depicted to the right:

The various CE projects that are referred to within this guidebook are summarised in Appendix A.

Toolkit and Guidebook Overview

Types and Sources of Funding	CE Project Examples
Funding Applicability to CE Projects	
Business Structures/ Operating Models	
How to Access Funding	

TYPES OF FUNDING

The adjacent diagram depicts key funding types. Debt and equity are the traditional forms of raising funds and in the CE sector donations and in-kind contributions are common and often important. Grants can also play a role but are not easy to secure and should not be relied upon. CE projects should seek to rely as much as possible on sustainable commercial funding types as grants are not always available.

Solar panels being installed at Beechworth Montessori School, VIC
Photo courtesy of CORENA

CE projects should seek to rely as much as possible on sustainable commercial funding types as grants are not always available.

SOURCES OF FUNDING

The table over lists various sources of the funding types referred to above. Currently investors from the community sector are becoming the most active source of funds for CE projects and are providing both debt and equity products to facilitate project development and completion.

Types and sources of funding are described in more detail in later sections of this guidebook.

Where traditional sources of funding from equity and debt (such as financial institutions and institutional funds) are not available or are too expensive, CE projects may access community investor funding as an alternative source of project funding. Community investors may fall under any of the wholesale investor, retail investor or angel investor source categories that are set out under the Equity categories in the adjacent Types of Funding diagram.

In some cases community investor equity funding is being re-packaged into the form of traditional debt funding products. For example, Pingala has developed a leasing model, and Embark has developed a loan-based model, where community investor equity is used to support loan or lease offerings. Further detail on the Pingala model can be found in a case study provided in the Behind the Meter Solar PV Guidebook.

Solar panels at Llsmore Workers Club
Photo courtesy of Farming the Sun

TYPES OF FUNDING

Equity

- Retail Investors
- Wholesale Investors
- Institutional - Funds/Banks
  - -Social Impact Funds
- Sweat Equity
- Angel Investors

Debt

- Retail Investors
- Wholesale Investors
- Institutional - Funds/Banks
- Angel Investors
- Corporate Balance Sheets
- Equipment Lease Companies

Grants

- Federal
- State
- Local Government
- Philanthropic Bodies

Donations

- Businesses
- Community Members
- High Net Worth Individuals
- Philanthropic Bodies

In-kind

- Businesses
- Community Members
- Philanthropic Bodies

Community investors may fall under any of the wholesale investor, retail investor or angel investor source categories

Hepburn Wind turbines
Photo courtesy of Hepburn Wind

Hepburn Wind utilised a loan guarantee because the project was initially unable to achieve debt funding as it did not have a guaranteed long term revenue stream (via a Power Purchase Agreement). Just prior to construction, Hepburn Wind entered into an agreement with Embark Australia, whereby Embark agreed to provide up to $1,000,000 in unsecured funds (unsecured by Hepburn Wind) which enabled Hepburn Wind to achieve its debt financing with the bank.

COMMON FUNDING TOOLS USED BY COMMUNITY GROUPS

Community groups have used the following tools to assist in fundraising associated with the various types and sources of debt and equity.

7.1 Crowdfunding

Crowdfunding is a mechanism that can be used to raise money to finance a project or venture. While internationally crowdfunding has been used for raising funds from the community by offering part ownership, otherwise known as equity, as a result of regulation the use of crowdfunding in Australia has generally been limited to seeking donations. At present, the Corporations Act 2001 (Cth) (Corporations Act) restricts the use of crowdfunding for equity capital raising in Australia. However, the Corporations Amendment (Crowd-sourced Funding) Bill 2015 may soon open up crowdfunding as a source of equity funding in the future. The Bill was passed by the House of Representatives on 10 February 2016 and was introduced into the Senate on 22 February 2016 but lapsed with the dissolution of the Parliament in May 2016.

7.2 Loan Guarantee and Credit Enhancement

The provision of a loan guarantee (sometimes referred to as credit enhancement) is becoming common for mid- to large-scale CE projects. This takes the form of a third party guaranteeing payment in the case a CE project is unable to meet its debt repayment obligations. It is not a mechanism for collecting funds but rather acts as a form of credit support that assists in facilitating debt funding. It is applicable in cases where debt funding would have been more expensive (i.e., subject to higher interest rates) or unobtainable due to the project not meeting the financial institutions' lending requirements.

CE project proponents may be responsible for the legal fees incurred in establishing the loan guarantee agreement as well as a line fee representing a percentage (for example 1% per annum) of the value of the guarantee for the provision of the loan guarantee.

7.3 Underwriting

The underwriting of equity is provided to guarantee a source of equity funding if the general share offering is not filled. Repower Shoalhaven has utilised underwriting in its more recent projects and this is described further in the case studies in the Behind the Meter Solar PV Guidebook.

7.4 Resource Links

For further information on crowdfunding refer to the Wiki article in the resources section:
frontierimpact.com.au/external-resources

EQUITY

Equity is the offer of an ownership interest in a CE project (through the issue or transfer of shares) to raise funds to develop the project.

An offer of equity in a company is generally referred to as capital raising and in Australia the Corporations Act 2001 sets out a number of requirements which a company must adhere to in order to raise capital through the issue of equity.

Certain offers may not need to comply with the Corporations Act disclosure requirements because they satisfy an exemption which is available. A key exemption relates to offers made to wholesale investors, although other exemptions may be available (including the 20/12 exemption described further below).

Wholesale investors fall into either professional or sophisticated investor categories. To be classified as a sophisticated investor the investor must either (a) have net assets of at least $2.5 million or gross income for each of the last two financial years of at least $250,000 (as appears on a certificate given by a qualified accountant which is no more than six months old); or (b) must pay a minimum subscription amount of $500,000 for the securities being offered. To be classified as a professional investor, the investor must either be a financial services licensee or have or control gross assets of at least $10 million.

Retail investors are those that do not meet the requirements of wholesale investors. Most community investors would generally be classified as retail investors although some may meet the requirements to be a sophisticated investor.

In the CE sector the term community investor is often used and refers generically to any investor (retail or wholesale) who is a member of the community developing a CE project and seeking to invest in the project.

Most of the operating CE projects in Australia are largely or fully owned by community investors who typically have the following characteristics:

- Modest return expectations
- Generally modest sums to invest — notwithstanding self-managed superannuation funds
- Low appetite for risk
- Low appetite for capital loss
- High levels of patience
- A desire to make a positive impact to society and the environment
- A strong requirement for communication

Other equity source classifications include angel investors and sweat equity providers. A description of potential sources of equity and their applicability at key stages of the project life cycle is provided on the following page:

Source of Equity	Development Phase Applicability	
	Concept to Feasibility	**Final Funding**
Wholesale Investors Professional or sophisticated investors that may be high net worth individuals and could invest $500,000 or more per transaction. These may be individuals from the community or angel investors. For CE projects these generally come from local members of the community	Yes	Yes
Retail Investors Investors that do not meet the threshold test as a wholesale investor. For CE projects these generally come from local members of the community sector	Yes	Yes
Institutional Investors (superannuation funds, financial institutions, credit unions that have significant sources of funds available) Currently there has not been much involvement from the institutional investor sector in CE projects as their funding thresholds are usually higher than the project sizes. This may possibly change in the future through consolidating projects so that the asset base is higher. This sector is unlikely to emerge as a leading source of equity funds for CE projects in the near future	N/A	Maybe
Social Impact Investors (Funds) Specialist funds whose managers have a mandate of investing in socially responsible projects. At times these funds may accept a lower forecast rate of return for projects as the fund investors are willing to trade off potential return for investing in sustainable solutions	Maybe	Yes
Angel Investors Angel investors (also referred to as seed investors) normally provide funding during the earlier development stages where there is less certainty on project success. To compensate for the early investment risk, angel investors will typically be offered a higher return than those investing at a later stage in the project (i.e. a greater share of the project per unit of investment). However, if they are community based angel investors then the return expectations may not be as high. Angel investors may come from any of the above mentioned investor sources.	Yes	No
Sweat Equity Paying for labour by giving equity in the project instead of cash. In many cases volunteer labour is required in the early project development phases (concept/prefeasibility/feasibility). If volunteers who are engaged do not have the skills to carry out certain tasks then sweat equity funding can provide professional services such as legal, accounting, project management and capital raising without having to be paid in cash but instead with shares in the project.	Yes	Yes

Solar panels at Beechworth Montessori School, VIC
Photo courtesy of CORENA

A commonly used term is institutional investor which is an entity and not an individual and will include managed funds, insurance companies and investment banks. One type of institutional investor is called ‘Social Impact Funds’ which have the objective to invest in projects with positive social outcomes.

8.1 CE Project Equity Examples

Listed below are some examples of the application of equity to CE Projects:

Source of Equity	CE Project Examples
Retail (Community) Investors	Hepburn Wind is a co-operative that issued a prospectus which resulted in over 2,000 investors raising $9.9 million in capital. Locals could invest with a minimum of 100 shares ($110) and non-locals for 1,000 shares ($1,100). The average investment was around $5,000 and there were a number of sophisticated investors with holdings of between $20,000 and $500,000 Repower Shoalhaven set up their projects to comply with the Corporations Act small scale offerings exemption, which limits the number of investors to 20 in any 12 month period (with a capped aggregate raising of $2 million). They raised $120,000 capital from community investors for the Repower One project. Repower Shoalhaven stated "Community interest to invest in CE projects has exceeded our expectations"
Wholesale Investors	Hepburn Wind had two wholesale investors that invested more than $500,000 each in the co-operative. Both investments were made early in the share offering process, resulting in a reduced perception of risk by community investors. These investors were subject to the same conditions and returns as the balance of shareholders.
Social Impact Investors	While there are no current CE examples, investment funds such as Social Enterprise Finance Australia (SEFA), Indigenous Business Australia (IBA) and Australian Ethical Investors (AEI) are showing interest.
Sweat Equity	Denmark Windfarm had in-kind work undertaken by individuals during the development of the wind farm and those individuals were awarded shares in the company as sweat equity.

CE projects are not always considered to be commercial or able to compete with commercial projects. However, many investors in CE have been prepared to accept a slightly lower rate of financial return than institutional investors, given the increased expectation of non-financial social and environmental returns from the projects.

8.2 Equity Raising Considerations

The raising of equity (capital) in Australia is regulated by the Corporations Act (or, where it involves co-operatives, may fall under Co-operatives National Law) and depends upon the business structure that is used by the CE project (refer to Section 12.4 for more detail).

In the case of public or private company structures (regulated by ASIC under the Corporations Act) the core elements to be considered in raising capital are the requirements for disclosure statements and limitations associated with exemptions on offers to retail investors. It is important to note that private (as opposed to public) companies can only raise equity finance by offering shares to their existing shareholders, their employees or certain classes of investors (including wholesale investors and investors who can receive shares pursuant to the 20/12 exemption).

In the case of co-operatives a disclosure document registered in the relevant jurisdiction is generally required to be provided to potential investors. The regulatory requirements which apply to co-operative disclosure are, broadly speaking, less onerous than the requirements for companies.

The information following may assist in considerations for equity raising but you should obtain legal and financial advice to make sure that you approach equity raising in a manner that is appropriate for your project circumstances.

8.2.1 Disclosure Documents and 20/12 Exemption

As noted previously, private (proprietary) companies can only raise equity finance by offering shares to their existing shareholders, their employees or certain classes of investors (including wholesale investors and investors who can receive shares pursuant to the 20/12 exemption). The general rule associated with raising equity capital in Australia for public companies is that you cannot do so without issuing a disclosure document. A disclosure document may take the form of a prospectus or, alternatively, an offer statement (for capital raising of $10 million and less only). There are minimum disclosure and other prescriptive requirements which apply to the issue of a disclosure document. The preparation of a prospectus or offer statement may be quite expensive and time consuming. There are some exemptions available which may allow the offer of equity without the need for a disclosure document which include offers to wholesale investors as described above.

A separate exemption, which may be particularly useful in relation to small projects, is the small scale offerings exemption which allows offers to retail investors where the following requirements are met:

- **The offer is a personal offer i.e. directed to specific persons**
- **The offer results in shares being issued to 20 or fewer persons in a 12 month period**
- **No more than $2 million in funds can be raised in any rolling 12 month period**

This exemption is commonly referred to as the 20/12 exemption.

It should be noted that the Corporations Act contains certain anti-avoidance provisions that preclude multiple entities being formed by the same controlling entity for the purpose of overcoming the 20/12 exemption. There may also be restrictions which apply to prevent the on-sale of shares issued to retail investors in reliance on an exemption (without the need for a disclosure document).

Repower Shoalhaven have structured their projects so that they are covered by the small scale offerings exemption.

8.3 Key Components for a Company Raising Equity Funding From Retail Investors

The following is a high level summary of some of the key steps which may be involved in raising equity from community retail investors when the community entity has been established in the form of a company and wishes to rely on the 20/12 exemption.

Note: You should be aware of anti -avoidance provisions relating to this exemption and seek legal advice before proceeding down this path.

1. **Develop a business plan**
2. **Develop a share offer document incorporating:**
   - The offer details - for example raising $X'000 through the issue of Y shares with a value of $Z each in minimum parcel sizes of V shares
   - Key business plan elements
   - Risk management.
3. **Identify target community investors**
4. **Direct communication with individuals** inviting them to subscribe to the share offer indicating their interest by a cut-off date (you cannot cold call or advertise the share offer directly)
5. **Upon receipt of the responses** decide whether to proceed with the offering and confirm that the requirements of the 20/12 exemption have been met
6. **Proceed with share issue upon receipt of funds**
7. **Update share register and notify ASIC**
8. **Prepare documentation.** Where the requirements of the 20/12 exemption are not met and the entity (which must be or must convert to a public company) wishes to proceed with the fundraising, it is likely that it will need to prepare a prospectus (for capital raising in excess of $10 million) or an offer information statement (for capital raising less than $10 million). Preparing a disclosure document involves significant time and cost as part of the fundraising process and requires specific information to be included on the fundraising entity. Any entity proceeding down this route should obtain professional advice, including legal and accounting advice.

8.4 Share Offer Documents (for Co-operatives Only)

Before a co-operative issues shares to its members, it must first produce a share offer document. This achieves two outcomes:

1. Meet the regulatory requirements which apply under the Co-operatives National Law or other applicable law
2. Describe to potential investors the proposed investment and why they should invest in the proposed venture – essentially a marketing document.

When considering the time taken for a share offer to be ready to be presented to the market it is important to consider the stage of development at which your project is at. Ideally a share offer should only be taken to market after a feasibility study has been undertaken to increase the chances of filling the share offer.

Perth Wave Energy Project
Render courtesy of ARENA

8.5 Resource Links

For further information see:
frontierimpact.com.au/external-resources

8.6 Share Management

The following sets out broad requirements for the management of shares under a company structure. The arrangements for co-operative type structures are different and specific legal advice should be sought.

8.6.1 Share Registers

A company with share capital must keep a record of all the shares that the company issues. This record is called the register of members (or the register). It is commonly called the share register.

The register must include details of members and their shareholdings and any changes to personal details and shareholdings. The register must also include details of the shares themselves including:

- Date of each issue
- Number of shares in each issue
- The types of shares and class (or classes) of shares

There are also specific reporting requirements to ASIC in relation to shares with the nature of the reporting dependent upon the type of company structure.

All companies need to advise ASIC when they issue or cancel shares and when they make changes to their share structure.

Maintaining a share register can require a reasonable amount of administration and there are companies that provide share registry services. Obviously out-sourcing management of the share registry comes at a cost. In general, larger projects such as Hepburn Wind and Solar Share will use an external share registry provider while smaller projects can manage it in house.

8.6.2 Regulatory Requirements

There will be different regulatory requirements associated with share offerings depending upon your business structure. For more information refer to Section 12.4 of this guidebook.

Young Henrys brewery, Sydney NSW
Photo courtesy of Pingala

8.7 Resource Links

More information on shares and reporting requirements for companies can be found at:
frontierimpact.com.au/external-resources

Windy Hill Wind Farm, Ravenshoe QLD

DEBT

Debt (finance) is the lending of money for a promise to repay the money plus interest over an agreed timeframe.

The actual terms offered by a debt provider (financier) will depend on the nature of the project and the prevailing market conditions.

Finance terms largely depend on risks borne by financiers. When these risks are perceived as high (in terms of higher default risk or lower value of collateral or other security) the finance terms become less attractive to borrowers, e.g., higher interest rates and more onerous loan conditions.

9.1 Key Debt Terms

Below is a list of debt terms and how they are affected by the project risks:

Finance period (term): This is the period of time over which financiers are willing to provide debt. Longer terms increase risk for the debt provider so to obtain long-term funding the project needs to be able to demonstrate low long-term risks.

Finance amount (Loan Principal): The total dollar value of debt provided. The amount will be dependent upon the customer's ability to service the debt repayments and the value of security provided to support the debt being sought. There is generally a minimum finance amount (minimum threshold) that is able to be obtained. This is required to ensure that the expected return for financiers covers both the transaction costs associated with assessing the risks (due diligence) and setting up the debt facility (including the cost of documentation) and a profit margin. As a result financiers may impose minimum thresholds to ensure transaction costs are covered by the interest return on the lending.

Finance percentage (debt gearing): The percentage of the required capital expenditure for which debt is to be provided. This can be close to 100% or as low as a few percent depending on the assessed risk of the project. Financiers are generally willing to fund a larger portion of the overall project cost as risk decreases.

Drawdowns: Under a drawdown arrangement the customer receives debt in stages aligned with project expenditure. This reduces the risk for the financier as the debt is not provided until the project expenditure associated with each milestone is complete. As risk increases the borrower's ability to drawdown will decrease. This is usually part of a construction finance mechanism.

Finance Cost (Interest Rate): The cost (price) of debt funding (interest payable) will vary depending on the term, debt amount, debt gearing and the perceived risk of the CE project. The cost of debt is generally considered to be lower than the cost of equity because the interest on the debt can be deducted as a tax expense. For this reason a higher proportion of debt is often favoured over equity as it lowers the overall funding cost. However, for tax-exempt CE projects or in the case where CE investors may only require relatively low returns that can compete with debt providers, it may be more viable and cost-effective to not have any debt. The larger the size of a CE project the more likely it will need to have some debt due to the difficulty in attracting a higher level of cost-effective equity funds.

9.2 Types of Debt

There are many types of debt and the key types are described below. The type of debt is impacted by the size of the project and therefore this section has been broken into separate debt considerations for large and small projects.

Debt

Corporate Finance	Project Finance	Asset Finance	Construction Finance
		– Finance Lease – Operating Lease – Environmental Upgrade Agreements – On-bill Financing – Power Purchase Agreement (PPA) Funding	

No Coal Export rally, Melbourne VIC
Photo courtesy of John Englart

9.2.1 Larger CE Projects

Larger CE projects may utilise funds raised by community investors and other forms of debt financing, with loans and leases being the most common. Project finance is common with private (non-CE) projects but these are generally of a higher asset value that satisfy debt providers' requirements of minimum debt level thresholds. Financing offered through Power Purchase Agreement (PPA) contracts can be achieved at much lower threshold levels and these structures are usually offered by corporates such as energy retailers or solar panel providers.

Construction finance is funding for a CE project whilst it is being constructed. This type of debt attracts interest but no repayments are made during the construction period and the interest is usually added to the final debt facility provided for the project (this is called capitalising the interest in the construction period). The final debt facility attracts regular principal and interest repayments which can be paid from project revenues once the project is complete and generating cash flows. Because of its risk profile, commercial construction finance attracts a higher interest rate but it allows the project to be built prior to revenue being produced.

9.2.2 Smaller CE Projects

Small to mid-scale CE projects (under 1MW) can generally attract 100% community investor funding which is usually in the form of equity but at times this equity can be constructed as a debt product. This is very different to the private sector which tends to regularly utilise leases and other traditional forms of debt funding. The debt funding options described below are not currently used to any great extent in small CE projects although they should not be ruled out as options in the future.

Source of Debt		Development Phase Applicability	
		Concept to Feasibility	**Final Funding**
	Corporate Loan (Secured) This is usually shorter-term debt (5 years or less) and is usually secured by a business based on its assets. This type of finance is unlikely for CE projects unless the project has a corporate sponsor involved such as a large local energy user in the community	Maybe	Yes
	Project Finance This is long-term debt (5-10 years or longer) repaid from the cash flows of the project and secured only against project assets (not the broader assets of the project sponsors). The cash flows are determined through assessing projected cash flow from income and expenses over the debt term. For larger projects it is typically sourced from a syndicate of banks and is usually only applicable to investments of $20 million or more	No	Yes (unusual for CE projects though as usually smaller than minimum threshold)
	Asset Finance Related to equipment asset finance and is borrowing money against a specific asset, e.g., wind turbine or solar installation There are a large number of financiers that offer asset finance types which include: • Leases (operating and finance) • Hire purchase. The financier will lend to the project on the basis that it will be able to sell assets in the business to pay back the debt in the case the project is unable to generate sufficient cash flows to repay the debt	No	Yes
	Environmental Upgrade Agreements (EUAs) A loan for the environmental upgrade of a building which is repaid through an additional item on the local council rates notices. In this way debt is secured against the title on the building	No	Yes
	On-bill Financing Energy retailer installs equipment such as roof top solar PV and debt is repaid via a charge on energy bills. Once all payments are made, the equipment transfers to the customer	No	Yes
	PPA (Power Purchase Agreement) Vendor Financing An example of this form of financing is where a solar PV equipment provider will supply and install a solar PV system on the host site and will recoup the costs by charging for the electricity produced by the installation over time. The electricity price factors in the cost of the equipment, the cost of maintenance and interest associated with the time-based repayment of the installation costs	No	Yes

Co-operative members of Hepburn Wind provided most of the construction funding during construction. Bendigo Bank provided $3 million in construction finance with an additional $100,000 of interest accruing over this period. Banks generally only provide construction finance based on a guaranteed commitment to repay in association with a longer term financing commitment.

Hepburn Wind turbines
Photo courtesy of Hepburn Wind

9.3 Sources of Debt

The sources of debt can be similar to the sources of equity. The same source can choose to provide funds that can be paid back under a debt structure (i.e. via principal and interest repayments) rather than yielding a return on equity investment in the form of dividends.

Financial institutions still play a role in supplying debt and Bendigo Bank's corporate debt facility into Hepburn Wind is a good example of this.

Corporates are offering PPA financing solutions which has broadened the range of financial providers in the market. However, at the time of this report, we are not aware of any CE proponents who have used these sources for funding.

Source of Debt	Project Development Phase Applicability	
	Concept to Feasibility	Final Funding
Wholesale/Retail Investors (Shareholder Loan)*	Maybe	Yes
Institutional Investors – Funds, Banks, Building Societies	No	Yes
Social Impact Investors (Funds)	Unlikely	Maybe
Angel Investors	Yes	No
Equipment Lease company	No	Yes

* Shareholder loans are funds sourced from shareholder capital.

9.4 Sources of Debt - Project Examples

Source of Debt	CE Project Examples
Retail (Community) Investors	Retail community investors have provided capital to enable the following debt types to be established to successfully fund CE projects: • **Loans:** In the Lismore Community Solar project, retail community investor funds are being raised to provide a loan from the community fund to the Lismore City Council to purchase the solar installation • **Leases:** In the Pingala Young Henrys project the co-operative will raise funds from the community in return for the issue of equity. These funds will be used to purchase solar equipment and then lease the solar equipment to the host site to generate revenues that can provide a return to community investors.
Wholesale (Community) Investors	The Hepburn Wind project involved high net worth individuals contributing some of the debt utilised during the construction phase by providing short-term loans.
Institutional	Financial institutions such as Bendigo Bank have been providers of loans in the CE sector. Asset financing facilities are offered by all the leading banks and many other financial institutions, and include lease, hire purchase and Environmental Upgrade Agreements which can apply to solar PV installations.
Social Impact Investors (Funds)	Interest has only started to emerge from this sector in CE projects. While there are no current examples of social impact funds providing debt for CE projects there is a growing interest from this sector to offer debt as well as equity funding. e.g., Social Enterprise Finance Australia (SEFA), Indigenous Business Australis (IBA) and Australian Ethical Investors (AEI)

9.5 Do I need Debt?

The funding for your CE project from debt, no matter the level of debt, requires you to make your project 'bankable'. Usually to be successful in debt financing the project is required to be relatively low risk.

The project-based Guidebooks within this toolkit explain how you can go about making your project bankable.

Your first consideration should be whether you actually need debt funding.

For smaller CE projects debt funding is usually not required as CE project developers can often access sufficient low-cost equity funding from community investors. The CE community investors' return requirement is often lower or comparable with the cost of debt. Debt may be an option when it can be sourced more competitively than equity.

There are costs associated with arranging debt. These costs may include an arrangement fee for the bank, along with legal fees for the creation and review of the loan agreement. Once all of these costs are factored in, small community renewable projects may be better off relying on 100% equity funding. It may be more efficient to utilise 100% equity funding for a <100kW solar project for example.

For larger projects, debt funding will likely be required and this has been the case for projects such as Hepburn Wind and the Denmark Wind Farm.

9.6 Accessing Debt

In the same way that a share offer requires information to attract investors, debt providers require detailed information on your project in order to assess the risk of your project and its capacity to repay the debt principal plus associated interest charges. Before approaching a lender your project will normally need to be developed to the feasibility phase and all key project elements have been completed with a reasonable degree of certainty.

Quite simply the better your business plan and the associated financial viability, the better your chances of obtaining debt on favourable terms. Completing the financial template in the Guidebooks may help with this. *Note the disclaimer in relation to use of financial templates.*

Debt providers prefer to lend against tangible assets rather than a feasibility plan but if your feasibility plan is based on a proven model the chances of success are greatly improved. Loan guarantees or other forms of credit enhancement may be necessary to assist you in achieving debt funding.

Before applying for debt funding you need to ensure that you have already identified equity funding from investors. This may be in the form of a future funding agreement, where members will guarantee their commitment to purchase shares in a legally binding agreement. This could be contingent on being able to achieve debt funding.

The Behind the Meter Guidebook (and future project-based guidebooks) provides a detailed list of project elements that may make your project more likely to successfully achieve debt funding.

9.7 Resource Links

Further information on debt considerations can be found at: frontierimpact.com.au/external-resources

Solar panels in Bendigo, ViC
Photo courtesy of the City of Greater Bendigo

Hepburn Wind turbine
Photo courtesy of Hepburn Wind

GRANTS AND DONATIONS

The following table sets out some of the considerations in relation to achieving funding via grants and donations:

Description	Project Development Phase Applicability	
	Concept to Feasibility	**Final Funding**
Grants have played an important role in many successful projects. However, grants are not always available and there are usually strict conditions for being able to access a grant. Grant providers may include all levels of government (local, state and national) as well as philanthropic bodies, such as foundations	Yes Particularly useful in the early, high-risk stages of a project. Can help fund project from concept phase through prefeasibility to the feasibility phase	Maybe Not generally provided but has been in certain circumstances ,e.g. Pingala solar PV project (see the Behind the Meter Solar PV Guidebook)
Donations play an important role, especially in small-scale projects, and primarily assist in the concept to feasibility stages. Community members may make a small donation to enable early stage activities of the project The founding organisation of Hepburn Wind (HREA) had a membership fee of $10 (>200 members) then, once the project had been established, 30 members contributed a further $1,000 each	Yes Potential donation sources include community fundraising, local businesses or crowdfunding. Crowdfunding seeking donations (unlike crowdfunding for offers of equity) does not have any significant regulatory barriers	Yes Potential donation sources include community fundraising, local businesses or crowdfunding. Crowdfunding seeking donations (unlike crowdfunding for offers of equity) does not have any significant regulatory barriers


Hepburn Wind turbines
Photo courtesy of Hepburn Wind

Examples of Crowdfunding for Donations: Crowdfunding is a fundraising mechanism usually based on an online marketing platform. At present, the Corporations Act restricts the use of crowdfunding for equity capital raising in Australia. However, legislation changes may soon open up crowdfunding as a source of equity funding in the future. Some examples of successful crowdfunding donation models include CORENA and The People's Solar. The donation model developed from these CE projects involved the community raising funds through donations, either using a crowdfunding platform or more traditional fundraising. Typically, the host site and beneficiary of this model is a not-for-profit community organisation such as a school, surf-lifesaving club or fire station and is able to effectively engage the community to provide funds for small-scale projects (10-50kW). While members of the organisation may donate to the project and may have a say over its direction, they are not investors and won't earn a dividend.

Example of Grant Funding: All levels of government have at times provided opportunities for CE proponents to be given grant access subject to meeting certain criteria. In May 2013, the NSW Office of Environment and Heritage (OEH) released $411,000 of grant funding for the early stages of nine CE projects. The Victorian Government has funded two grants worth $300,000 in their term thus far and, as of December 2015, had released the New Energy Jobs Fund Round 1 with a specific component for CE groups. The number and type of grants available changes all the time and usually only a small number of organisations are successful in receiving funds.

10.1 Resource Links

For further reading about grants refer to:
frontierimpact.com.au/external-resources

10.2 Tips for Grants, Donations and Crowdfunding

TIPS FOR GRANTS

- **Check webstites such as ARENA, OEH, Energy and Resources Victoria, Our Community, Regional Development Australia**
- **Contact your local council to see if there are grants available**
- **Check with community focused large businesses**
- **Investigate philanthropic networks such as Australian Environmental Grantmakers Network (AEGN)**
- **Invest time in developing and presenting a case to support your grant proposal making sure that your project is presented in a way that aligns it with the objectives and policies of the grant provider**

TIPS FOR DONATIONS

- **Need to be able to convince someone your idea is worthwhile and likely to succeed and that you are trustworthy. All easier after you've done the prefeasibility stage!**
- **There are also legal requirements around seeking funds from the public, so make sure if you plan a fundraiser you check out the Office of Fair Trading website (or equivalent in your state) or get some legal advice**
- **Due to the typical size of a donation, even a large one, it is unlikely that you will be able to fund more than a small CE project from donations alone. To get big donations, it helps to have Deductible Gift Recipient (DGR) status. DGR enables registered charities to accept tax-deductible donation. Achieving DGR status can be a long and involved process, which is why many groups approach organisations to act as an auspice**

TIPS FOR CROWD-FUNDING

- **Try one of the many crowdfunding websites (e.g. Pozible, Start Some Good, Kickstarter) to get many small pledges of funding from many people**
- **A successful crowdfunded initiative is run like a campaign and you have to clearly definite your target audience and your key messages**
- **Creating a short video about what you are doing and why people should fund it is also a good idea**
- **It is better to think of crowdfunding as peer-to-peer funding that makes it easy for people you are already in contact with to donate some money to your project. If you get your strategy right (and are lucky) they will share the crowdfunding appeal with their friends via social media**
- **Some crowdfunding campaigns go viral, where thousands of people you've never heard of start donating. Most don't, however, so don't rely on this**
- **In Australia, the Citizens Own Renewable Energy Network Australia Inc. (CORENA)** http://corenafund.org.au **is taking this approach to CE**

Adapted from the Community Power Agency
How to Guide on their website: cpagency.org.au/

IN-KIND CONTRIBUTIONS

CE projects rely extensively on volunteer efforts and their in-kind contributions to a project. In-kind contributions are essential in the concept and prefeasibility stages to allow projects to be developed to a point that they are financially viable. In-kind contributions will continue into the operating phase for most CE projects.

The provision of accounting, legal, project management, engineering (technical) and energy market in-kind services are particularly valuable as they may be costly to fund. Organisations such as Embark have been very effective in developing partnerships, such as with Engineers Without Borders, who can provide technical services to projects at low costs.

Young Henrys brewery rooftop solar array, Sydney NSW
Photo courtesy of Pingala

Young Henrys brewery, Sydney NSW
Photo courtesy of Pingala

Projects size, project stage and corporate structure are key considerations for determining the optimal funding solution.

FACTORS INFLUENCING FUNDING OPTIONS

12.1 Project Stages

Different funder types can become involved at different stages of project development – concept, prefeasibility, feasibility and final funding.

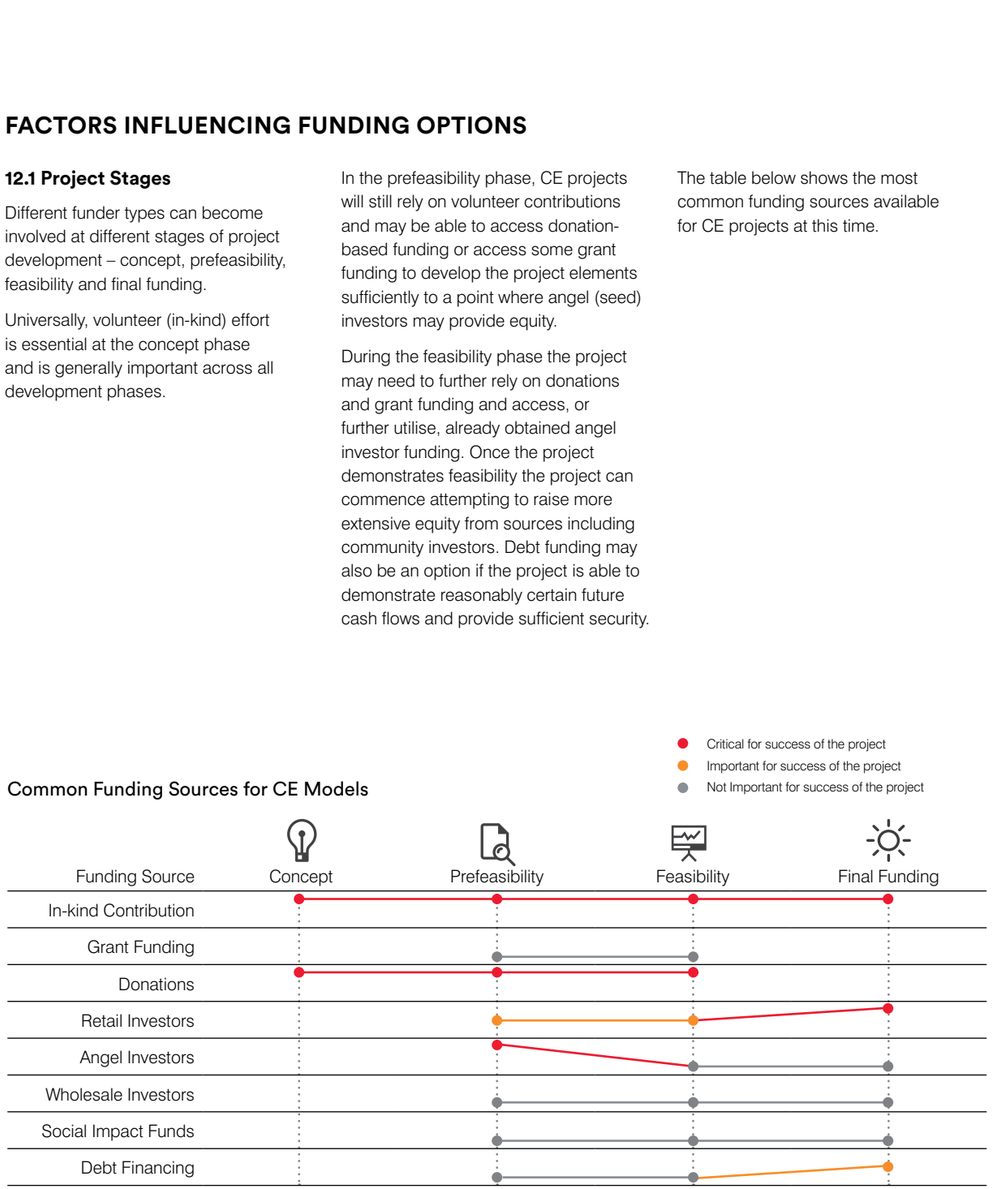
Universally, volunteer (in-kind) effort is essential at the concept phase and is generally important across all development phases.

In the prefeasibility phase, CE projects will still rely on volunteer contributions and may be able to access donation-based funding or access some grant funding to develop the project elements sufficiently to a point where angel (seed) investors may provide equity.

During the feasibility phase the project may need to further rely on donations and grant funding and access, or further utilise, already obtained angel investor funding. Once the project demonstrates feasibility the project can commence attempting to raise more extensive equity from sources including community investors. Debt funding may also be an option if the project is able to demonstrate reasonably certain future cash flows and provide sufficient security.

The table below shows the most common funding sources available for CE projects at this time.

Common Funding Sources for CE Models



12.2 Resource Links

For further reading about grants refer to:
frontierimpact.com.au/external-resources

12.3 Project Size

As indicated in Sections 9 the size of the project will influence the debt financing options available. The larger the project the more dificult it will be to raise all of the funding from equity, particularly from community retail investors.

Only very large projects would be able to access project finance given the minimum thresholds required for project finance.

12.4 Business/Legal Structure

Business structure refers primarily to the legal form of enterprise that is used to develop and operate a CE project. In determining the most appropriate business structure, fundraising requirements and the number of investors are key factors to consider. The two main structural types that have proven to be most popular in CE projects to date are co-operative and corporate structures.

Co-operative structure is a democratic business structure with one vote per member, regardless of the equity interest held by that member. It tends to attract investors who are motivated by more than just money. There is a growing movement of people who have altruistic investment criteria and co-operative structures align well with those criteria. Investors, and in particular community-based investors, are attracted to co-operatives because of value alignment.

Institutional investors (such as banks) are generally less willing to fund co-operatives even though there are some large examples in Australia, including dairy and irrigation co-operatives. For-profit co-operatives can issue shares or bonds which pay annual dividends to members. Not-for-profit co-operatives can only issue bonds, and provide a return through interest on these bonds (or member loans). This means that the return structures available to funders are limited.

Corporate structure can offer similar democratic benefits to those offered by a co-operative structure and they can be achieved via a more 'standard' company structure, provided these are included in the shareholders agreement and company constitution. For example, companies usually assign voting rights on the basis of shareholdings (proportional voting = one vote per share) but this can change if a democratic voting model (one vote per shareholder) is adopted in the constitution or shareholders agreement.

The costs of maintaining corporate structures are generally higher than those associated with co-operatives because of regulatory compliance costs. There are restrictions on capital raising by companies that mean the cost of accessing equity funding can be higher. Conversely the more prevalent nature of company structures means that costs such as legal costs can be less than those of co-operatives and company structures may be more appealing for investors as they are better understood.

The table over describes a range of potential business structures and identifies characteristics of each in relation to fundraising:

Business Structure Considerations for Fundraising

Business Structure	Fundraising Disclosure	Challenges	Benefits
Co-operative e.g. Hepburn Wind	Requires a disclosure document to be approved by a registrar	• Can be more difficult to access legal advice as is based on Co-operatives Law rather than the more common Corporations Act • Membership shares cannot appreciate in value	• Allows for unlimited members and therefore no limitations on the number of investors • Disclosure document checking process is less onerous than under Corporations Act • Can distribute profits before tax • Crowdfunding for membership is permitted
Incorporated association e.g. Pingala	N/A	• No equity investment permitted	• Low cost setup
Company limited by guarantee e.g. Moreland Energy Foundation	N/A	• No equity investment permitted, members specify the amount they are willing to contribute to the property of the company on its winding up and this will determine or limit the liability of the company's members • More onerous conditions than incorporated association	• Low cost setup

Business Structure Considerations for Fundraising

Business Structure	Fundraising Disclosure	Challenges	Benefits
Private company (Pty Ltd) e.g. Repower Shoalhaven	Private companies (proprietary limited which have no more than 50 non-employee shareholders) can raise funds from existing shareholders and employees of the company or a subsidiary and from the general public if the fundraising does not require a disclosure document (relies on an exemption)	• A private company can only raise equity from existing shareholders, its employees or certain classes of investors. These classes include (a) those that fall within the 20/12 exemption and (b) wholesale investors • If the 20/12 exemption is applied then: ° Max. of 20 investors and $2 million each 12 months ° Personal investor offers only • If an exemption does not apply then the private company would have to convert to a public company before being able to raise funds by issuing a disclosure document • Crowdfunding for equity not allowed currently	• Relatively easy to set up
Public company (Ltd, unlisted) e.g. SolarShare, Sydney Renewable Power Company	<$10 million: Offer information statement >$10 million: Prospectus	• Significant offer document compliance costs • Crowdfunding for equity currently not allowed • Additional reporting requirements	• Unlimited number of shareholders
Unit Trust or Discretionary Trust e.g. ClearSky Solar Investments	Information Memorandum OR Managed Investment scheme	• 20/12 exemption applies or • Financial Services Licence required • Crowdfunding for equity not allowed currently	• Tax treatment of profits and capital returns

12.5 Resource Links

The following link provides a decision tree that may assist you in your business structure considerations for your project: frontierimpact.com.au/external-resources

The costs of maintaining corporate structures are generally higher than those associated with co-operatives because of regulatory compliance costs. There are restrictions on capital raising by companies that mean the cost of accessing equity funding can be higher. Conversely the more prevalent nature of company structures means that costs such as legal costs can be less than those of co-operatives and company structures may be more appealing for investors as they are better understood.

12.6 Pros and Cons of Different Sources of Funding

The table below sets out some of the benefits and disadvantages of various sources of funding as applied to CE projects and these should be understood by CE proponents determining preferred funding agreements:

Types of Funding	Pros	Cons	Behind the Meter	Grid-Connected
Shares (Equity)	• No repayments or interest expenses, no liability for ordinary shares • Potential to secure low cost capital from the community or social impact funds • Enables projects to gain other community benefits e.g. electricity sales, access to land, donations etc.	• More regulatory requirements if greater than 20 investors in a 12 month period which exceed the $2 million ceiling • Different expectations of shareholders sometimes hard to navigate • Costs of share registry services and/or ongoing administration can be burdensome (although a co-operative also has record maintenance requirements which apply)	Likely to only be economically beneficial to operate within the 20/12 exemption currently, to issue to wholesale investors or for larger Behind the Meter projects with scale to support higher fundraising costs	The larger the project the more economic due to cost of share registry. This can be supported by community investors and wholesale investors
Secured Corporate Debt	• A partnership with a corporate entity may be able to bring low cost debt to the project (although may not be as competitive as community equity)	• May be more expensive than some retail and wholesale equity provided by the community • Strict lending requirements • Interest rate risk as rates may be floating • Collateral required so higher risk for the project • Cash flow difficulties can arise if revenue cash flow timings do not meet debt repayment timings	Not likely to be accessible for scale reasons	More likely but other structures are more common
Project Finance	• Raised and secured against the cash flow of the project only • Do not need additional collateral • Insulates companies from project failures	• May be more expensive than other forms of debt but depends on the project • Greater difficulty to arrange given the number of parties involved and amount of due diligence required • Needs to be a large project due to minimum thresholds (i.e. $10-20 million)	Not likely to be accessible for scale reasons	Only for large projects that meet the minimum threshold levels
Asset Finance (leases, rentals, Environmental Upgrade Agreements)	• A way to access new equipment (i.e. solar PV) without tying up valuable cash flow • Quicker to obtain funding than equity • Environmental upgrade agreements may provider lower cost of financing	• Collateral may be required • Regular lease/or other payments • Personal guarantees may be required	Most common debt form for small projects	Can be used for smaller projects but as the project becomes large other debt finance is more likely

Solar panels at Geelong Primary School
Photo courtesy of Geelong Sustainability Group

Types of Funding	Pros	Cons	Behind the Meter	Grid-Connected
Grants	• Do not need to be repaid (usually) • Helps early stage funding where other forms of funding can be difficult	• Grant applications require significant time and there is uncertainty as to whether the grant will be successful	Yes, potentially	Yes, potentially
Donations	• Do not need to be repaid • Easy for small funding raising amounts	• Potential need for tax deductible status • Finding donations is difficult and may need an intensive marketing campaign	Yes, potentially	Yes, potentially
Sweat Equity	• Do not need capital up front	• Different views on the value of equity • Potential misalignment of vision which can result in conflicts	Yes, potentially	Yes, potentially
PPA financing	• Simple form of financing as regarded as an electricity purchase contract	• The cost of financing is not transparent and in many cases it can be more expensive than other forms of debt	Yes	Yes
In-kind	• Low/no cost • Essential for CE projects	• Can be burdensome for core volunteer group	Usually	Usually

Any information provided on the tax and accounting implications of each finance option is based on general advice and information. It does not reflect the specific circumstances of any business using this guide and should not be relied on by businesses seeking any of these funding options. Instead, you need to seek your own professional advice, including legal, tax and accounting advice.

EXAMPLES OF SUCCESSFULLY-FUNDED COMMUNITY ENERGY PROJECTS

Projects like Hepburn Wind have shown that the community is prepared to invest significant capital in local infrastructure provided that local benefits are created.

Hepburn Wind turbine with artwork by Ghost Patrol
Photo courtesy of Embark

CE projects that have been successful have generally all had community share offerings to community retail and wholesale investors.

The following table looks at the track record of operating CE projects that are community-owned and the forms of funding that were used to develop the projects:

Some of the observations from the first successful CE projects are as follows:

- The key motivation for some communities is that they are driven by aspirations to become energy independent and are interested to invest for environmental outcomes rather than primarily earning higher returns
- The first CE projects were larger wind CE projects (i.e. Hepburn Wind and Denmark Community Wind). Currently the next generation of wind projects such as the Macedon Range Sustainability Group is in development
- Prevalence of Behind the Meter solar PV CE projects trend is expected to continue as these projects are much simpler to execute and can be commercially viable without significant donations or grants.

Project	Capacity	Project Funding
Hepburn Wind	4.1MW wind	**Grant Funding** • $750,000 Regional Development grant and a $975,000 Sustainability Victoria grant **Equity** • Community ownership (2,000 shareholders) **Debt** • Bendigo Bank commercial term debt facility of $3.1 million secured by a $1 million Embark loan guarantee plus a short-term loan facility for project construction offered by members **In-kind** • Years of voluntary contribution by board members and volunteers in a project manager capacity to get the project established • Significant pro-bono and discounted services provided by specialist advisors who wanted to see the project built **Sweat equity** • Original developer Future Energy received shares as payment for work done
Denmark Community Wind	1.6MW wind	**Grant Funding** • Remote & Regional Power Generation Program provided 50% of the capital costs ($2,487,800) **Capital** • Community ownership ($1,730,000) • Sweat equity ($500,000) **Debt** • Bank Loan ($1,500,000)
Re-Power Shoalhaven – Repower One Project	<100kW solar PV	**In-kind** • Volunteers committed hundreds of hours to get the organisation up and running • Accountancy work at 50% discount, saving $4,000 for the first two projects **Donations** • $10,000 sponsorship from NSW Government for financial, legal and other contractors • Indirect recipient of $15,000 from the McKinnon Family Foundation to develop the legal toolkit • Repower Shoalhaven member fees, one-off donations, and fundraising events ($12,000) **Capital** • 20% funded and owned by Shoalhaven Heads Bowling and Recreation Club, 80% funded by 19 community shareholders ($119,800)

Hepburn Wind launch festivities
Photo courtesy of Embark

DIFFERENT BUSINESS MODELS

To overcome some of the barriers for obtaining funding for CE projects there are a number of CE-specific business models that are being developed. CE developers should consider whether these could be employed to achieve their particular objective. Some of these models are identified below:

Type	Description
Multi-site Solar PV Models	Aggregating households to deliver sustainable energy solutions. Examples in the residential space include solar bulk-buys which were popular around 2009 and recently the Moreland Energy Foundation has developed a replicable rates-backed solar model for low income households within the City of Darebin. The Darebin Solar Savers model establishes a structure to better support residents investing in solar PV by engagement through trusted stakeholders and low interest finance to offset upfront cost. The Council finances the capital cost through bulk purchases from the supplier/installer and recovers costs through rates charges over 10 years. The program has supported 300 pensioners in the City of Darebin to install solar PV, with no upfront cost and repayments supported by savings on electricity
Community Investment Models	These models involve developing CE projects and raising funds through opening up the investment to community investors, on the expectation that those investors will receive a certain return on their investment. Examples of a community solar investment model are the Repower Shoalhaven model that is detailed in the Behind the Meter Solar PV Guidebook and the Sydney Renewable Power Company (SRPC). SRPC is funding a 520kW solar PV installation at the International Convention Centre Sydney in Darling Harbour. SRPC has adopted a non-listed public company structure to attract investors and faces all of the expensive disclosure requirements that come with that structure. It relies on volunteers to run the company under a public company governance framework. A key challenge is engaging the community while adhering to the restrictions on when a share offer may occur. Ongoing ASIC requirements are expensive and time-consuming and involve half-yearly reviews

Type	Description
Commercial Developer - Community Partnership Models	This model is where a community group partners with a commercial energy developer (or similar organisation) to deliver a project. This can result in dual ownership between the community and the developer or other entities such as local government The Central NSW Renewable Energy Co-operative Ltd (CENREC) was created to facilitate a community purchase of the equivalent of one turbine in the proposed 43-turbine Flyers Creek Wind Farm, which is planned to be located between Orange and Blayney in NSW utilising a community-developer partnership model with Infigen, the wind farm developer. A key role played by the co-operative is in community engagement and education around the project
Community Donation Model	Projects at CORENA are funded via voluntary contributions rather than investment. CORENA uses donated funds to give interest-free loans of up to $20,000 to community organisations to fund solar installations and energy efficiency measures The loan is repaid through the subsequent savings on power bills, meaning that the project does not cost the community organisation anything. The loan repayments immediately help fund the next project The first CORENA project, a 7kW solar PV installation for Tulgeen Disability Services in Bega, NSW, was completed in November 2013. The second project was a 10kW solar installation and replacement of halogen security lights with LED lights at the Gawler Community House in SA. CORENA is now working on its eleventh project.
Trust Model	ClearSky Solar Investments have established a model whereby they have established a not-for-profit trust as a platform to invest in multiple solar projects. The trust operates as a peer-to-peer lending broker: an end user is identified who wants to benefit from solar power but does not want to make a capital purchase ClearSky investors lend the money and have capital repaid with interest by selling the electricity generated by the system at an agreed price over an agreed term. At the end of the term the panels become the property of the end-user. The funding comes from community investors with a maximum of 20 investors per project. Offered first to immediate community and then to anyone in Australia. Money is used to provide a loan to a commercial partner to finance the installation

The above business models can initially be quite complex to develop but once the model is in place it can be adapted and reduce the cost for future projects.

OVERCOMING FUNDING CHALLENGES

The ability to develop projects can require a lot of patience and have taken years to establish. However, as new operating models for CE projects develop and toolkits such as this are produced, it will aid in the efficiency of the development of these projects. This will assist CE project developers, especially in terms of enhancing financial literacy and reducing the volunteer load of organisations.

There are a number of challenges that can impact the successful development and funding of CE projects. These challenges are highlighted below and possible solutions to these issues are considered in more detail in the Behind the Meter Solar PV Guidebook and future project-based guidebooks.

Challenges	Possible Solutions
Access to early stage funding	• Develop community volunteer skills to access donation crowdfunding and other fundraising approaches • Create replicable business models or information toolkits for community developers to reduce early stage cost requirements • Access pro-bono networks e.g. partnerships such as Embark, Engineers Without Borders, legal and accounting firms • Gain access to philanthropic funding • Lobby and apply for potential grant funding provided by Federal and State Governments and local councils
Project lacks credit worthiness	• Securing a loan guarantor to provide credit backing to the project is a successful tool that has been used in CE projects. It is usually high wealth individuals who strongly support CE projects and are willing to provide the backing. This is how Hepburn Wind was able to successfully obtain access to debt funding for the balance of their project funding
Low wholesale and LGC prices (refer to the Behind the Meter Solar PV Guidebook and future project-based Guidebooks for more information)	• Consider the Behind the Meter community solar models that provide STCs upfront • Participate in Government supported auctions or electricity purchases (e.g. ACT Reverse Auction for 1MW of community solar that provides premium pricing) • Secure investors that have lower return expectations • Build projects when market pricing improves (if the market price is not high enough sometimes the timing just isn't right!)

Challenges	Possible Solutions
The community energy groups do not have the financial modelling skills needed	• Use the financial template as part of the toolkit and attend training opportunities to increase community financial literacy • Recruit skilled financial volunteers and board members
Preparation of a Power Purchase Agreement (PPA) and understanding of management of unhedged electricity or LGC position	• Use template PPAs for different types of CE projects. This may include variations on the PPA such as an off-take agreement • Refer to the Behind the Meter Solar PV Guidebook and future project-based Guidebooks • Avoid using a PPA model and use a lease- or loan-based model or sell a retail product directly into the community
Grid connection costs and timelines	• Refer to the Behind the Meter Solar PV Guidebook and future project-based Guidebooks for more information
Policy uncertainty e.g. Federal, State or other	• Recruit a strong policy person in the group • Advocate for policy certainty and supportive policy • Sometimes if the regulatory or market environment does not stack up (e.g low pricing for electricity or LGCs) then you may need to wait
Lack of skills in risk assessment e.g. exchange rate and interest rate risks, default for host sites	• Provide training in risk identification, quantification and mitigation • The Funding Toolkit provides information on the risks and challenges involved in developing a successful project from concept through to final funding
Cost of consultants and expert advice	• The use of a toolkit can reduce costs as it will provide guidance on the requirements meaning a lot can be progressed before an external consultant needs to be engaged • Provision of a consultant panel to provide specialised services in this sector
Community Renewable Energy proponents do not provide information that is adequate for funders	• Toolkit will provide a detailed explanation of what funders want to see at each stage of the project development process • The case studies will provide detailed information for each key stage of project development • The case studies will provide detailed information on the key steps taken that are complementary to the structure developed in the toolkit checklist • Organise training for CE developers on the utilisation of the toolkit to improve their projects
Costs are underestimated	• Access to independent external experts that offer modest pricing to develop realistic cost estimates • Toolkit can provide some guidance to costs in certain areas • Refer to case studies for an indication of costs (but cannot be relied upon as every project is different)
The CE project developer does not have contacts in the finance industry	• Refer to the contact list in the guidebook for financiers and investors

Hepburn Wind turbines
Photo courtesy of Embark

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Hepburn Wind launch festivities
Photo courtesy of Embark

COMMUNITY ENERGY REFERENCE PROJECTS

The following table sets out reference sources for further information on the projects referred to within this Funding Basics Guidebook:

Project Name	Description/Project Goals	Links
Hepburn Wind	4.1MW Grid-Connected wind project	http://www.hepburnwind.com.au
Repower Shoalhaven	Multiple Behind the Meter solar projects	http://www.repower.net.au
Denmark Community Wind	1.6MW Grid-Connected wind project	http://www.dcw.org.au
Sydney Renewable Power Company	Behind the Meter solar projects	http://www.sydneyrenewable.com/
Pingala	Behind the Meter solar projects	http://www.pingala.org.au/
The People's Solar	Multiple project investments. Donations-based business model	https://www.thepeoplessolar.com/
CORENA	Multiple project investments. Donations-based business model	http://corenafund.org.au/
SolarShare	Multiple solar projects	https://solarshare.com.au/
ClearSky Solar Investments	Multiple solar projects	http://www.clearskysolar.com.au/
Farming the Sun	Behind the Meter solar projects	http://farmingthesun.net/

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