

# POLICY RECOMMENDATIONS FOR REDUCING THE COST OF COMMUNITY RENEWABLE ENERGY PROJECTS

This short government policy document is a summary of key policy recommendations from the IEA-RETD report 'Cost and financing aspects of community renewable energy projects' that had the objective of identifying, documenting and assessing the costs faced by community-owned and commercial renewable energy projects. The project reviewed the costs of community renewable projects in five countries (Australia, Canada, Denmark, Germany and the UK), and focused on solar photovoltaic (PV) and wind projects as both have low operating costs and a globalised market enabling easier comparison.

## METHODOLOGY

Through interviews with communities quantitative cost and revenue numbers from 26 community wind projects and 39 community solar projects were captured. Communities were also asked qualitative questions about their perceptions whether the costs would have been different if the same project had been built by a commercial entity instead. There was difficulty obtaining many responses from communities involved in shared ownership projects, so **recommendations are focused on costs for 100% community owned projects.**

Commercial comparator costings were obtained from various international reports and reports prepared in individual countries by governments or trade associations.

## RESULTS

Analysing all the quantitative and qualitative results, and accounting for the materiality of differences the conclusions are:

- **Community development costs tend to be higher than commercial projects**, commonly because communities are undertaking projects for the first time and lack skills;
- **Community construction and operating costs tend to be similar to the prices quoted to commercial developers;**
- **Debt finance is more expensive for communities**, or if not more expensive, there is anecdotal evidence that banks will lend smaller amounts than to commercial developers;
- Offsetting the higher debt costs, **equity can often be cheaper to secure** as community investors are often happy to receive a rate of return slightly above bank saving rates;
- Depending on the financial structure of projects the **overall implication is commercial and community projects often end up with a similar weighted average cost of capital;**
- **In some countries communities do not pay corporation tax or gift profits to charity.**

## POLICY RECOMMENDATIONS

Although there are exceptions in different countries the main policy recommendations are:

### 1. Acknowledge that communities are different and need financial assistance

- As communities tend to be cash poor raising even small sums of finance during the development phase is harder. Therefore governments should **consider offering grants to**

**cover early stage feasibility work, and ensure there are entities that can provide finance for all the development stages after early feasibility work;**

- Communities commonly take longer to form, make democratic decisions and get projects commissioned which exposes them to greater risks of policy change, and the associated challenges of raising construction finance. One of the best actions governments can undertake is to **provide policy certainty, in particular over levels of electricity support if projects proceed**, as that will also give financiers greater comfort. Governments may want to consider giving communities longer to pre-accredit projects, meaning that communities are able to secure certain levels of subsidies if they can get their project built and commissioned by a certain future date.

## 2. Reduce community development costs through knowledge enhancement

Development costs make up only a small proportion of the total project cost (circa 10% for wind projects and 5% for solar) so **even with higher development costs overall project costs are not materially different for community and commercial projects of the same size**. Nevertheless, if the governments want to see a plurality of enterprises developing renewable projects they should:

- If possible **provide government paid development experts to reduce costs;**
- **Work with the community sector** to ensure there are authoritative ‘how to’ guides available; encourage the preparation of lists of accredited technical, legal, financial and project management specialists; encourage information dissemination between communities of what works and what does not; and encourage successful communities to develop second, third and fourth projects;
- **Prepare standardised legal contracts** for shared ownership projects to reduce legal fees;
- **Provide clear, easy to read guidance on what different legal community entities can and cannot do** (e.g. around dividend distribution, or needing to engage with authorised financial intermediaries), possibly having regulatory exemptions for community projects.

## 3. Consider the revenue drivers too

What this study has found is that more than costs, **revenues for commercial and community projects are probably the biggest differentiator**. When governments develop support tariffs for renewables they are implicitly deciding which areas of a country renewable projects can be built. For if subsidies are designed so only those projects with optimal environmental conditions (e.g. windy hillsides or the sunniest places) are viable, then communities away from these locations will be unable to build renewable projects. However, commercial developers will normally be able to select sites where environmental conditions (and hence electricity generation and thus revenues) can be maximised. Therefore governments:

- Should decide whether, in addition to the recommendations in (1) and (2), separate preferential revenue support should be **given to communities to enable community projects to be spread across the country**, or whether community projects should be to be limited to these ‘optimal’ locations;
- May want to **encourage social ventures to form to help communities negotiate better prices for electricity sold** – levelling the playing field;
- Could **consider how communities can enter into innovative deals with local electricity consumers**, in effect allowing them to secure prices closer to the higher retail electricity prices in most countries. This could fundamentally mainstream community renewables.

The last two points are akin to levelling the playing field costs in (2) above, but for revenues.