



Walcha Council Mayor, Clr Eric Noakes
Walcha Council General Manager, Phillip Hood
Cc, Walcha Councillors
Clr Anne-Maree Pointing
Clr Aurora Reilley
Clr Nina Hicks
Clr Scott Kermode
Clr Mark Berry
Clr Kevin Ferrier

14 November 2023

Hello Eric and Phillip,

Summary

We are writing in response to the proposed VPA (Voluntary Planning Agreement) for Winterbourne Wind, as described on the Winterbourne Website, and include our analysis and comments. We are aware that this is still under negotiation and are basing our assumptions purely on the description on the Winterbourne Wind website. We also understand that the council has authorised the Mayor and GM to act on their behalf, to negotiate the VPA with Winterbourne Wind Farm, but to adhere to the expectation of 1.5% of build cost, as noted in the council minutes.

We understand the VPA will be on exhibition for public comment after negotiations between Council and Winterbourne Wind have been completed, and this will be our opportunity to comment specifically on this VPA and we look forward to this opportunity to follow due process. However, we believe that promotion of the community benefit fund on the Winterbourne Wind website has led to confusion around the true value of the fund. The package highlighted on the Winterbourne Wind website describes a \$34 million dollar fund. When considered in Net Present Value terms, it's value is in fact approximately \$11 million or 0.7% build cost. This is well below the 1.5% build cost the Mayor and General Manager were authorised to negotiate. This is the reason we wanted to make comment prior to the open submission period.

We have sought comment from experts in the field, and one such person to make comment on the use of Net present Value, and its measure of the value of the VPA, is Rick Sands. (*See Appendix 6 for Rick Sands's background*). Rick has made comment on our assumptions, shown in the attached spreadsheet (*Appendix 3*).

Challenge to methodology of valuation

On their website, Winterbourne Wind say the Benefit Fund will return around \$34 million to the community over the expected project life (30 years). This is different to \$34 million of "value" as has been incorrectly implied. This number has been arrived at by adding together all future payments and describing them as a current value. This is a totally erroneous financial representation. Just as an offer of \$1 million, gifted 25 years into the future, is not worth, by any capable financial measure, \$1 million of value now.

Please see Appendix 1: Using Net Present Value to measure "value" – not by adding up cashflow over time.

CoREM "Statement of Expectation" is not being met.

Walcha ratepayer resources, and much of Mayor Noakes's time, have been put into the CoREM activities and documentation of this Statement of Expectation, and much discussion has been shared about the value of this work. This statement was signed by our Mayor, in March 2023.

A copy of this statement can be found in Appendix 4

We therefore assume that the formulation of the “Statement of Expectation” should have relevance to Winterbourne Wind and should be adopted as a minimum standard.

“Community Contribution Fee – Developers of energy projects to provide a community benefit contribution to a common fund established and solely managed by the individual Councils. This community benefit contribution would be in the region of 1.5% of build cost of the project (as detailed in the Capital Investment Value Report) or circ. \$800 per MW (AC) per year over the life of the project.”

If council do not adhere to this CoREM document, they will be falling short of this clear expectation. Furthermore, the Council has authorised the Mayor and the GM to negotiate with Winterbourne Wind, on the basis of achieving 1.5% of build cost, as the value of the VPA.

Minutes of council meeting, 19th April 2023, one month after the CoREM “Statement of Expectation” was signed, include this authorisation to the Mayor and the GM, to negotiate on these terms. The discussion leading to this was held in closed chambers, and so we do not have access to this background discussion.

For Winterbourne Wind, based on the build cost of \$1.588 Billion as stated in the EIS, this value is **\$23,820,000**. We should expect this to be achieved.

If we calculate the Net Present Value of the currently proposed VPA (on the Winterbourne Windfarm website), using a discount rate of 8.82% (a figure suggested as modest in terms of relevance for this project risk profile) we have a Net Present Value of \$11,443,000

Refer to Appendix 3 for details of this calculation.

This Net Present Value is less than half of the value of the Walcha Council expectation, that our Mayor and GM have been authorised to negotiate.

Transparent dealings

We are concerned that the council discussions around a multi-million 25 year deal are being held behind closed doors in non-minuted workshops and closed council discussions. The council meeting deliberations are brief and all voting processes appear to be pre-discussed, with no background or discussion being included in the minutes or the meeting recordings. This appears to be against the advice of the Planning Act, in relation to VPA negotiations.

The Walcha public have an opportunity to make comment on the proposed VPA and need to understand it as much as Councillors do. The community need to understand the background of the VPA. They should understand the justification of the value of the VPA. The community needs to hear the explanation, so they can make informed comment on this VPA.

These deliberations need to be transparent, and clear to the community. Could we request that the practice of closed-door workshops not be used for deliberations around the VPA?

Other concerns

In addition to this gross shortfall of expectation, we have the following concerns;

1. Risk with long term commercial deals, with operators in an industry under pressure.
Refer to Appendix 5
2. The build figure being used to calculate the size of the VPA, as printed in the Winterbourne Wind EIS, is undoubtedly understated.

This was a figure published in order to calculate the application fee to the Planning Department, and as such would not be at risk of being overstated – to say the least. In addition, this was calculated in mid 2022, and has been subjected to serious inflationary pressure since calculation. The figure available should be treated as an absolute minimum build cost.

3. We are concerned that the legacy of the original proposal seems to be the unchallenged outcome of this negotiation. We are concerned that the description of a “\$35 million deal” is being used to describe a VPA that is nothing of the sort.

If Winterbourne Wind are claiming that this is a \$34 million deal, can we then request a package, with a Nett Present Value of \$34 million, be offered, with a significant component paid up front, or at least assured with bank guarantee? The use of the phrase “\$34million” to describe this deal, is a financial faux pas that will lead to embarrassment of the council, if not clarified.

4. We are concerned at the apparent urgency to have this VPA signed under time pressure. This is an important document that both the Planning Dept and Winterbourne Wind would like to see signed. It is not in Council’s interest to sign an agreement that does not meet Council standards and community expectations. Tamworth Council, by way of comparison, have held the Hills of Gold VPA unsigned for 4 years, because it is unsatisfactory. It is a powerful negotiating tool for the Council. The Planning Department have not to date progressed a project that does not have a VPA in place.
5. Comparative lack of income from a non-REZ project. Compared to a REZ project, the lack LTESA connection fees flowing back to the council will make the Winterbourne Wind project far less appealing to the Council and community than a REZ project. This has not been accounted for in the VPA, and makes the attractiveness of the Winterbourne Wind project far less appealing than an alternate project. **Why are the Council so determined to facilitate the approval of this project, in favour of others?**

What are the real risks?

We are amazed that this negotiation has not been taking place with specialist financial advice or support, and we are staggered at the risk that this puts the council under if this negotiation was scrutinised at any stage following the agreement signature.

We are just asking that this negotiation be supported with appropriate financial or actuarial advice. This would be cheap insurance, and important support in these negotiations that have generational significance, given their timeframe.

Kind Regards,

Voice for Walcha

us@voiceforwalcha.com

Appendices follow, with associated details.

As these transactions are often a combination of payments over time, they need to be standardised for comparison purposes and represented in standard financial terms after adjustment for the risks that are inherent in the project – as a Net Present Value – or NPV. This methodology takes into account the erosion of value over time through depreciation, as well as the opportunity earning capacity, using a discount rate. The discount rate is typically based on a risk premium above a risk-free interest rate. On a project such as this, the risk-free rate would be the Australian Government 20 yr bond rate (5.32%) plus a project risk. While inherently subjective Rick Sands has suggested that a risk rating for this deal be at least in the order of 3.5% - 5%, given the following risks;

1. Project doesn't complete building out the 119 turbines
2. Delays in commissioning
3. Contract and payment defaults
4. Hidden defects
5. Force Majure
6. Technology (a better mouse trap) - Hydrogen, wave, solar or even better turbines make this project obsolete.
7. Health risks.
8. Government intervention, and so on.

If we use the above integers we arrive at a discount rate of 8.82%. (5.32% + 3.5%, using the more modest 3.5% risk rating).

Calculation of NPV

The value of the VPA, in CoREM terms, should be the calculation of 1.5% of the build cost of the project. The Winterbourne Wind EIS included a build cost figure that is used to calculate the project application fee. While this is likely to be modestly estimated (given it's purpose) and while it is now 2 years out of date during a period of significant construction inflation, we at least have a starting figure of \$1.588 billion, as the build cost.

The value of the VPA, if we adhere to councils authorisation to the Mayor and GM, which is inline with the CoREM statement of Expectation, should have a Nett Present Value of **\$23,820,000**.

These calculations are shared in the accompanying spreadsheet, with Rick Sands's comments included.

It should not have this value in 10 years time or 20 years time or 25 years time, but now. In financial practice, this is commonly accepted logic. This is the concept of Net Present Value.

The Current proposal

If we calculate the Net Present Value of the currently proposed VPA, using an indexation value of 3.5% and a discount rate of 8.82% (both figures suggested as modest in terms of relevance for this calculation) we have a NPV of **\$11,443,000**

This risk rated figure for NPV, is less than half of the value of the Walcha Council expectation, that our Mayor and GM have been authorised to negotiate.

In order to meet expectation of 1.5% of build cost, the currently advertised VPA would have to be more than doubled. Additionally, without significant upfront component, there is too much risk in the current proposal. If 50% is received up front and invested, the interest alone earned from this lump sum goes close to matching the current proposal cash flow. These interest payments would be in perpetuity, without touching the principal.

For details of these calculations – refer to Appendix 3– Excel Sheet - VPA Comparison using Net Present Value

Summary of different models

There are 4 models used for calculation. We are trying to point out that the addition of each of the cashflow amounts over the course of 25 years is not a valid way to measure and compare the value of an investment, or VPA. We would adopt a universal measure of financial valuation, Net Present Value. We would also adopt the minimum standard of the CoREM model, and council stated expectation, requiring 1.5% of build cost, or a NPV of \$23,820,000. The current proposal is less than 50% of this expectation.

APPENDIX 3

Excel sheet - Workings, calculating Net Present Value.

Financial Analysis

Winterbourne VPA - comparison with Tamworth and COREM model as minimum standard

Variables assumed

AU 20yr bond rate:	5.32%	
Risk Rating:	3.50%	
Discount Rate:	8.82%	See explanation below from Rick Sands
Indexing value	2.50%	# Except for model D, where indexing allows for risk of default. # Except for model C, where indexing is noted as 1.7% on Winterbourne Wind website.

Note: Tamworth model similar to COREM model, but makes specific mention of indexing, rather than leaving it as a vague assumption, as well as requiring 50% up front.

Model A Tamworth model (with 50% upfront):

VPA is 1.5% of build cost, with 50% paid up front, and the remainder paid over 25 years, indexed.

Model B: COREM model (with no upfront payment):

VPA is 1.5% of build cost, with 0% paid up front. Paid over 25 years, indexed.

Model C: Winterbourne Advertised VPA - on website

With \$1,000,000 paid up front, and \$850,000 paid over 30 years, indexed at 1.7%. #as described on WWF

Model D: Meeting expectation-CoREM with 50% upfront

NPV equals 1.5% of build cost, with 50% paid up front. NPV needs to equate to \$23,800,000

Using the Winterbourne build cost of:	1,588,000,000
Using Indexing value of:	2.50%

Using the Winterbourne build cost of:	1,588,000,000
Using Indexing value of:	2.50%

Using the Winterbourne build cost of:	1,588,000,000
Using Indexing value of:	1.70%

Using the Winterbourne build cost of:	1,588,000,000
Using Indexing value of:	8.82% #

This value for indexing allows for risk to be included)

This would equate to the following cashflow;

Upfront payment of: 11,910,000 (50% of 1.5% of cost)

Annual payments		
Year 1	488,310	(1.5% of cost, /25)
Year 2	500,518	(As above, indexed)
Year 3	513,031	
Year 4	525,856	
Year 5	539,003	
Year 6	552,478	
Year 7	566,290	
Year 8	580,447	
Year 9	594,958	
Year 10	609,832	
Year 11	625,078	
Year 12	640,705	
Year 13	656,723	
Year 14	673,141	
Year 15	689,969	
Year 16	707,218	
Year 17	724,899	
Year 18	743,021	
Year 19	761,597	
Year 20	780,637	
Year 21	800,153	
Year 22	820,157	
Year 23	840,661	
Year 24	861,677	
Year 25	883,219	

This would equate to the following cashflow;

Upfront payment of: 0

Annual payments		
Year 1	976,620	(1.5% of cost, /25)
Year 2	1,001,036	(As above, indexed)
Year 3	1,026,061	
Year 4	1,051,713	
Year 5	1,078,006	
Year 6	1,104,956	
Year 7	1,132,580	
Year 8	1,160,894	
Year 9	1,189,917	
Year 10	1,219,665	
Year 11	1,250,156	
Year 12	1,281,410	
Year 13	1,313,445	
Year 14	1,346,281	
Year 15	1,379,938	
Year 16	1,414,437	
Year 17	1,449,798	
Year 18	1,486,043	
Year 19	1,523,194	
Year 20	1,561,274	
Year 21	1,600,306	
Year 22	1,640,313	
Year 23	1,681,321	
Year 24	1,723,354	
Year 25	1,766,438	

This would equate to the following cashflow;

Upfront payment of: 1,000,000

Annual payments	
Year 1	850,000
Year 2	864,450
Year 3	879,146
Year 4	894,091
Year 5	909,291
Year 6	924,749
Year 7	940,469
Year 8	956,457
Year 9	972,717
Year 10	989,253
Year 11	1,006,071
Year 12	1,023,174
Year 13	1,040,568
Year 14	1,058,257
Year 15	1,076,248
Year 16	1,094,544
Year 17	1,113,151
Year 18	1,132,075
Year 19	1,151,320
Year 20	1,170,893
Year 21	1,190,798
Year 22	1,211,041
Year 23	1,231,629
Year 24	1,252,567
Year 25	1,273,860
Year 26	1,295,516
Year 27	1,317,540
Year 28	1,339,938
Year 29	1,362,717
Year 30	1,385,883

This would equate to the following cashflow;

Upfront payment of: 11,910,000 (50% of 1.5% of cost)

Annual payments		
Year 1	518,418	(1.5% of cost, /25)
Year 2	564,143	(As above, indexed)
Year 3	613,900	
Year 4	668,046	
Year 5	726,968	
Year 6	791,087	
Year 7	860,861	
Year 8	936,788	
Year 9	1,019,413	
Year 10	1,109,325	
Year 11	1,207,168	
Year 12	1,313,640	
Year 13	1,429,503	
Year 14	1,555,585	
Year 15	1,692,788	
Year 16	1,842,092	
Year 17	2,004,564	
Year 18	2,181,367	
Year 19	2,373,764	
Year 20	2,583,130	
Year 21	2,810,962	
Year 22	3,058,888	
Year 23	3,328,682	
Year 24	3,622,272	
Year 25	3,941,756	

Sum of Values \$28,589,578 (A meaningless figure)

Sum of Values \$33,359,155 (A meaningless figure)

Sum of Values \$33,908,411 (A meaningless figure)

Sum of Values \$54,665,113 (A meaningless figure)

Nett Present Value \$17,905,185

Nett Present Value \$11,990,369

Nett Present Value \$11,370,347

Nett Present Value \$23,820,000

(What the deal is actually worth - in todays money)

(What the deal is actually worth - in todays money)

(What the deal is actually worth - in todays money)

(What the deal is actually worth - in todays money)

Notes from Rick Sands

You need to be very careful using these discount rates given the inherent risks associated with these projects. You are quite correct they are far too low for making a business decision.

These Cashflows are anything but assured and 3.5% is well below even the AU Govt 20 year bond rate (5.32%) which I would argue is still way too lite for calculating NPV given the risks that you will receive all these cashflows.

I am also unaware of the corporate structure of this project or how any of the project obligations would be met if any of the risks eventuated, or the turbines blew up causing bush fires that wiped out farming or urban communities - see this link:

The risks are:

1. Project doesn't complete building out the 119 turbines
2. Delays in commisioning
3. Contract and payment defaults
4. Hidden defects
5. Force Majure
6. Technology (a better mouse trap) - Hydrogen, wave, solar or even better turbines make this project a dud.
7. Health risks.
8. on and on it goes.

I believe that a more appropriatre Discount rate range would be more like - Lower $5.32\% + 3.5\% = 8.82\%$ or a higher rate of $5.32 + 5\% = 10.32\%$, if so then

Model A Tamworth model (with 50% upfront):	Model B: COREM model (with no upfront payment):	Model C: Winterbourne Advertised VPA - on website	Model D: Model that meets expectati
Nett Present Value \$17,905,185 Lower	\$11,990,369 Lower	\$11,370,347 Lower	\$23,820,000 Lower
Nett Present Value \$17,160,733 Higher	\$10,501,466 Higher	\$10,001,948 Higher	\$21,926,916 Higher

(Personally I suspect the discount rate is higher than 10.32% which simply makes the delta larger)

Now given the significant disparity I would be going with the Tamworth Model unless I could get all the money upfront which I am sure Winterbourne would not do.

From my perspective the Walcha Mayor needs to grab the Tamworth basis and run with it and use the 50% upfront to do something for the RatePayers or Farmers eg : Subsidised electricity or solar baterries, or ?????, surely as Mayor he has ideas of what he wants to do. In 5 years he won't be in the position and he should grab as much money as he can for the farmers or Ratepayers.

Let me know if this is what you are looking for.

Best regards Rick.

Summary from Spreadsheet.

	Description of Model	Addition of cashflow payments over 25 years	Nett Present Value calculation
Model A	VPA is 1.5% of build cost, with 50% paid up front, and the remainder paid over 25 years, indexed.	\$28,589,578	\$17,905,185
Model B	VPA is 1.5% of build cost, with 0% paid up front. Paid over 25 years, indexed.	\$33,359,155	\$11,990,369
Model C	With \$1,000,000 paid up front, and \$850,000 paid over 30 years, indexed at 1.7%. #as described on WWF website. Proposed model	\$33,908,411	\$10,739,104
Model D	NPV equals 1.5% of build cost, with 50% paid up front. NPV needs to equate to \$23,800,000 Model that meets CoREM expectation of value – 1.5% of build cost.	\$54,665,113	\$23,820,000

Model C is what has been proposed by Winterbourne Wind, Model D is a possible model that fits the stated expectation of Walcha Council.

We are concerned that Walcha Council are prepared to accept Model C – less than half the value of the Council stated expectation.



16 March 2022

Your ref:

Our ref: AO/2022/01823

The Hon Adam Marshall MP
Member for Northern Tablelands
PO Box 77
Armidale NSW 2350
Via email: northerntablelands@parliament.nsw.gov.au

Dear Mr Marshall

Statement of expectations from New England Renewable Energy Zone Councils

The attached 'Statement of Expectations from the New England Renewable Energy Zone' outlines what the Councils of the New England Renewable Energy Zone deem to be the essential requirements for a renewable energy project to achieve widespread community and Council support.

We would welcome a meeting with you and the Energy Minister the Hon. Matt Kean at your earliest convenience to discuss the above and the process for the adoption of these terms as a central element in the future success of the New England Renewable Energy Zone.

Please contact me on (02) 6770 3832 or by email at scoupland@armidale.nsw.gov.au if I can be of further assistance.

Yours sincerely

Cr Sam Coupland
Mayor

Background

The New England Renewable Energy Zone ('NE REZ') will be 8GW in size which is approximately the equivalent of 57.44 mt CO2 offset. To put that into perspective, Australia's current CO2 emissions are approximately 528.78 mt CO2 (2020). The NE REZ will offset almost 11% of Australia's current CO2 emissions. This is the equivalent of planting around 500,000,000 trees or removing 12.5m cars from our roads.

The contribution that the region is making to Australia's reduction in carbon is nationally significant. The establishment of the NE REZ is burdening our Councils with significant financial and social costs with little tangible benefit to our regions.

Proposal

To offset the financial and social burden associated with the NE REZ projects and gain the support of the NE REZ Councils, the NE REZ Councils require the State Government to mandate the following (as conditions precedent or subsequent) to the initial conditional approval and the final approval of any energy project:

Essential

1. **Community Contribution Fee** – Developers of energy projects to provide a community benefit contribution to a common fund established and solely managed by the individual Councils. This community benefit contribution would be in the region of 1.5% of build cost of the project (as detailed in the Capital Investment Value Report) or circ. \$800 per MW (AC) per year over the life of the project.
2. **Decommissioning Bond** – Prior to the commencement of any works, a bond for decommissioning is to be provided to the relevant department of the NSW Government to be held on trust for the relevant NE Council. Where a threshold balance sheet or other financial due diligence has been met, this bond could be 'tail-ended' so that it becomes payable over the last five years of the life of a project. The bond will not be discharged without consultation with the relevant Council.
3. **Local Engagement** - Developers of energy projects are to demonstrate authentic community engagement that seeks to actively involve community members in the design and decision-making process of new developments. This includes liaising with Council as to appropriate sites. (Certification by the local council that this requirement has been met, is to accompany any project application).

Desirable

4. **PPA** – Developers of energy projects are open to entering into a Power Purchase Agreement with Council and Council aligned businesses. This requirement is met if the Developer does not reject a Council PPA proposal, or a revised PPA proposal, where the Developer can demonstrate that the proposal would commercially compromise the project.
5. **Carbon offset purchase from local market** - 75% of the carbon offsets required for the individual project in the NE REZ are to be sourced from the local government area (LGA) in which the project is being developed. Where the supply in that LGA is exhausted, then the supply can come from another LGA in the NE REZ Council area. Where that supply is demonstrably exhausted, the developer will be exempted from this requirement to the extent of the lack of supply. (Certification by the local council, and or the NE REZ Councils as relevant that this requirement has been met, is to accompany any project application).
6. **Telecommunications infrastructure** – be constructed as part of a project and with access provided to an appropriate telecommunications company.







Sam Coupland
Mayor
Armidale
Regional Council

Rob Banham
Mayor
Glen Innes Severn
Council

Paul Harmon
Mayor
Inverell Shire Council

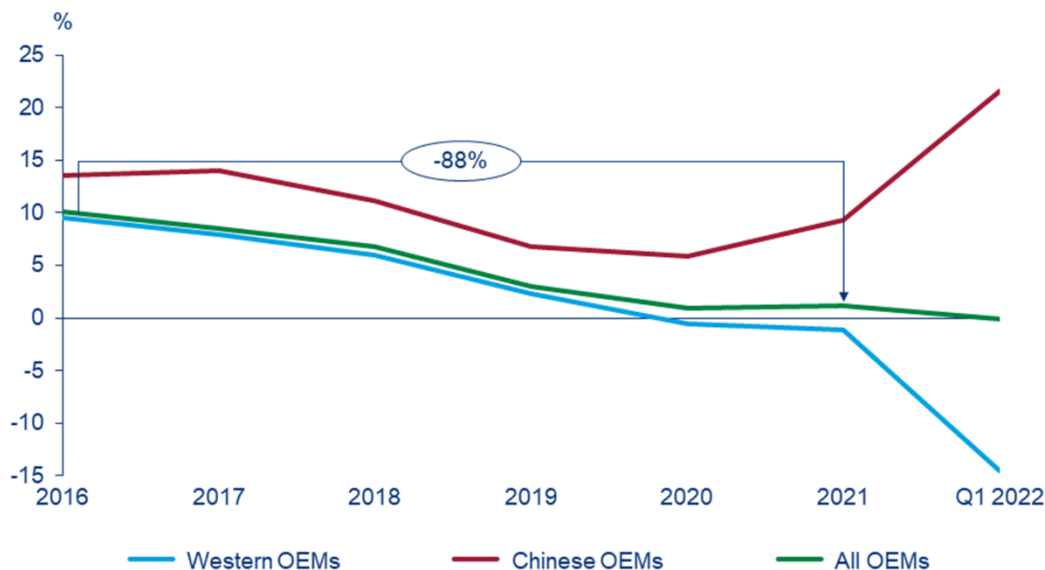
Robert Bell
Mayor
Uralla Shire Council

Eric Noakes
Mayor
Walcha Council

Appendix 5 – Commercial risk of long term deals in the renewable sector.

Carrying a commercial deal with a corporate, in an environment when many of the multinational operators are having serious cashflow and operational issues and share price collapses. Siemens, GE, Vestas are all under pressure. The only operators having success are Chinese operators - reportedly.

Turbine OEMs' weighted EBIT margin, 2016-2021, nominal values



Source: Wood Mackenzie, OEM financial reports. Western OEMs: Vestas, SGRE, GE, Nordex. Chinese OEMs: Goldwind, Windey, Mingyang

This concerning picture can be readily supported by viewing share price trajectories of Siemens Energy, Orsted, and others. Vestas are 40% off their highs 2 years ago, facing increasing warranty issues with new, larger turbines failing, as well as supply chain restraints, increasing costs and concern over new orders.

The model of delayed payment terms, for a commercial deal in this environment, carries with it great risk. This could be offset by a number of measures including;

- A Bank Guarantee from the developer, for the full 25 year cashflow.
- An upfront payment of at least 50%, for the council to deposit and generate interest.

Each of these options should not raise an eyelid from a developer who intends to honour the deal in full. How do you feel that Vestas will respond to the request? Either option above would meet the community's expectation, and I presume the councils as well.

We have contacted Rick Sands to get a comment on our assumptions and workings, relating to the use of Net Present Value. Rick has no knowledge of the project, apart from our conversation about the use of NPV to assess and compare investment options. Rick has not made any input that can be described as an opinion of favour or distaste for the development. Financial analysis is fundamentally unable to do so, and so we consider his comments as purely analytical. If there is any question of bias, we simply ask the council or councillors with doubt to seek advice as we have done.

Richard Sands is Director, Karridale Pty Limited and a Fellow of the Institute of Chartered Accountants in Australia. Mr Sands has previously been a Member of the Australian Institute of Company Directors, a Member of Chartered Secretaries Australia. Initially a Chartered Accountant with Wayland and Wayland; subsequently Company Secretary and Corporate Lending Manager with Lloyds Bank Plc's Australian subsidiary Lloyds International Limited. Principal, Richard Sands & Co, Chartered Accountant and Karridale Pty Limited.