



## Office of the National Wind Farm Commissioner

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**Title:** Financial payments made to landowners by the wind industry

**Objective:** Provide background information regarding the use of financial payments to landowners by wind farm proponents within the Australian context

**9 January 2017**

### Section 1: Introduction

The Australian wind industry continues to grow. It is expected that wind generation will contribute significantly to the national Renewable Energy Target (RET) <sup>[1]</sup>, which is designed to create an incentive for the increased supply of electricity from renewable sources <sup>[2]</sup>.

As more wind farms are being developed and operated around communities in Australia, it is important for wind farm proponents to effectively engage with community members who live near wind farms. It has been found that wind farm developments can be perceived to create “winners and losers” within a community <sup>[3]</sup>, and the success of a wind project often depends on whether effective community engagement was undertaken during both the development and operation of the wind farm <sup>[4, 5]</sup>. Research has suggested that social unrest in communities around Australian wind farms is primarily caused by inadequate community engagement practices <sup>[6]</sup>.

Community engagement has a number of elements and can occur in a number of ways. Research has identified that one of the many factors that determine local community attitudes to wind farms are community expectations of how the commercial benefits from a wind farm should be shared or distributed within a community <sup>[7]</sup>. Additionally, the Office of the National Wind Farm Commissioner (‘the Office’) has observed much interest from stakeholders about the nature of commercial agreements between the wind industry and communities. This discussion paper will focus on one model of benefit sharing with the community: the use of commercial agreements between the wind farm and members of the community.

### Section 2: General Observations

It is the Office’s view that commercial agreements alone in the wind industry should not be seen as a substitute for other forms of community engagement. The Office has observed additional forms of community engagement that do not involve the provision of direct financial payments to landowners, such as providing community infrastructure and education initiatives. These tools of community engagement have a material impact on the wind farm gaining and maintaining community support.

Financial benefit sharing in the wind industry has arisen partly through the common practice of proponents providing some form of financial payment to members of the community as compensation for impacts of the

wind farm on community members. There are a variety of financial agreements between proponents and community stakeholders used both domestically and internationally. A study conducted by Ernst & Young (2014) for the NSW Office of Environment and Heritage categorised these agreements into three categories:

1. **Payments to communities**, which can include offers of cheaper electricity for community members, job creation for local residents and contractors, and community enhancement funds.
2. **Payments to landowners** for use of land for turbines, and to neighbours of a wind farm
3. **Community co-ownership** of the wind farm

The focus of this discussion will be around *payments made to landowners*.

### **Section 3: Landowner payment and neighbour agreement models**

During the development of a wind farm, financial agreements are typically entered into by proponents and those landowners who may “host” wind turbines on their properties. Further, there are some circumstances where it may be appropriate for neighbouring landowners, who may be impacted by the presence of wind farm infrastructure, to be compensated for the impact <sup>[3]</sup>. Agreements for financial payments made to neighbouring non-host landowners by wind proponents will be referred to as “neighbour agreements”.

Ernst & Young conducted an international review of the payment mechanisms made by proponents with landowners and communities, and found there are two primary models of landowner payments in Australia <sup>[8]</sup>.

#### **1. Landowner lease:**

*Landowners receive payment from the wind farm by leasing part of their land to host wind turbines. Payments are typically made annually on a long term agreement basis, either on a rate per turbine and/or based on the energy produced by the turbines. Payments may commence at or before construction commences.*

#### **2. Proximity model:**

*Wind proponents provide payments to landowners who have property within a defined radius of a wind turbine, including turbine hosts and neighbours. Payments are typically made annually on a long term agreement, and may include payments during the development and construction phases as well as the operating phase of the wind farm.*

In Australia, financial payments made by proponents to neighbouring landowners impacted by their wind farm are typically a voluntary payment and not enforced by regulation <sup>[8]</sup>. However, the Office has observed that there are some wind farm permit conditions which state that certain landowners may be entitled to request land acquisitions or the implementation of visual impact mitigation measures. These conditions are determined by matters such as predicted noise levels and/or visual amenity factors.

Currently, it is difficult to know how widely-used neighbour agreements are in Australia. It is possible that this is due to non-disclosure clauses that are commonly included in neighbour agreements <sup>[9]</sup>.

The host landowner lease and neighbour agreements are not only used in the wind energy sector. For example, the NSW Independent Pricing and Regulatory Tribunal (IPART) developed a model for the

amount of compensation landholders should expect to be entitled to when negotiating agreements with the gas industry <sup>[10]</sup>. This provides a set benchmark formula which calculates estimated compensation rates for landowners involved in negotiations with gas companies.

## **Section 4: The benefits of host landowner payments and neighbour agreements**

### *Benefits of agreements*

Host landowner lease payments can be highly valuable for providing a secondary source of income for landowners <sup>[3]</sup>. Landowners have cited that payments from a proponent can provide a drought-proofing income, a retirement pension, funds for better protection of the land and the opportunity to avoid the need to improve their financial sustainability through land subdivisions <sup>[3]</sup>.

Landowner lease payments can also be beneficial for demonstrating the proponent's goodwill toward the community. However, not every landowner in a community will be approached by the proponent to host a turbine, which has the potential to cause a sense of unfairness amongst the community, where some community members are impacted by a wind farm, but are ineligible for the income that comes with a turbine lease <sup>[11]</sup>. This highlights the potential value of a neighbour agreement, which can distribute the financial benefits of a wind farm more widely among residents who live near a wind farm.

### *Drawbacks of agreements*

There are some potential industry concerns or drawbacks to the concept of establishing neighbour agreements with landowners. Neighbour agreements may not always be seen as a positive action for a proponent, as it could be considered that any neighbour agreements negotiated within a community could set a precedent for neighbour expectations in future projects. Additionally, community support of a wind farm may depend on whether or not any proposed neighbour agreements are successfully negotiated by a proponent <sup>[11]</sup>.

Considering the pros and cons of neighbour agreements, there are opportunities to consider what are best practice landowner payments and neighbour agreement models and how to best implement such agreements.

## **Section 5: Conclusion**

Landowner payments and neighbour agreements are one way in which wind farm proponents can develop positive relationships with a community. Additionally, it is important to note that community engagement does not need to be through financial compensation; non-financial community engagement is also extremely important. However, landowner payments and neighbour agreements, if appropriately negotiated and administered in good faith, have the potential to build long-term, effective relationships between wind farm proponents and communities, as well as broader acceptance of the wind farm project by the community.

## References

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