In this step you will be considering the governance and financing options, and regulatory compliance requirements for the microgrid model selected. Depending on the complexity of the model, you may require legal, financial and/or regulatory assistance with this step.

You will also consider how to select suppliers and potential partners to develop and operate the microgrid.

GOVERNANCE

The Governance arrangements for a microgrid will depend on:

- who is involved in owning assets, operating and participating in the microgrid;
- the individual and collective objectives and interests of these parties; and
- the roles and responsibilities of individual parties.

The purpose of microgrid governance is to put in place the organisational arrangements to give effect to the objectives and interests of the parties. The complexity of these arrangements will depend on the structure of the microgrid. Some examples of the various options are set out below.

- If the microgrid involves a single site with one user which also owns all the microgrid assets, governance arrangements can be fairly simple as the one Microgrid User will be responsible for decision making and compliance with the contracts and regulatory approvals discussed in Step 3.

- If Microgrid User(s) work with partners to provide services (such as demand response or energy supply) directly to the Microgrid User(s), these third parties (such as a retailer or aggregator) will have their own governance arrangements which will apply to the Microgrid Users.

- If a Microgrid has multiple Microgrid Users providing flexibility or separately owning Microgrid Assets which are optimised through a Microgrid Operator on their behalf (as set out in the Precinct Microgrid model in Step 3) more complex governance arrangements will need to be set up. These will differ depending on the microgrid stage (for example whether there is a basic microgrid; the microgrid is providing an external services model, or whether the microgrid is on-market).

An example of the parties involved in a Precinct Microgrid and their potential interests is illustrated below.
There are a range of other ways in which the microgrid functions can be arranged. For example, a Microgrid Electricity Market Operator (MEMO) could also take responsibility for managing the Microgrid Network and Microgrid Assets or a third party (such as a retailer) could carry out many services on behalf of the Microgrid Operator.
**Microgrid asset ownership**

One of the objectives of a microgrid is to make the most efficient use of Microgrid Assets. For example, an efficient balance of User Assets and Precinct Assets can maximise asset utilisation and reduce the total capital cost of the microgrid.

Precinct Assets may be owned by the site owner. Alternatively, Microgrid Users can organise themselves to own and operate Precinct Assets. This could be done by establishing a cooperative or a special purpose vehicle (SPV). With either legal form, the organisation would own the Precinct Assets and Microgrid Users would hold shares in the organisation.

Another alternative is for Precinct Assets to be owned by a third party. This would be a similar arrangement to solar power purchase agreements where a solar system is installed at no cost to the user, who then pays for the supply of renewable electricity.

A further option would be for the Precinct Assets to be owned by the MEMO. The options for the governance of a MEMO are outlined in the Appendix.

**Financing Microgrids**

One of the key challenges for microgrid development is financing the Microgrid Assets. To secure finance, there will need to be clear revenue streams available through payments from Microgrid Users and contracts for the supply of External Services.

Common options for financing Microgrid Assets are:

- project finance (repayable loans),
- project investment (investors obtaining a return when the project is sold),
- energy as a Service (where a supplier will own and operate the assets for a fee).

There may also be a need to finance the development of the MEMO. This may be secured through project finance or equity investment. The financing options, and the revenue streams to support them are illustrated in Figure 2 below.

A range of legal forms can be used to finance and hold the Microgrid Assets, including Special Purpose Vehicles and community cooperatives.

*Figure 2 // Financing options*
REGULATORY APPROVALS

What regulatory approvals you require will depend on the model of microgrid you have chosen and the services the microgrid will provide. Any exemptions which may make these systems more viable should be put in place at this stage. Expert consultants can be utilised at this stage to identify regulatory constraints and assist in working through approval processes.

The connection agreement will be key to delivery of any microgrid model and you may need technical advice to assist in its review and negotiation with the Distribution Network Service Provider.

CONTRACTING STRATEGY

Depending on the model of microgrid you have selected, you will need a selection of suppliers and partners to deliver services.

Depending on the services offered, you will also need to consider risk allocation between microgrid users, suppliers/partners and MEMO (if appropriate to your model).

When appointing suppliers and partners direct appointments can be made, or a competitive tender could be undertaken to ensure that value for money is achieved. Consultants can run this process for you, or you may have an internal procurement process to follow.
## GLOSSARY

<table>
<thead>
<tr>
<th><strong>DNSP</strong></th>
<th>Distribution Network Service Provider</th>
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<tbody>
<tr>
<td><strong>External Services</strong></td>
<td>The supply of market and/or network services to Market Participants or the Australian Energy Market Operator</td>
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<tr>
<td><strong>Market Participant</strong></td>
<td>People, businesses and organisations which participate in the two electricity markets operated by AEMO</td>
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<tr>
<td><strong>Microgrid Network</strong></td>
<td>A private electricity network to which Microgrid Assets are connected.</td>
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<tr>
<td><strong>Microgrid Asset</strong></td>
<td>A source of renewable electricity supply or storage, or controllable load connected to a Microgrid Network</td>
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<tr>
<td><strong>Microgrid Network Manager</strong></td>
<td>The person or organisation that manager the Microgrid Network</td>
</tr>
<tr>
<td><strong>Microgrid Control Services</strong></td>
<td>The use of technology to connect and control Microgrid Assets, and/or manage the supply and demand for electricity across the Precinct Microgrid</td>
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<tr>
<td><strong>Microgrid User</strong></td>
<td>A person obtaining their electricity from the Microgrid</td>
</tr>
<tr>
<td><strong>Precinct Asset</strong></td>
<td>A Microgrid Asset connected to the Microgrid Network that is not owned or operated by a Microgrid User</td>
</tr>
<tr>
<td><strong>Precinct Microgrid</strong></td>
<td>A microgrid that operates within a site owned or occupied by one person or organisation</td>
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<tr>
<td><strong>Stand Alone Asset</strong></td>
<td>A renewable generation or storage asset that is not located on the site of the Microgrid Precinct</td>
</tr>
<tr>
<td><strong>User Asset</strong></td>
<td>A Microgrid Asset that is owned or operated by a particular Microgrid User</td>
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<tr>
<td><strong>Vic NEM</strong></td>
<td>Refers to Victorian NEM pricing</td>
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Should it be decided that an entity will be incorporated to act as the Microgrid Electricity Market Operator, there are a number of factors that need to be considered in deciding on the most appropriate governance for the MEMO (see the table below).

These factors include:

- social and environmental objectives;
- Microgrid User confidence;
- the profit objective;
- the need for capital raising.

**Social and Environmental Objectives**

Microgrids may be developed to achieve social and environmental objectives. These objectives may include environmental goals such as contributing to Net Zero goals by reducing the carbon dioxide intensity of electricity consumption. They may also contribute to other community objectives such as having local control over electricity supply, bushfire safety and local business and employment.

If the proponents of a Microgrid do not want to personally receive a financial return from the Microgrid, a company limited by guarantee may be an appropriate form of governance.

**Profit objective**

Another way to build Microgrid User confidence would be to establish the MEMO as a company limited by guarantee, with the objective of operating the microgrid(s). A company limited by guarantee would operate on a not for profit basis.

Alternatively, MEMO could be established as a cooperative owned by Microgrid Users (potentially also owning Precinct Assets) which would provide the opportunity for profits earned by MEMO to be returned to Microgrid Users.

**Capital raising**

A fourth issue to consider when deciding on governance arrangements is the extent to which the MEMO may need to raise capital. Capital may need to be raised either to further develop and commercialise the IP, fund Microgrid Assets or expand the scope and scale of microgrid operation.

Although a cooperative can raise capital, there are limits on the amount that can be raised, and a company limited by guarantee cannot raise capital. A for profit company limited by shares would provide a vehicle for capital raising.

**Insurance**

Whatever the legal form it adopts, the MEMO will also need to take out insurance that matches its risks and liabilities. Unless the MEMO is managing the Microgrid Network and/or Precinct Assets, this would be likely to involve standard business insurance, such as public liability and professional indemnity insurance.
### Factors

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<tr>
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<th>Governance forms</th>
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<tr>
<td></td>
<td>Company limited by Guarantee</td>
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<tr>
<td>Social and environmental objectives</td>
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<tr>
<td>Microgrid User confidence</td>
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<tr>
<td>Profit objective</td>
<td>for reinvestment</td>
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<tr>
<td>Need for capital raising</td>
<td>from guarantors</td>
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*Figure 3 // Assessing the most appropriate forms of governance*