SDAP Supplementary Guidance Factsheet

Financial security for decommissioning renewables and energy storage

This factsheet provides guidance to applicants preparing development applications for wind farms, solar farms and battery storage facilities in Queensland. It outlines the information required to demonstrate compliance with providing financial security for decommissioning performance outcomes in State Code 23 (wind farm development), State Code 26 (solar farm development) and State Code 27 (battery storage facility development). *Applicants are encouraged to seek independent legal and financial when preparing application material and not rely solely on this factsheet.*

The State codes each contain a performance outcome requiring: "*The decommissioning plans are secured by bonds or financial guarantees or other mechanism/s to safeguard compliance.* "

What financial security means

Financial security in the context of this factsheet means a legally enforceable arrangement or instrument that ensures sufficient funds are available to carry out decommissioning and site rehabilitation if the project proponent fails to do so.

Why this matters

The purpose of financial security is to reduce the risk that landowners, communities or the State are left with the cost of decommissioning and site rehabilitation if a project is abandoned, ceases early or the proponent defaults.

Risks need to be managed by appropriate security instruments for the full project lifecycle - from commencement of construction to end-of life decommissioning.

What applicants should submit

Applications to SARA for a renewable energy project should include a **Decommissioning Financial Security Framework** (which may be included in a decommissioning report or provided as a separate report) outlining:

- project lifecycle stages and the decommissioning risks associated with each stage
- proposed financial security instruments for each stage
- who can call on the security if default or abandonment occurs
- the trigger events, through lifecycle stages for access to security funds
- the proposed method for estimating decommissioning costs over time
- how the financial security and instruments will be reviewed and updated through project stages.

Note: *Detailed costings and sensitive commercial information are not generally expected in the initial framework report. If provided, these details will be accessible to the public.*

Examples of financial security instruments

Financial security may be provided through one or more of the below instruments across different project phases, provided the overall arrangement is enforceable, sufficient and fit-for-purpose:

  - bank guarantees or bonds held by an independent third party
  - trust or fund structures with staged contributions

- insurance-based or surety products
- other instruments across the project lifecycle.

While security instruments may change over time, it is important that risk protection continuity is provided to landowners from commencement of construction to end-of life decommissioning.

Lifecycle approach

- **Construction phase:** security should address the risk arising from early abandonment of partially completed works, disturbed land and subsequent 'make good' obligations
- **Operational phase:** security should continue without lapse and be reviewed as costs, technology, ownership or project configuration changes
- **End of life:** the full decommissioning quantum should be secured before cessation of operations and be readily callable by the nominated party.

What makes financial security arrangements acceptable?

Application material should demonstrate that the proposed security arrangement is:

- legally valid and enforceable
- callable on defined trigger events such as default, insolvency or abandonment
- supported by funds or instruments that are segregated from the proponent's general assets
- not dependent on the proponent's ongoing solvency, cooperation or discretion
- maintained and adjusted for as long as decommissioning risk remains.

Where private agreements, leases or insurance products are proposed as part of the framework, the report should clearly identify the financial mechanism that secures decommissioning liabilities and how it can be accessed when needed.

What arrangements will generally not be accepted

- Reliance on EPC or EPCM contracts, or contractor-provided securities, alone.
- Reliance on landowner agreements, lease arrangements or insurance products alone, unless they contain a clearly identifiable, enforceable and sufficient financial mechanism dedicated to decommissioning.
- Any arrangement that would require the State to hold funds, initiate call-up, fund works or manage decommissioning.

Key messages for applicants

- Address financial security early in project planning and application material – particularly where landowner agreements are intended to play a role in managing decommissioning risk.
- Explain, in application material, how the proposed framework responds to risk at each project stage.
- Show how the security can be called and who will manage decommissioning if default occurs.
- Use a lifecycle-based approach so the form and quantum of security can evolve over time.
- Do not assume the State will hold, manage or activate financial security.