Response to DECC Consultation on Community Right to Buy in to Renewable Electricity Generation Developments

Author: Jelte Harnmeijer, Scene Consulting

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This paper was submitted by Scene Consulting in response DECC's consultation on *Community Right to Buy In to Renewable Electricity Generation Developments*, and contributed through the Shared Ownership Taskforce, chaired by Renewable UK.

1. Shared Ownership: One form of Engagement with Renewables

Communities can potentially benefit from engagement with commercial developers on renewable energy projects in a large diversity of ways. A basic 'engagement typology' is shown below:

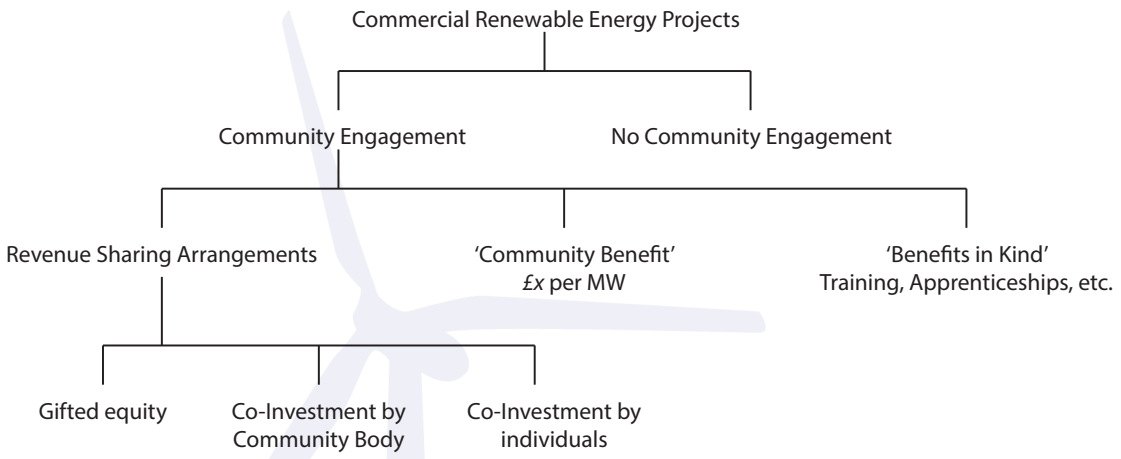

Figure 1: Community renewables engagement typology.

One way for communities to engage with commercial projects is through some kind of revenue sharing ('co-ownership') arrangement. Worldwide, a large and growing diversity of revenue sharing arrangements are used on renewables developments. In the diagram above, such arrangements are categorised on the basis of how finance for the community stake in projects is sourced. 'Gifted equity' refers to arrangements where a proportion of revenue – usually allocated through shares – is given to one or more community bodies. In some countries, this is financed through a public fund of some kind. 'Co-investment by community body' refers to revenue sharing arrangements where one or more community bodies invest in a project on behalf of their constituency or membership. Examples in the UK include a diversity of Joint Venture arrangements with local development organisations such as Development Trusts. 'Co-investment by individuals' refers to revenue sharing arrangements where the community consists of collection of non-specialist investors. Examples include arrangements between developers and various kinds of co-operatives, and 'crowdfunding'. 'Crowdfunding' is a broad term that:

- Usually involves an on-line funding investment platform of some kind
- Usually involves a low (£5 - £50) minimum investment
- Includes a large diversity of financing mechanisms, ranging from equity through debenture to bonds and debt.

2. Legal Structures

Different arrangements call for different legal structures (see Table 1 below). The nature of the revenue-sharing arrangement places constraints both on the legal structure of the actual project vehicle (i.e., the entity that hold the renewable asset; examples include Limited Liability Partnerships and Special Purpose Vehicles), as well as the legal structure(s) of community bodies and their subsidiaries that derive benefit from the asset (examples include local development organisations such as Development Trusts, and different types of Industrial and Provident Societies).

Table 1: Community Shared Ownership in context. Red box shows the types of projects relevant to this consultation.

		A. Project Ownership	
		Whole	Partial
B. Investment Source for Community Stake	Community Body *Includes Local Development Organisations such as Development Trusts*	Community-led projects	Revenue-sharing arrangements with local development organisations
	Individuals *Includes Co-operatives of all kinds*	Wholly cooperatively-owned projects Wholly crowd-funded projects	Revenue-sharing arrangements with co-operatives

3. Mandatory versus Compulsory Arrangements, and Respective Partner Roles

Depending on the policy landscape, revenue-sharing arrangements may be mandatory (e.g., South Africa), entirely at the discretion of the developer (e.g., United Kingdom), or somewhere in between (e.g., the form of the co-investment offer may constitute a material consideration in local or national planning policy).

In contrast to elsewhere, when it comes to planned or operational commercial projects in the UK, developers are currently under no obligation to consider or offer co-investment opportunities to communities. Entertaining the possibility of community co-investment, and initiating negotiations thereto, is entirely at the developer's discretion. Indeed, it is becoming increasingly common to see local community representatives, rather than developers, take the first step in initiating conversations towards co-investment. Because of this, it is vital to consider community co-investment from both the commercial developer's and the community's perspective when crafting co-ownership policy.

Projects where revenues flow to one or more community bodies also differ in respect of roles and responsibilities of partner organisations. Counterparties other than community bodies can take the leading role in project initiation, planning, build and financing. Some projects, for example, can be largely developer-led, with the community securing a right to a proportion of revenue fairly late in the development (e.g., after commission and build). Other projects may see a community taking the lead from the start, and only involving a developer as a peripheral contractor. Other than the question of 'who takes the leading role', the large number of ways in which roles are and can be distributed within community / developers partnerships makes it impractical to categorise shared ownership projects on the basis of respective roles. More relevant to the UK context is the timing of community buy-in.

4. Timing: Community Perspective

Despite the fact that offers and uptake of community buy-in opportunities do not formally constitute a material consideration under current UK planning law, it is widely recognised that most local authorities look favorably on revenue-sharing arrangements with communities. This can be seen, for instance, when comparing planning approval rates between community-developer joint ventures with those for purely commercial projects[1].

This means that communities have greatest leverage over prospective developer partners in the period before a planning determination is made. From the community's perspective, then, the pre-planning phase is generally the best time to secure a shared-ownership agreement.

5. Timing: Commercial Developer Perspective

Co-owned project vehicles with multiple stakeholders are inherently more risky and cumbersome than fully-owned vehicles, and require more management and administration. Many (indeed, most) renewables developers – and, importantly, their equity investor and banking partners – regard the prospect of community co-investment as particularly risky. As a whole, many important private sector parties regard community groups and organisations as slow, fickle and not 'business ready'. Very few developers have the needed in-house expertise or experience to engage with communities appropriately, and many that have tried have faced sudden and unexpected decisions or changes in course from community counterparties. A co-investment relationship with a community is perceived as a particularly burdensome risk in the pre-planning stage of project development, where timescales are tight and work towards planning consent and grid-connections often need to be finely orchestrated.

From the commercial developer's point of view, there are also risks that stand outside of the planning process. A partnership with a community can make it harder to secure investment or bank finance. It is also notoriously difficult to 'sell on' a completed project – a business model that many developers follow – if there is a community stakeholder involved. Unlike specialist developers, community groups often engage in renewable energy to secure a long-term revenue stream independent from public finance.

In summary, shared ownership de-risks commercial projects by improving planning prospects. On the other hand, depending on when the community invests, it is often the developer that takes the risk ('pays') for work done during the risky pre-planning-determination period. Depending on the model used, shared ownership can also add to project risk by increasing complexity (more stakeholders, risk of unexpected community decisions, delays in community decision making).

Well-crafted policy and financing mechanisms should take these very different perspectives into account. For example, 'community warrants' – simple financial instruments that offer a right but not an obligation to invest in a commercial project at a later date at a pre-agreed price – would secure investment opportunities for communities on individual projects before they go to planning, while simultaneously preventing much of the 'partnership risk' from being passed on to the developer partner. They would 'buy time' for community partners to raise finance – through community share raises or otherwise – while securing the crucial leverage that local communities have over projects prior to a planning determination being made. The issuance of community warrants would also allow developers to demonstrate to Local Authorities that their ambitions for genuine community ownership on their projects are genuine.

[1] A recent paper, written by U. of Edinburgh and Scene Consulting, begins to address this point: http://www.climatexchange.org.uk/files/4413/8315/2952/CXC_Report_-_Success_Factors_for_Community_Energy.pdf

6. Summary

A summary of key characteristics of shared ownership projects is shown in Table 2 below:

Table 2: Key characteristics of shared ownership projects.

Characteristic			Types	Examples
1	Source of community finance		Gifted to community	Fintry DT, South African Community Trusts
			Community body	Local development organisations
			Individuals	Co-operatives, crowdfunding
2	Legal structures	Of project vehicle	Many	SPVs, LLPs
		Of community entity	Many	Development Trusts, charities, private limited social enterprises, bona fide co-operatives, community benefit societies
3	Respective roles		Community leads	Neilston
			Developer leads	Fintry
4	Timing of community investment		Pre-planning	P & L Turbines
			Post-planning	'Energy4All model'
			Through warrants	Several in development

7. Our Position

In view of the foregoing, Scene Consulting's position is that:

- Commercial renewables developers should be obliged to offer local communities the opportunity to invest in their projects, but in a way that takes account of the potential for unwanted risk.
- A formal co-investment offer should be made *prior to the submission of planning application*.
- 'Community warrants', which confer to local stakeholders the right but not the obligation to invest, are a suitable financial instrument to use.
- The use of well-designed 'community warrants' on shared ownership projects can address the disparate challenges that both developers and communities face, and can sidesteps the bottlenecks posed by the UK planning system.