CEE bankwatch network

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Community Power – putting people to the heart of energy systems

For more information

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"Community Power" refers to energy projects providing for direct benefits to a group of local shareholders. The opportunity for residents to develop and own green energy infrastructure or to jointly leverage untapped energy saving potential, represents a fundamental shift away from the conventional energy system characterized by centralized planning and production, polluting supply resources and oligopolistic structures of the energy markets in Europe. Community Power projects can take various forms depending on existing legal and financial frameworks, geographies and familiarity with renewable energy and energy efficiency initiatives.
However, some recurring features of Community Power are:

- Involvement of citizens in running the project;
- Tangible local social benefits;
- Creation of a cooperative or, more generally, a non-corporate structure;
- Elements of decarbonisation;
- Profits benefiting community members through direct distribution or re-investment in other community energy schemes.

A significant increase in the proportion of energy derived - or saved - from community energy schemes offers a range of multiple benefits for consumers such as:

- Direct involvement of citizens in energy-related decisions, so that they can take control of their energy ensuring that their needs are placed before the interest of large energy companies;
- Mobilisation of community savings, which constitute a new valuable source of funds and a financial incentive to further promote similar schemes;
- Lower energy bills and easier access to green energy;
- Opportunity to pave the way for widespread use of community power projects thanks to tangible success stories that in turn reduce resistance of renewable energy sceptics.

In order to promote public support for Community Power and the use of viable Community Power schemes, the Community Generation Fund created in the UK could be seen as a blueprint with the view to implementing similar schemes in CEE countries:

What is the UK Community Generation Fund?

The Community Generation Fund is a national fund created to foster the development of community-owned renewable energy infrastructure in the UK. The Fund is designed to assist communities seeking to develop renewable energy generation infrastructure which will create renewable energy, social engagement and a long term income source.

Who is it for?

Borrowers should be distinct legal entities rather than one or more individuals. Likely legal status of borrowers will be:

- Community Interest Company (business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community)
- Industrial & Provident Society ((also known as 'society for the benefit of the community' or BenCom, cooperative structure set up to benefit its members)
- Company limited by guarantee (with social purpose)
- Incorporated Charity

Projects sizes considered from 25kWp upwards, with majority expected to be in 50kWp-1MW range.

Beneficiaries should rank within the top 50% most deprived locations in England, Wales, Scotland or Northern Ireland, as listed in latest available UK Indices of Deprivation.

How does it work?

The Community Generation Fund provides 2 types of funding:

1. Finance for up to 75% of pre-planning development costs, via bridge loans which will be repayable only if planning consent is achieved successfully ("Development Loans");
2. Finance for up to 75% of post-planning construction costs, via term loans with flexible repayment arrangements ("Construction Loans");

<u>Development Loans</u> - in this case relevant expenditure items are:

- Environmental and ecological studies (e.g. fishery studies, flood risk assessments, noise etc.)

- Technical studies (e.g. anemometer studies, detailed feasibility reports etc.)
- Detailed design and project planning (e.g. full scheme specifications, consultant reports etc.)
- Licence applications and related reports/studies (e.g. Abstraction licences, Grid connections etc.)
- Planning applications (e.g. final planning consents, based on EA reports etc.)
- Legal advice (e.g. Heads of Agreements with land-owners etc.)

Construction Loans - long-term loans for equipment, construction and commissioning costs (post planning consent) either stand-alone or alongside bank finance. In this case the fund supports expenditure such as:

- Capital equipment
- Construction, civil engineering, commissioning costs
- External contractor/project management costs
- Relevant external professional fees

How is it managed?

The FSE group organises quarterly meetings with investors to inform them of current activities and expected returns. This fund is managed by one fund manager supported by a larger investment team.

How is it financed?

In general, the FSE group works in partnership with several organisations, including the EU through the ERDF. The UK Community Generation Fund has been launched with the support of two initial investors, Big Society Investment Fund and Esmee Fairbairn Foundation.

Viability of Project

Cash-flows generated (e.g. via Feed-In-Tariffs or the UK Renewable Heat Incentive, private sale agreements etc.) are sufficient to cover operating costs and loan servicing/repayment, with capacity for surplus cash-flow over time to be created for the community itself (for re-investment into other community-benefit initiatives).

Repayment terms

With reference to the Development Loan, it is contingently repayable, i.e. if the project does not reach planning consent (subject to time-based criteria) due to insurmountable adverse findings or planning refusal, loan repayment will be deferred indefinitely. If the project reaches completion, the loan is repayable (0 interest rate with an exit premium of 25-100% which is likely to represent less than 5% of total project costs).

The Construction Loan can be repaid over a period of 5-15 years, with an Interest of typically 7-10% per annum, depending on risk assessment and extent of flexibility required.

Collaterals

Development loans are basically unsecured, hence the higher cost of financing for the borrower. Construction loans entail step-in rights[i] plus assignments of key consents (planning, land-owner, abstraction etc.) and if applicable, nominated recipient of FIT/RHI revenues. Precise security arrangements are to be resolved at legal-stage, but typically will involve debenture over the community investment vehicle which owns the project.

[i] If the borrower becomes insolvent halfway through a project and breaches the building contract and the professional appointments, the funder may step in and effectively become the developer in order to complete the project.