



Carbon Free Joint Venture Model

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CARBON*free*
DEVELOPMENTS

Introduction

- Carbon Free Developments ('CFDL') is a privately owned, highly capitalised developer of onshore wind farms in Scotland. CFDL has a good reputation, largely due to its application of strict development criteria that results in good quality, appropriately sited and scaled developments.
- CFDL recognise that to be successful in a competitive industry and high risk planning system, a flexible and innovative approach to development is required; particularly in the area of community engagement and benefits.
- As a nimble and forward thinking business, CFDL has developed a unique joint venture model with Neilston Development Trust. The model is simple, repeatable, scalable and requires no further commercial support out with the existing and highly successful Renewables Obligation.



The Carbon Free Joint Venture Model

The 'Model' is simple and transparent:

- The community forms a community development trust ('CDT') – a limited company with charitable status, set up for the sole benefit of the community. CFDL and CDT then form a Limited Liability Partnership (an 'LLP') and enter into an LLP Agreement.
- CFDL identifies the site, provides 100% of the high risk capital and manages the whole development and planning process, up to the point of planning consent. This is wholly at CFDL's risk .
- In return, the community supports the development throughout the planning application process and ensures maximum political and public support.
- On receipt of planning consent, CDT has the right, but not the obligation to invest in up to 49.9% of the consented project, on terms identical to CFDL. If CDT chooses to invest, it must repay a pro-rata share of the development costs incurred by CFDL and contribute up to 49.9% of the equity required to construct the wind farm.
- If planning consent is not received, CDT is not responsible for any costs incurred by CFDL.
- CFDL will source the project finance required to fund construction and will assist CDT in finding its share of the requisite equity. From this point, both parties share the operational risks and rewards of the wind farm through annual dividends.

Key Benefits

- The model is commercial and market driven . Only the best sites and most capable communities are selected;
- The model directly engages the community at the very start of the development process ensuring solid public support and buy-in. This substantially increases the probability of planning consent and reduces the developer's upfront risk;
- The model delivers substantial and tangible financial benefit, free of tax, to those directly impacted by the development. Combined with a community initiated social regeneration plan, the model can lead to sustainable development, long-term wealth and empowerment at community level;
- Responsibility for project delivery remains at all times with CFDL, as does the burden of sourcing debt and equity requirements. Fundamentally, the model does not expose the community to commercial risk because (a) the initial high risk capital is provided solely by CFDL, and (b) standard, non-recourse, project finance is used to provide the senior debt. CFDL ensures projects are high quality and appropriately located. Projects are commercially developed in a timely, professional manner;
- The community's equity requirement can be sourced from (a) low interest social enterprise loans (b) mezzanine debt (c) government and social grants;
- More interestingly, the community could sell a proportion of their equity to realise partial project value at the outset. Such a move would provide the community with the funds to finance their continued interest in the project while simultaneously providing attractive upfront cash during the early operating years when dividends would otherwise be limited due to debt service requirements.

Case Study: Neilston Community Wind Farm LLP

- Neilston Community Wind Farm is a four turbine development located adjacent to a former landfill site in East Renfrewshire. It is a joint venture between CFDL and Neilston Development Trust ('NDT').
- In May 2009, NDT approached Carbon Free to discuss wind farm development opportunities. Consequently CFDL identified a site and set to work on development studies. A planning application was submitted at the end of 2009. Consent is expected shortly.
- The cost to build the wind farm is expected to be in the region of £10 million. Substantial equity (from both joint venture partners) and project debt finance will be required.

Potential Capital and Equity Requirements		
	Total for Wind Farm	Allocable to 49.9% of the Joint Venture
Estimated CAPEX and Development Costs	£9,850,000	£4,915,150
Likely Equity Required – Assume 10%	£ 985,000	£ 491,515

- Ethical Banks, such as the Co-Op Bank will lend up to 90% of a 'Community' wind farm's capital expenditure requirements. Government sponsored entities, such as Social Investment Scotland, will currently consider lending up to £600,000 to eligible communities on terms approximating a fixed 7% interest rate, repayable over seven years.

Estimated Cash Flows

- The project will take approximately four months to construct. Once constructed and operating, the wind farm would likely generate pre-tax profits, as follows:

Potential Pre-tax Profits (per annum) from the Wind Farm		
	Total for Wind Farm	Allocable to 49.9%
Operating Years 2 – 12	£460,000 - £700,000	£230,000 - £349,000
Operating Years 13 – 25 – after debt is satisfied	£1,150,000 – £1,950,000	£574,000 - £973,000

- NDT will be required to repay any loans used to fund their equity requirement from their share of the wind farm distributions.
- NDT will be required to take the same operational risks as Carbon Free with respect to the wind farm. The Community's annual revenue could increase or decrease with rises and falls in electricity prices and interest rates in respect of the project finance required to build the wind farm.

Key Issues for CFDL

Precursor to CFDL investment:

- The community development trust must be well organised and fully able to demonstrate they carry the support of the wider community and the local authority. Critically, a development trust must demonstrate it can deliver solid political support over a sustained period.
- CFDL will insist on the community developing a social action plan detailing how wind farm dividends will be spent. In CFDL's experience, wind farm development is better accepted by the wider community when tangible and deliverable benefits are visible. The social plan will be combined with a detailed public consultation exercise, spearheaded by the development trust.
- Good wind farm development is about finding appropriate, high quality and technically robust sites where development constraints are minimised. Critically, CFDL must be able to identify such a site within the boundary of the community development trust.