



Watts Up?

#6 - Autumn 2006

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PURE

Newsletter of PURE - the Power Up Renewable Energy Co-operative
Renewable Energy and Conservation for Dufferin County and the Headwaters Region

SUPPLEMENT - to Watts Up? #6 - Autumn 2006

Failure to Launch?

How a Co-operative can Facilitate and Invest in "Community Wind"

By Winton Dahlström, President, Helix Synergy Inc.

Have you ever wondered why community-based cooperatives are so successful in Europe when it comes to wide-scale participation in commercial ventures from the dairy industry, to wine making, to green wind power? When it comes to Green Power, is it that environmentally-conscious European governments create significant incentives and subsidies that favour cooperatives, such as tax credits, guaranteed prices, legislated renewable energy quotas, accelerated depreciation on capital equipment, guaranteed loans, or innovative investment structures? Perhaps it's all of the above and more.

The Western European culture seems to be much more sensitized to the need for sustainable energy systems than North America. There is also a wide-spread 'community consciousness' in Western Europe compared to Canada and especially the United States. Do we have a 'Failure to Launch' here in Canada when it comes to significant community involvement and benefit in large-scale commercial renewable energy projects? Are outsiders bringing in capital and reaping the investment benefits from local renewable energy projects only to quickly 'truck' the gains away from the area leaving a radically altered landscape with little community benefit to show for it? – Many think this is the case.

If North America lacks the necessary 'community consciousness' then what mechanism do we have to promote community involvement and its resultant economic benefit to the advantage of the community? **Money!** This gets everyone's attention. Recently, OSEA (Ontario Sustainable Energy Association) led the way for Ontario to become the first in North America to adopt the 'Standard Offer Contract' program through which a guaranteed 'profitable' price is offered for renewable energy generation under long term power purchase contracts. The Liberal Government, the Ministry of Energy and the Ontario Power Authority all seem to understand that, before we collectively do the 'right' thing for the environment, we must first do the 'profitable' thing. ➤➤



Thus we have the S.O.C. program that offers 11 cents per kilowatt-hour (an approx. one-cent 'premium' over larger projects) for renewable energy wind projects that will be embedded into the frequently overloaded local electrical distribution systems creating significant energy savings for the Province. The limit on these wind projects is 10 MW nameplate capacity - or about \$25 million of capital investment per wind farm. What an opportunity for local communities to truly benefit from the harvest of clean, green wind power! Now all we need to do is come up with the \$25 million per project. They seem to be able to do it in Western Europe – and so should we...or, do we have a 'Failure to Launch'?

From my perspective here in Dundalk, for example, I don't foresee the community coming close to this amount toward investment in an S.O.C. wind farm. Throughout all of Grey and Dufferin Counties I think it would be a monumental task to entice local investors to generate even a million dollars of capital investment let alone \$25 million! Yet on Bay Street there seems to be a growing appetite for just such investments – where did THIS money come from? It comes from investments in pension funds and other investment vehicles that are in part owned by the residents of the Grey and Dufferin Counties! It seems we have a bit of a conundrum. The money is here but we don't yet know how to channel it into to community-owned and controlled renewable energy projects – even when it's for the greater good of the community! Everyone wants to make money and they would rather entrust their hard-earned retirement investments to the more familiar concept of professional financial managers on Bay Street, who scrutinize risk in the emerging renewable energy sector, than to allow well-meaning but perceived-to-be unaccountable volunteers to find a community-based approach. ➤➤

What then do we do?

The answer: *Blended Financing*. Communities are in a very good position to leverage their interest in community-based renewable energy projects by ratcheting down RISK. In return for this I believe local community cooperatives and other local groups can leverage their positions upward to bring about very significant gains in ownership and control in local large scale commercial projects. Although the democratic principle of ‘one person – one vote’ will become ‘one share – one vote’ (see Part II online) much remains available to the advantage of a cooperative by lowering risk in a project proposal and making huge gains when it comes to significant retained ownership and control over renewable energy projects. The more a cooperative can reduce perceived risk in the eyes of financial professionals on Bay Street, the more a cooperative can leverage its position toward greater ownership and control.

How would “Blended Financing” work for PURE Co-op and our communities?

Sample scenario of
Blended Financing with Reduced Risk.

Take the Dundalk Lagoon Wastewater Treatment Site proposal as an example. Here we have a 10MW wind farm proposal designed specifically to suit the requirements of a Standard Offer Contract program. Read: *Reduced risk*. Why? Because a Standard Offer Contract is a commitment to a guaranteed premium rate for power produced over the 20-year life of the wind farm by a ‘rock solid’ purchaser of power – the Province.

Secondly, the Dundalk Lagoon site has the Township of Southgate as the landlord. Read: *Reduced risk*. Why? Because the Township, in addition to being the landlord anticipating financial gain from the project, is also the local *Zoning Authority!* It’s likely that the site zoning will be permissive since the Township now has a vested interest in the success of this project. Community acceptance is likely to be very high since nobody can credibly argue that a wastewater treatment site is an inappropriate location for a wind farm. Also, through the Township structure, every resident within the Township is a beneficiary of this project since it serves to slow the upward march of municipal taxes by providing revenue to a site that otherwise is a cost liability to the taxpayer of Southgate. Again, read: *Reduced risk*.

Thirdly, we have signed Ontario’s first ‘Power Zone©’ lease agreement with the Township of Southgate for the Dundalk Lagoon site. Read: *Reduced risk*. Why? Because the principle of the ‘Power Zone©’ lease creates a ‘land pooling’ formula within the lease that shares rent with the neighbouring properties – thus lowering public opposition to the project and increasing the benefits to the community. ➤➤

Even severed properties with less than an acre of land can benefit financially by being defined within the lease as ‘participating’ properties even though such properties could never qualify to have a wind turbine actually placed upon these lands.

The Dundalk Lagoon Wind Farm has been designed to specifically suit the participation of local cooperatives as well as attracting a great deal of positive attention from the ‘highly critical’ financial gurus on Bay Street. The above attributes all add up to significantly reduced risk in the eyes of the Bay Street financiers – Read: ***Enhanced Opportunity for Cooperatives!*** Instead of trying to come up with the \$25 million required to completely finance the Dundalk Lagoon Wind Farm, P.U.R.E. and other cooperatives have the unique opportunity of raising a only small fraction of this amount – say a ½ \$million - to create a project that will be deemed to have the lowest risk among all those projects competing for investment funding in Toronto and elsewhere. If a cooperative steps up to the plate and substantially reduces the risk of a project proposal by financing: 1) the leasing of municipal land; 2) utilizing the “Power Zone©” lease; 3) acquiring ‘bank-approved’ wind resource data; 4) obtaining a Connection Agreement contract with Hydro One, and finally; 5) securing an S.O.C. agreement with the Ontario Power Authority - then nearly all the risk in a project proposal will have been removed. This will make the cooperative’s offering on Bay Street far more attractive and competitive than other competing ‘private’ proposals. This will also mean that the cooperative will be in a ‘first place’ position to negotiate a much higher return on its investment dollar for the project. Read: ***Enhanced Opportunity for Cooperatives!*** Secondly, it will also mean that a cooperative can retain an unusually high degree of control over the ongoing operation of the renewable energy project since it has already demonstrated in the eyes of the large-scale ‘construction’ investor that it is committed to the ongoing success of the project. Read: *Risk-takers love company!*

Despite all of the above, any cooperative will have to understand and accept that the purely democratic operating principle of ‘one person – one vote’ will have to be replaced by the private financing model of ‘one share – one vote’ as no financing entity putting in \$24 million against a cooperative’s investment of say only \$1 million (with hundreds of participating investors) will ever give up *total* control over the investment. This doesn’t mean however, that cooperatives give up everything – it is my undying belief that cooperatives can greatly leverage their retained ownership and control position by stepping up the plate and hitting the ‘*RISK ball*’ out of the park. Failure for any energy-based cooperative to take up this renewable energy investment challenge will definitely mean a ‘Failure to Launch.’ ☺