

COMMUNITIES AND RENEWABLE ENERGY: A GUIDE

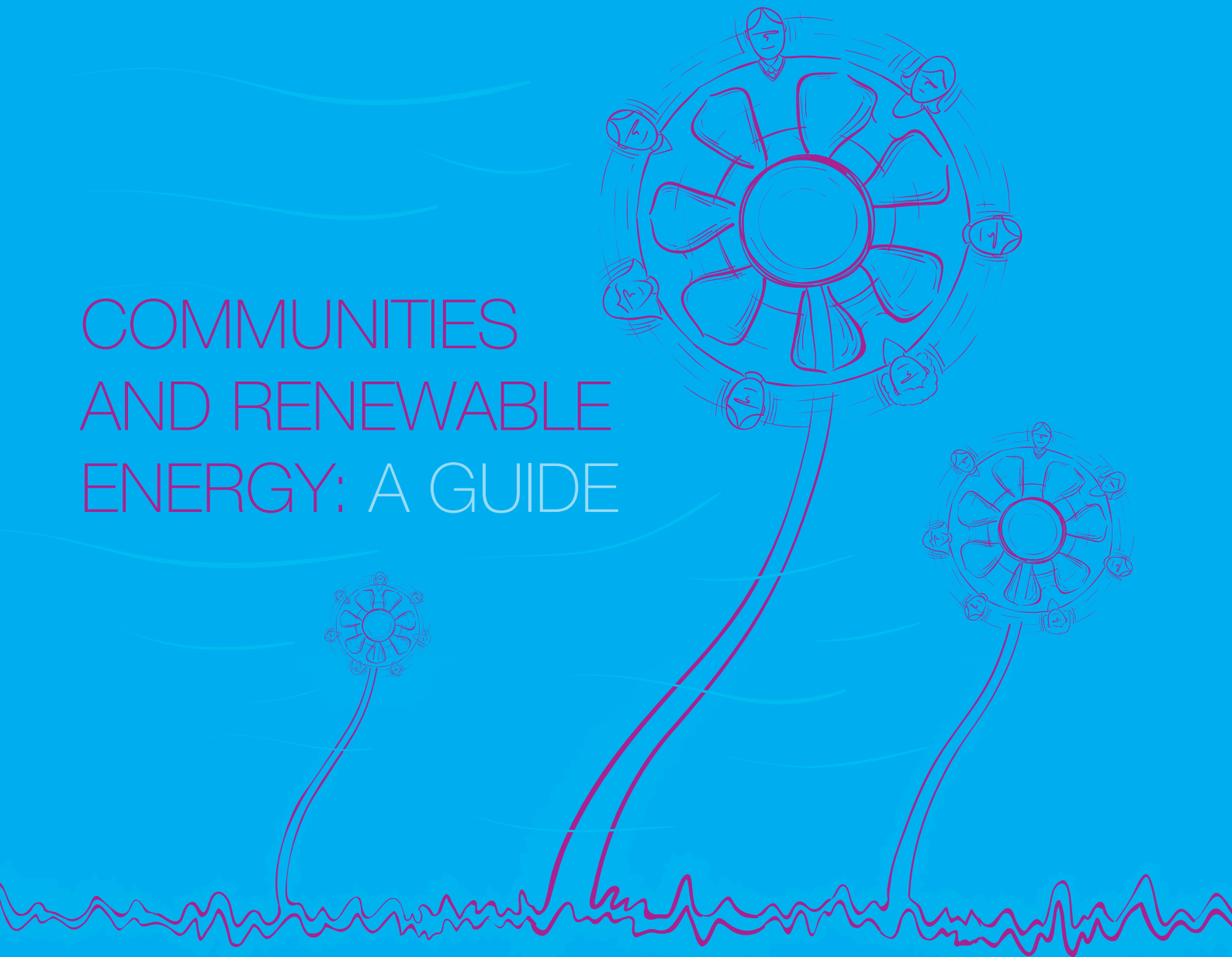


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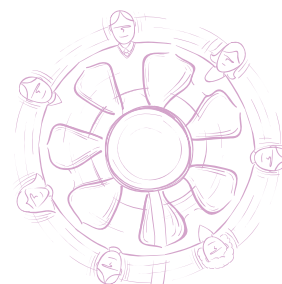
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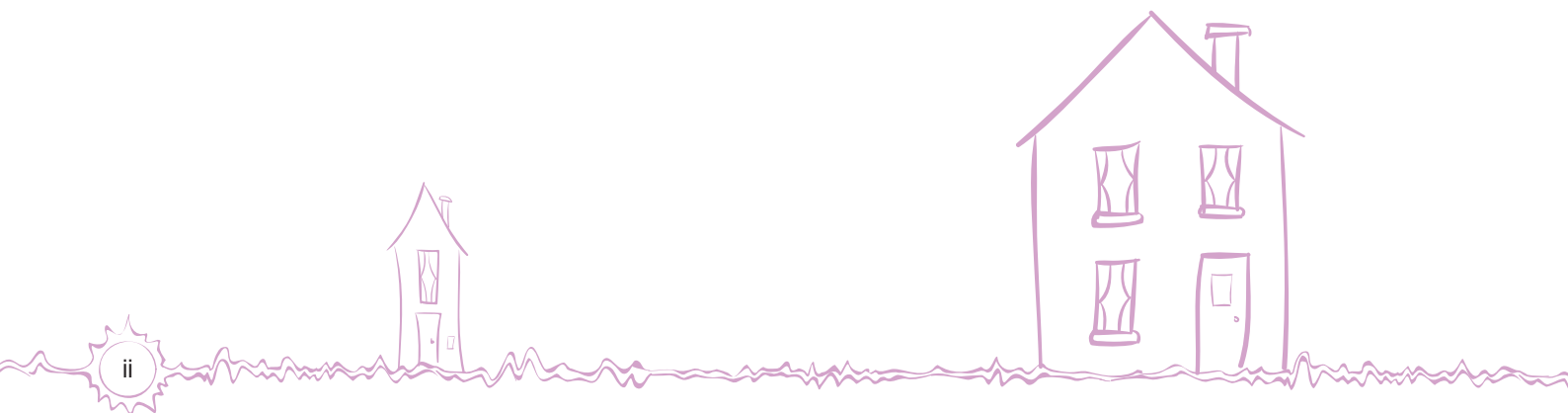


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EXECUTIVE SUMMARY

The initiative for this guide comes from the government's Energy White Paper *Delivering a Sustainable Energy Future for Ireland* (2007) and the report by the Renewable Energy Partnership¹, supported by Sustainable Energy Ireland (SEI), *To Catch the Wind* (2004). The report asserts that an increased level of community participation in a renewable energy project is desirable in order to overcome fears of the impact of such projects on the landscape and a community's lifestyle, and to ensure that communities benefit from projects and have a commitment to them.

This document is a guide for those communities considering participating in a renewable energy project. The guide is biased towards wind energy as it uses as an example the first such wind energy project, which is underway in Killala, Co. Mayo. The Killala wind farm project involves a direct community investment in partnership with a private development company.

The steps taken so far to progress the Killala wind farm project and its future plans (it is currently awaiting planning permission for the wind farm with the application submitted in the summer of 2007) are described. The lessons learned from the experience are drawn out to guide communities at the early stages of project development.

In any renewable energy project a community group will need to go through a number of project phases...

- Project proposal – deciding if the community group is interested in becoming involved in a renewable energy project.
- Feasibility phase – deciding on where the project will be located and establishing if the project is commercially and technically viable, and, most importantly, if it is worth progressing.
- When a community group decide to co-invest with a private company the feasibility phase will include project negotiations on the division of responsibilities and the most appropriate community investment option.
- Securing legal permissions such as planning permission.
- Agreeing a connection to the national grid for electricity generated and securing a power purchase agreement to allow sale of the electricity.
- Arranging the financial package.
- Construction phase and operation.

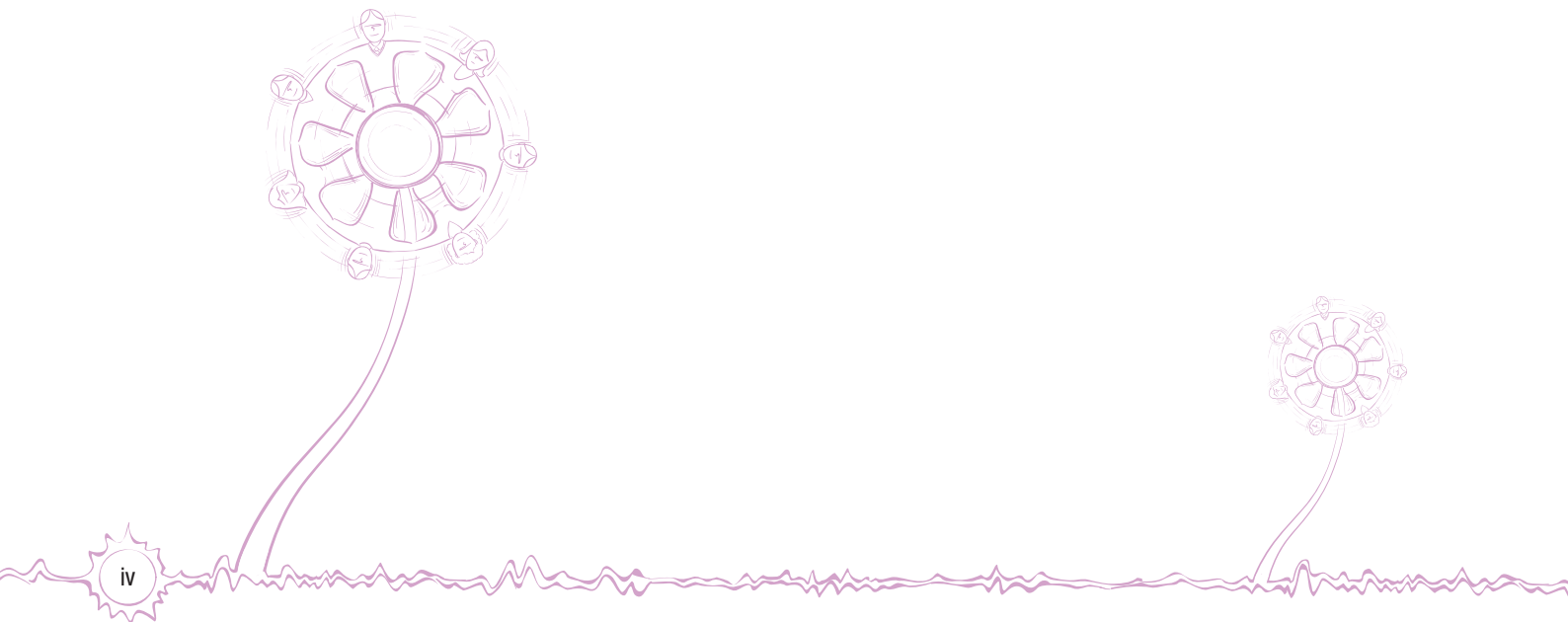
¹ The partners included the Western Development Commission (WDC), Brí Nua Community Wind Energy Group of Inishowen, Co. Donegal, and Mayo Community Wind Energy Group.

The guide includes a series of questions for a community group to answer as it works through developing its project proposal and its project negotiations with a lead developer as part of the feasibility phase.

Important factors coming out of the Killala experience include the need for...

- a professional to act as project facilitator and coordinator in providing project management expertise and knowledge of the renewable energy sector.
- a professional financial advisor to guide the community group through the project process and to negotiate with the lead developer, and also to advise on the most appropriate investment option.
- time allocation from key personnel within the organisations involved.
- an awareness of risk factors on the part of the project partners.
- a realisation that such projects are long term and that benefits will take time to come to fruition; thus it is important to maintain the interest of the community via frequent written communications and meetings.

The WDC took on the project management role for the feasibility phase of the Killala wind farm project and was a third party in the initiative.





1. INTRODUCTION

1.1 Who should read this guide?

The WDC and partners hope that this guide will provide direction to other communities looking at investing in or setting up a renewable energy project, and give an insight into what is needed to encourage community involvement and investment in the renewable energy sector.

Community groups can use this guide to find out about investing in or setting up a project – particularly projects that require a large capital investment. It outlines a series of questions that a community interested in the sector will need to consider before getting involved in a project.

This guide also offers **private developers** an insight into obtaining local community support for establishing a renewable energy project.

Finally, **policy makers** will find this guide useful for identifying what is needed to encourage community involvement in the renewable energy sector

1.2 The importance of renewable energy

The Energy White Paper *Delivering a Sustainable Energy Future for Ireland* (2007)² contains commitments to renewable energy targets, including 33 per cent of electricity generation from renewable sources by 2020, 12 per cent of heat generated from renewable sources by 2020, and a biofuels penetration target of at least 10 per cent by 2020 in the transport sector. There is a strong focus on security of supply, the use of indigenous sources for energy generation and on reducing carbon emissions.

Renewable energy production can create economically and environmentally sustainable enterprises and can play an important role in providing employment opportunities in rural areas that are experiencing agricultural decline. The greatest potential for renewable generation is likely to be in the least developed regions where opportunities to make the best use of natural resources such as wind and wave power and bioenergy production are found.

Ireland has the second largest wind energy resource in Europe, exceeded only by Scotland, with most of the best wind power sites being located in the western counties. Given the overall move towards increasing renewable energy generation, wind power presents considerable potential for development in some of the least developed parts of the Western Region.³ To maximise the economic contribution of such development to the local rural economy, it is necessary to increase the level of community participation in renewable energy projects.

The White Paper states that constraints to the development of the renewable energy sector, including issues of public acceptance and local community support, need to be 'tackled through coordinated national, regional and local approaches' (2007, p.35). Achieving local community support is important if the renewable energy sector is to realise its full resource potential.

² Available from www.dcenr.gov.ie

³ The Western Region for which the WDC is responsible consists of the seven counties of Donegal, Sligo, Leitrim, Roscommon, Galway, Mayo and Clare.

1.3 What are the benefits of community involvement in the sector?

Local community support for the renewable energy sector is important if the sector is to realise its full potential as an energy resource and to achieve government policy goals and targets. The benefits of community involvement in the renewable energy sector include...

- A greater level of public acceptance of renewable energy projects which international experience has shown to result in increased levels of uptake of renewable energy technologies.
- Provision of potential investment opportunities and monetary reward for people living in rural areas.
- Assistance in the implementation of government policy goals and targets by helping to address such issues as increasing fuel security through use of local energy resources, increasing the rates of renewable energy generation and reducing carbon emissions.

There are a number of potential direct financial benefits for a community investing in a renewable energy project. A community could benefit from some or all of the following through participation in a project...

- Individuals in a community or a community group can own a share in a renewable energy project and earn a return on the investment. For example, a wind farm project could potentially yield a return on investment for a community group of 10 per cent per annum. As outlined below, this can happen through a community investment vehicle or through the issuing of individual shares by the lead developer. In the Killala wind farm project, the lead developer proposes to issue a 5 per cent shareholding to individual members of the community through a community investment vehicle.
- A community group can set up and operate a community investment vehicle and thereby co-invest with a lead developer in a project. The community group can then earn an income by charging management fees for operating the investment vehicle. This could provide a long-term income to the community group which it could use to reinvest in other community projects.
- Lead developers of renewable energy projects can support the development of community projects through the setting up of a community trust fund. This trust fund can provide annual funding to local projects for the lifetime of the renewable energy project – for example, funding towards school projects and local development groups. In the Killala project, the lead developer is committed to establishing a community trust once the wind farm has begun trading.

*A **community investment vehicle** refers to the legal entity set up as the mechanism through which a community group can directly invest with the lead developers in the financing of a renewable energy project.*

1.4 The Killala project

In 2004 the Renewable Energy Partnership (REP), which consisted of the WDC, Brí Nua Community Wind Energy Group of Inishowen, Co. Donegal, and Mayo Community Wind Energy Group, supported by Sustainable Energy Ireland (SEI) published *To Catch the Wind*⁴. This report looked at the potential for community ownership of and participation in renewable energy projects. *To Catch the Wind* concluded that communities are likely to run into difficulties if they attempt to develop 100 per cent community-owned renewable energy projects, particularly if the project requires a large capital investment and takes a long time to progress, as is the case with wind farm projects. Therefore *To Catch the Wind* advised that the most promising option for groups is to co-invest with commercial developers.

This guide builds on that report by outlining the experience of a partnership between a private local developer and a community group in Killala, Co. Mayo who came together to develop a renewable energy project involving direct community investment, as proposed in *To Catch the Wind*. The partners – Killala Community Wind Farm Ltd (KCWF) and the Killala Community Council (KCC) – aim to set up a community investment vehicle that will allow as many people as possible in their community to invest in the wind farm, and thereby establish Ireland's first wind farm incorporating such a community investment option. Direct **community investment** is possible through a number of options or 'investment vehicles' as outlined in this guide.

KCWF is the lead developer of the proposed 23 megawatt (MW) wind farm project in north Co. Mayo. KCC is the local community development company and is committed to securing the community's involvement in the proposed wind farm. The WDC acted as project facilitator for the feasibility phase of the wind farm project. The partners and the facilitator successfully secured grant support for the feasibility phase of the wind farm project from SEI as part of its Renewable Energy Research, Development and Demonstration Programme.

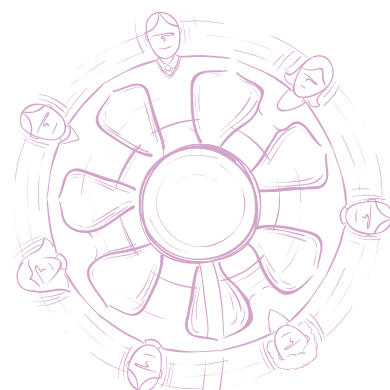
This guide outlines the Killala experience, including the project background, the partners' experiences, the steps carried out to progress the feasibility phase of the project and the lessons learned.

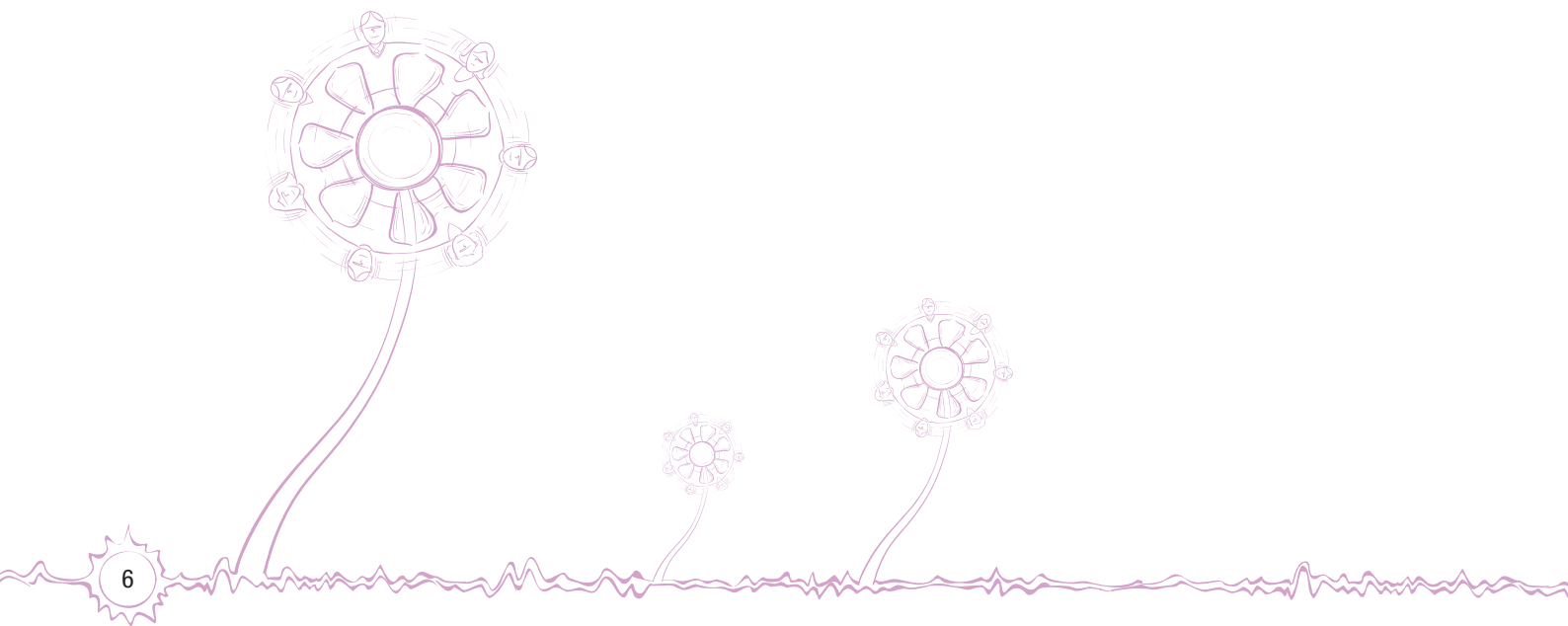
Section 2 contains guidelines for community groups. It sets out a number of key questions community groups must answer if they wish to progress a 100 per cent community-owned project or co-invest with a private developer.

⁴ Available from www.wdc.ie

Section 3 outlines the Killala experience beginning with the project aims and how the project got off the ground. It discusses issues such as the time commitment that was invested in the project by the partners and the facilitator, and the capabilities needed to progress the feasibility phase. Section 3 outlines the role of the professional financial advisor to guide the community group through the project process and to negotiate with the lead developer. It also discusses how the appropriate investment option for individual communities is project specific and needs to be negotiated on a project-by-project basis. Section 3 details how WDC and SEI provided financial support to KCC to commission consultancy reports and contract professional advisory services.

Section 4 looks at the lessons learned. It discusses the key factors that have contributed to the success so far of the Killala project: the experience, capacity and resources available to the community group, the commitment of the lead private developer to securing community involvement, and the availability of a facilitator to support the community group to engage in negotiations with the lead developer. The WDC's role as facilitator underlines the type of support needed by communities if they are to engage with private developers and co-invest in renewable energy projects. The Killala experience shows that KCC also faced other challenges in completing the feasibility phase including issues related to gaining wider community commitment, securing resources, and the complexity of the project for community participation.







2. GUIDELINES FOR COMMUNITY GROUPS

Once a community group has decided to develop a renewable energy project, it will need to go through a number of steps or project phases. While the steps will vary depending on the type of project, usually the first step is to decide on the location of the project and carry out the initial technical, financial, and regulatory analysis – the feasibility phase. This will establish if the project is commercially and technically viable, and, most importantly, if it is worth progressing.

If the feasibility phase shows that the project is viable, the project developer will proceed with securing any formal legal permissions, contracts or licences that are needed to establish and operate the project (e.g. planning permission, connection to the national grid). A finance package will also need to be put in place to fund the project costs. Clearly, the larger the investment, the more complex the financial process needed for securing the required investment funds (e.g. bank finance, private investors). Once all permits are in place and financing is secured, the project can begin construction (e.g. putting up wind turbines, building anaerobic digestors).

A community group interested in developing a renewable energy project must firstly decide on the kind of model that is appropriate to its circumstances (the *project proposal*). If the community group decide to co-invest with a developer, the group will enter into negotiations with the lead developer as part of the feasibility phase (the *project negotiations*).

2.1 Getting started – the project proposal

In order to develop a **project proposal**, a community group needs to ask itself key questions.

Is the community interested in renewable energy projects? How will the project benefit the community? Are there resources to put into developing a project?

How can the community group let the wider community know of the interest in and benefits of a renewable energy project? Are there effective ways to communicate with the wider community? Providing project information at an early stage of project development together with community consultations serves to build consensus that the project is something the community wants.

Is there a suitable and accepted community structure to progress a project? A legal structure is needed for the community to develop a project and attract necessary funding. This may need to be separate from other community structures in order to reduce the risk to the community. Professional advice on the most appropriate arrangement will ensure that the community is fully informed on the options open to it.

Is the group committed to the project? Does the community have the resources to sustain a long-term development effort? Renewable energy projects can take time to progress, particularly if projects require planning permission or other legal requirements (e.g. an environmental impact study). It can take up to four or five years to reach the construction phase of a wind farm.

Is there a possible project ‘champion’ for the project? Is the wider community genuinely committed to the project? A ‘champion’ of the project can create awareness of the opportunity in a wider community. In the Killala experience, as we shall see below, the WDC actively created awareness of the opportunity within the region for community investment as proposed in *To Catch the Wind*.

What resources are available to the community group? Are there adequate financial and staff resources to drive the project and allow for community participation?

What expertise is available from the community group members? How can the gaps in expertise and knowledge be addressed by the community group? Skills needed to develop a renewable energy project include...

- business, technical and management abilities.
- community liaison capability.
- project management expertise.

If these are not available in the community, they will have to be sourced from outside through contracting professionals and also securing the services of a project facilitator to support the community group.

Is there scope for the community group to co-invest with a lead private developer? Can the groundwork for partnership be laid? Certain conditions are needed for a partnership between a private developer and a community group including...

- both partners' willingness and commitment to achieving community investment in the project.
- staff resources, expertise and appropriate legal structures in place to engage with the lead developer; experience in developing economic projects would be particularly relevant.
- appropriate facilitation to provide guidance and support to the community group and coordinate the overall partnership.

Where will the project be located? Can initial assessments of the proposed project be carried out to establish whether it is technically and commercially viable? For instance in the Killala wind farm project the initial technical assessments examined key factors such as wind resource and grid connection. In addition, a business assessment determined the estimated costs of establishing and operating the project, and the revenues that could be generated.

Can project partners agree on roles and responsibilities? The project partners need to agree their potential roles and responsibilities within the project proposal. Given the complexity of renewable energy projects, partners need to have a clear understanding of how the project will progress and of the risks involved at each stage in its development.

Sections 3.1, 3.2 and 3.3 address these questions as they related to KCC in the Killala wind farm project.

*For this first phase a **project facilitator** can be a key support to the community group by providing advice and assistance on how to progress the project. The tasks of the facilitator in the Killala wind farm project are listed in section 3.2.*

2.2 Feasibility phase and negotiating with a lead developer

When a community group decides to co-invest with a lead developer in a renewable energy project, it will then need to begin a process of formal **project negotiations** as part of the feasibility phase for the community investment vehicle. Again, the community will need to ask itself key questions.

Does the community have the resources and expertise to negotiate with the lead developer?

The negotiation process between the lead developer and the community group can be a complex process. The community's experience in this process will inevitably be influenced by the expertise available to it (know-how of board members, staff and voluntary committee members). It is likely that most communities will require a **professional financial advisor** to support them in these negotiations (unless such expertise is available voluntarily within the community group itself). A professional financial advisor can provide a range of services, including...



- Negotiating on behalf of the community with the lead developer and their financial advisors. The earlier the community group begins negotiations with the developer, the greater the opportunity for the community to influence the lead developer and secure the maximum community benefits.
- A review of the lead developer's financial model for the renewable energy project.
- A review of the lead developer's Memorandum and Articles of Association.
- Advice and guidance to the community on the setting up and operation of the proposed community investment vehicle.

What is the appropriate investment vehicle? The community group must examine the most appropriate community investment vehicle for it, given the particulars of the project in question. The community group will need to determine what amount it can raise to invest in the project and what percentage this is of the total funding needed. The amount of the community investment will influence the decision on the most appropriate investment vehicle.

How many potential investors will the community group target for the project? It is vital to assess *how many* potential investors from the community are anticipated and what *types* of investor are agreed on as appropriate. Will there be a small number of relatively large investors, with say each shareholder investing €5,000, or a large group of small investors with each shareholder investing €1,000? What level of engagement does the community consider acceptable for meeting their aim of community involvement?

What are the rights of the community within the project? What relationship and voting rights exist between the lead developer's company and the community investors (the community group and/or individual members of the wider community)? This has important implications for the community's rights to be involved in and its impact on the decisions made by the company.

How can the wider community be involved and informed about the project as it progresses? A range of actions can help ensure the wider community is involved in and informed about the project, including a committed project board championing the project, and an information campaign including media coverage, community information sessions, information leaflets and posters.

Section 3.4 outlines the steps carried out by KCC in negotiating with KCWF as part of the feasibility phase for the community investment vehicle in the Kilalla wind farm project.

When a community group has answered the questions raised above it will typically have completed the feasibility phase of the project. The next phase will be the securing of any formal legal permission such as planning permission as required in the Killala wind farm project.



3. THE KILLALA EXPERIENCE

This section outlines the experience of the lead developer and the community group in progressing the Kilalla wind farm to date. It has four parts...

- The start.
- Getting the project off the ground.
- Building capabilities – securing finance and building knowledge.
- Steps in the financial feasibility phase for the community group.

3.1 The start

Who are the project partners?

The two partners are Killala Community Wind Farm Ltd (KCWF) and the Killala Community Council (KCC). KCWF is the lead developer of a proposed 23 MW wind farm project in north Co. Mayo. KCC is the local community development company and is committed to securing the community's involvement in the proposed wind farm. The WDC acted as project coordinator and facilitator for the feasibility phase of the wind farm project.

The **Killala Community Council (KCC)** has a proven track record in community development. It is a company limited by shares with 32 members on the community council. Members are elected every two years and nominated by local residents and drawn from the main local organisations (e.g. Tidy Towns, the Gaelic Athletic Association). KCC was one of the first community groups in Ireland to develop advanced factories and it currently manages a number of community enterprises in Killala, including a community day centre and a community transport scheme. KCC is a shareholder in KCWF.

As KCC did not have access to funds to invest at the feasibility phase of the project, KCWF proposed that KCC pay a nominal amount for a 5 per cent company shareholding until the main risk was overcome (the securing of planning permission). If and when planning permission is granted, KCC will pay the outstanding amount to KCWF.

Killala Community Wind Farm Ltd (KCWF) was set up in March 2002 by a group of eight farmers to develop a wind farm two miles from Killala. The farmers provided the seed funding to finance the feasibility phase in order to assess the potential of setting up the wind farm. The other company shareholders included members of their immediate families and KCC.

The **Western Development Commission (WDC)** is a statutory body and operates under the aegis of the Department of Community, Rural and Gaeltacht Affairs. Under its rural development remit, WDC facilitates the development of strategic development initiatives in the Western Region. As part of this work, the WDC aims to promote community involvement and local ownership in the renewable energy sector.

How were the partners brought together?

Following the publication of *To Catch the Wind* in June 2004, the WDC wished to identify a renewable energy project willing to pilot the proposed community investment vehicle. The WDC circulated the report through a launch and regional workshop, meetings with representatives of government departments and by presenting the findings at industry conferences. The WDC also held information sessions for community groups in the Western Region.

Following a request from the directors of KCWF, the WDC made a presentation to KCC in May 2005. This resulted in a number of follow-on meetings between KCC, KCWF and WDC during the summer of 2005. The discussions concluded that the Killala wind farm project had the characteristics necessary to pilot the proposed community investment vehicle, including...

- a locally based lead developer (KCWF).
- a community group with a formal legal structure and experience in enterprise development (KCC).
- stakeholders' willingness to pilot the first renewable energy community investment vehicle in Ireland.
- a facilitator to support the project, particularly the community group.

In September 2005, the WDC agreed to facilitate the partnership process.

What are the project's aims?

KCWF aim to set up a 23 MW wind farm approximately two miles from Killala, a small town located on the west shore of Killala Bay in north Co. Mayo. The proposed site for the wind farm includes land from the eight individual farmers who are shareholders in KCWF. KCWF carried out initial technical assessments to assess if the wind farm was viable and whether they should proceed to the next step of submitting a planning application. As part of the technical assessments, a 40 metre **anemometer** has been on the site since March 2002. The partnership between KCC and KCWF was formed to progress the proposed wind farm project beyond these initial technical assessments. The partners' aim is to allow as many people as possible in their community to invest in the wind farm and thereby establish Ireland's first wind farm incorporating a community investment vehicle. The partners wish to move from being a narrowly based group (which includes the eight local farmers, their family members and KCC) to a broadly based group (which will bring in investors from the wider community).

23 MW of electricity has the capacity to supply approximately 14,500 average houses (on average, 1 MW can supply approximately 640 houses).

*An **anemometer** records how fast the wind is blowing at a site over a period of time.*

Killala is a very rural area. The town has a population of approximately 1,250 and its main sources of employment are farming, fishing and manufacturing.

The total cost of setting up a 23 MW wind farm is in the region of €25 million. It can cost between €1.2 million and €2 million to install 1 MW of electricity from a wind farm.



Guidelines for the development of wind energy projects are available from the Irish Wind Energy Association⁵ and from Sustainable Energy Ireland⁶.

Planning permission will decide the number of turbines and their size. The financial model and therefore the possible rates of return cannot be finalised until this is known.

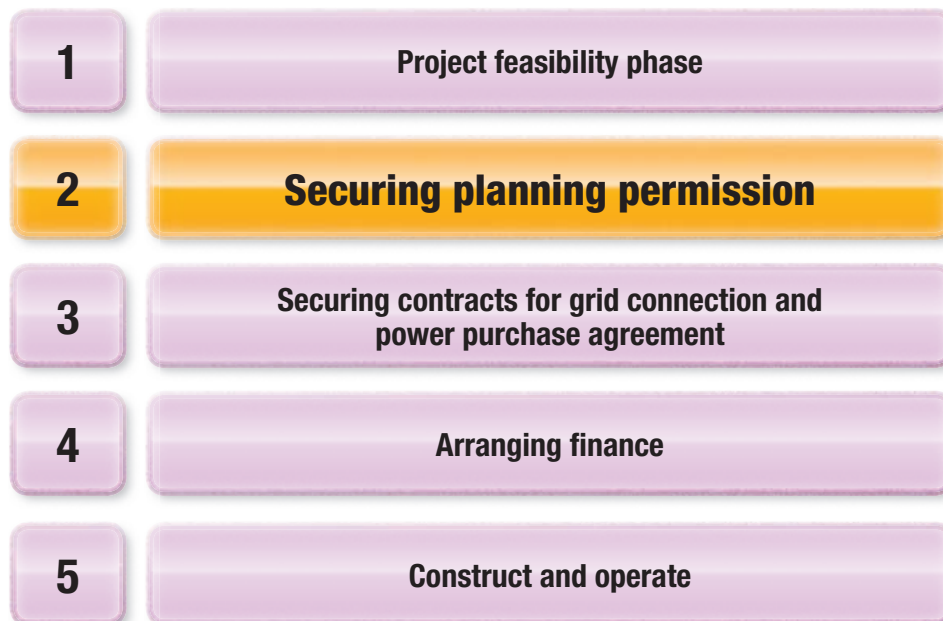
A grid connection is the agreement between the power generator (wind farm) and the ESB (or EirGrid) on how and when the wind farm connects to the national grid and feeds the electricity generated by the wind farm into the national grid.

A power purchase agreement (PPA) represents an agreement between the power generator (wind farm) and the power purchaser for the long-term sale of the electricity.

3.2 Getting the project off the ground

What stages are needed to get a project off the ground?

There are key stages to getting a wind farm project off the ground. These are shown here.



What stage is the Killala wind farm project at now?

KCWF has now completed Stage 1 of the project (the site selection and project feasibility). At the time of writing this guide, the Killala wind farm project was at Stage 2 of the development process. All the required feasibility phase reports have been completed and the planning application was submitted to Mayo County Council in the summer of 2007.

This section outlines the project process undertaken by the partners to complete Stage 2 of the wind farm development process. It details how the project team was formed, how key tasks were allocated, the time and resources that were needed, and the roles of the facilitator and the partners.

Who made up the project team?

The project team (set up in April 2006) reflected the partnership structure. It included two KCWF directors, the KCC development manager, two KCC members and a WDC rural development executive.

How did the project team operate?

The WDC facilitated the partners in mapping out and agreeing on a project plan. This plan set out the tasks required, the timeframe for delivery and the individual partners' responsibilities for key tasks. The partners signed up to the plan and agreed appropriate ways to make decisions and communicate.

A high degree of interaction was required between the project partners. The full team (KCC, KCWF and the WDC) held on average one meeting a month from April 2006 to June 2007. A meeting was also held every four to six weeks between KCC and the WDC to discuss the community investment tasks and to address specific community issues. Regular email and phone contact supplemented the formal meetings.

What time commitment was needed by the partners?

KCC's estimated time spent on the project was approximately three to four days per month. In addition to the normal requirement to progress a wind farm project, KCWF had a time input of approximately two to three days per month for advancing the community investment aspect of the financial model. In its role as facilitator, WDC spent approximately five days a month working on the project.

What tasks were carried out?

The lead developer, KCWF, was responsible for completing the **feasibility phase reports** – the wind resource assessment, the environmental impact assessment, the application for planning permission, the grid impact and electrical engineering assessments, and the financial model for the wind farm project.

The WDC and KCC worked jointly to carry out the **financial analysis reports** necessary to progress the community investment proposal.

*The **feasibility reports** listed were the main assessments carried out to establish if the wind farm was technically and commercially viable, and to bring the project to the stage where a planning application was submitted to the county council. The financial analysis reports set out the community group's investment options in the wind farm, and provided an initial review of the overall wind farm financial model.*

5 www.iwea.com

6 www.sei.ie

The WDC's facilitation role

To facilitate the community group's participation in the process, the WDC...

- Helped to identify KCC's information and resource needs to ensure completion of project tasks, e.g. delivery of a study tour and the securing of project funding.
- Assisted in linking KCC to other relevant supports, e.g. SEI Renewable Energy Information Office (SEI REIO).
- Issued tenders and managed consultant contracts on behalf of KCC, and worked with KCC to define what was required by the community group from the financial advisors and ensured that KCC was fully informed of the implications of the various community investment proposals presented by the advisors.
- Facilitated KCC's review of financial advisory reports and subsequent negotiations with KCWF.
- Managed the SEI grant application process and acted as the project coordinator, producing the progress reports and grant claims.
- Provided technical and project management expertise.
- Worked to ensure that both partners agreed on their respective roles in the project, and maintained a focus on the common goal (progressing a community based wind farm).
- Assisted with the provision of information to the wider community, e.g. press releases to the regional media.
- Liaised with KCWF to monitor progress of the feasibility reports.

The WDC's facilitation role in this project demonstrates the type of support needed by a community group if they are to engage with a private developer and co-invest in a renewable energy project. *To Catch the Wind* (p. 25) recommended the establishment of a Renewable Energy Advisory Group (REAG) to act as a one-stop shop for community groups that need technical, legal and financial advice on projects. The REAG could provide support to community groups who wish to either co-invest with a developer in a project or wish to progress their own 100 per cent community-owned project. Based on the Killala experience, such a specific community support structure is required if community involvement and investment in the sector is to occur on a widespread basis.

3.3 Building capabilities

KCC required professional expertise to complete the feasibility phase of the project. The WDC supported KCC to access this expertise by (i) securing financial support and (ii) obtaining information and training.

(i) Securing financial support

KCC needed financial support to participate in the feasibility phase of the project. It did not have the capacity to carry a financial loss as a result of the project. The WDC and SEI provided financial support to KCC to commission two consultancy reports, contract a professional advisor and access additional expertise (i.e. the study tour, discussed below). The partners and the facilitator successfully secured grant support for the feasibility phase of the wind farm project under the SEI Renewable Energy Research, Development and Demonstration Programme.

Community groups do not typically have access to finance to invest at an early stage of project development, particularly where there is a risk of losing the investment if the project does not progress. This lack of risk finance can act as a barrier to community participation in renewable energy projects.

What level of finance does a community group typically need?

Based on the Killala experience, a community group will need approximately €20,000 to €30,000 to engage with a lead developer in order to assess the community investment options. (Each of the costs are outlined in detail below.) Finance is needed to pay for professional advisors, financial reports and information gathering tasks such as a study tour. Once the community investment vehicle has been agreed between the community group and the lead developer (and planning permission and a grid connection are in place), a community will then need finance for the setting up (staff, office, legal fees etc.) and operation of the community investment vehicle. Without access to this funding it would be impossible for a community to maintain negotiations with the lead developer or follow through on the setting up of the investment vehicle.

(ii) Information and training

KCC and KCWF wanted to learn about the experience of other community groups who engaged in this type of co-investment between a private developer and a community group. To this end, a bespoke study tour to Energy4All in Cumbria was organised in October 2006. This tour allowed the partners to gather information on other community based renewable energy projects and apply this to the Killala

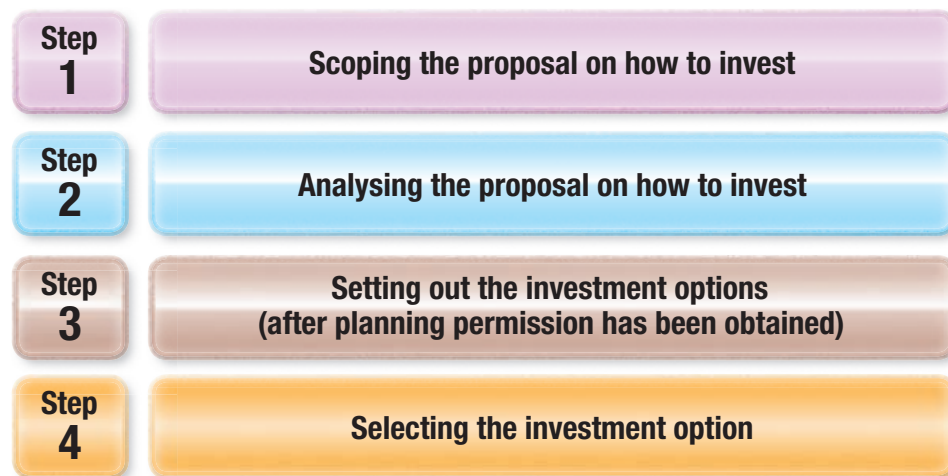
The SEI Renewable Energy Research, Development and Demonstration Programme is a grant support scheme that works to increase the use of renewable energy technologies in the marketplace and also assesses the development of technologies that have prospects for the future.

Energy4All is the UK's leading expert in community-owned renewable energy schemes. See www.energy4all.co.uk.

wind farm project. SEI REIO worked with the partners to facilitate the tour. KCC, KCWF, WDC and SEI REIO delegates visited a wind farm site and looked at issues on wind farm design, development, planning, financial and legal models needed for a community investment vehicle and local promotion to encourage buy-in. This allowed the project team to learn from the experience of others and access expertise not currently found in Ireland.

3.4 Steps in the financial feasibility phase for the community group

While the lead developer, KCWF, was responsible for completing the project feasibility reports such as the application for planning permission, the community group, KCC, was responsible for the community investment feasibility reports. Four steps were identified by KCC and WDC as part of the feasibility phase for the community investment vehicle.



More information on completing wind farm feasibility reports and assessment is available from SEI and IWEA.

At the time of writing, KCC has completed Steps 1 and 2. Steps 3 and 4 outline the further decisions that KCC will need to make once planning permission is obtained.

Step 1

Scoping the proposal on how to invest

To help scope their options on how best to invest in the wind farm, KCC contracted a financial advisor to carry out an initial assessment report. The report outlined a proposal on: an appropriate financial mechanism for KCC to hold individual investments in the wind farm; the type of legal structure required, and when this would need to be established within the context of the overall financial package for the wind farm project. The report also identified the legal documents that KCC would need in order to establish the legal structure, and the steps that would be required to allow KCC to invest in the wind farm.

The scoping report recommended that a public limited company (plc) would be an appropriate way to operate the community investment vehicle. Owned by the community investors who would subscribe for individual shares in the company, the plc would be managed by a board of directors (who might or might not be shareholders) and shareholders would maintain ultimate power at general meetings. **A Memorandum of Association and Articles of Association** would be drafted for the company.

There were two main reasons why a plc was recommended by the report. First, there are no restrictions on the number of members in a plc (whereas a private limited company is restricted to 99). Second, a plc has fewer restrictions on the right to offer shares to the public and to transfer shares between members of the public.

The report estimated that a plc's annual operating costs would be in the region of €20,000. If KCC set up a plc as the community investment vehicle, these costs will be deducted from the rate of return received on the investment of the plc. KCC will also retain a management fee for running the plc and this fee will be a percentage of the total investment amount raised. As a management fee is typically a percentage of the investment amount, the higher the investment amount, the higher the fee to KCC. If only a small investment amount is raised by the community investors through the plc, then there will be a lower return to individual investors and a smaller fee for KCC. In that instance, it would be worth exploring if the lead developer and/or public support scheme would carry the setting up and operating costs of the investment vehicle.

A simple calculation illustrates how this works...

If €300,000 is raised by the plc and invested in the wind farm with a rate of return per annum of 10 per cent, then only €10,000 remains for individual shareholders of the plc after the €20,000 running fee to KCC is deducted.

If €1,000,000 is raised by the plc and the rate of return per annum is 10 per cent, then €80,000 remains for individual shareholders of the plc after the €20,000 running fees are deducted.

The community's financial advisor also acted as the overall wind farm financial advisor. The wind farm financial package was at such an early stage of development that it was not possible to contract in a separate community financial advisor.

*Every company must have a written constitution, which is comprised of two documents: the Memorandum of Association and the Articles of Association. These work to outline the company's constitution and internal rules. By choosing a standard set of articles provided within the Companies Acts 1963–2003 with appropriate amendments and alterations, the **Articles of Association** detail how a company is to be governed normally. The **Memorandum of Association** states the company name and sets out the company's main and subsidiary objectives. It also establishes the share structure of the company.*

Step 2

Analysing the proposal on how to invest

Following Step 1, KCC and the WDC appointed a new financial advisor to advise the community specifically. This ensured there would be no conflicts of interest between the advisors as the wind farm project progressed and also transparency during project negotiations. At Step 2 KCC carried out the following...

- A review of the wind farm's financial model and preliminary cash projections by the financial advisor.
- A review of the scoping report carried out in Step 1.
- Discussions between KCWF's financial advisors and KCC's financial advisors.
- A review of KCWF's Memorandum of Association and Articles of Association.
- Advisory meetings between the community's financial advisor and KCC/WDC.
- Drafting of a project progress report by the community's financial advisor.

The key areas considered included: (i) company structure and (ii) investment strategy.

(i) Company structure

In this project, the lead developer's (KCWF) preference was that the community investment would be channelled through a community investment vehicle – the proposed plc. This will allow a large number of people from the community to hold individual shares in the wind farm. KCWF proposed that the community investment vehicle will be allocated a 5 per cent shareholding of KCWF and that a rate of return of approximately 10 per cent will be paid on this community investment held through the plc. However, at the time of writing, the overall company structure and individual shareholdings of KCWF were still open to negotiation at this (feasibility) stage of the project (for example, following bank finance negotiations). The community will now need to negotiate...

- Whether KCWF conducts a company share buy-back of the community shareholding as and when adequate profits and cash flow occur. In this instance, KCC will need clarification on the conditions of any community share buy-back that may be sought by the lead developers and what valuation would be attached to the community shares,

or

- Whether community investors will remain for the duration of the wind farm (typically 20 years).



In the Killala case, KCWF did not wish to conduct a compulsory buy-back and wanted the community investors to remain for the duration of the wind farm. However, if the community members decide they want their money back, the lead developer will facilitate the community investors. This is an example of an issue that community groups will need to negotiate on an individual project basis if co-investing with a lead developer.

KCC currently has a 5 per cent shareholding in KCWF (issued at a nominal amount to KCC who will pay the full amount when planning permission is received). KCWF proposed that an additional 5 per cent shareholding was offered through the community investment vehicle. The remaining shares are held by the eight landowners and members of their immediate families, all residing in the locality.

(ii) Investment strategy

KCC will need to establish which community investment strategy is most beneficial to the local community. The review established that KCC's main options are: (i) the plc investment vehicle outlined above or (ii) a simpler 'loan' investment through issuing of preference shares by the lead developer. KCWF proposed that the wider community investment takes the form of a separate share class, with the lead private investors holding their own separate share classes. Community-held shares will be any one of these three or a combination of (i) limited duration, (ii) guaranteed/fixed return and (iii) minimal participation in asset worth and residual company value. *The final conditions will be negotiated between the community group (KCC) and the lead developer (KCWF) once planning permission, grid connection and the power purchase agreements are received.*

KCWF is likely to seek Business Expansion Scheme (BES)⁷ finance. Negotiations between KCC and KCWF regarding the allocation of this BES funding was identified as an option for the community group to explore, as some BES could be ring-fenced specifically for community members to invest in.

The community group will need a financial advisor to negotiate their shareholders' agreement with the lead private developer.

Once planning permission and a grid connection agreement with the ESB are obtained, the lead developers will have a valuable asset. It is possible that at this stage a larger developer may approach the lead developer and make an offer to buy the company. If the community is a minor shareholder, this could mean that the community lacks the power to prevent a buy-out. Communities should be aware of this risk and should seek the guidance of a financial and legal advisor on how to safeguard against it.

⁷ Information on the Business Expansion Scheme is available at www.basis.ie



Step 3

Setting out the investment options

*Part II of **To Catch the Wind** (specifically p.34 and pp.40-45) presents a detailed outline of when community investment can enter a project, and outlines the stages in the development process.*

The appropriate investment vehicle for a community will need to be negotiated on a project-by-project basis. For example, Energy4All has a different financial structure for each of the six projects they invest in. To assess how much a community could raise from a share offer, Energy4All advises that a community group builds a database of potential investors and seeks expressions of interest at an early stage in a wind farm project. This will help assess the potential amount that the share offer could raise from community investors. (See www.energy4all.co.uk.)

When will the community invest?

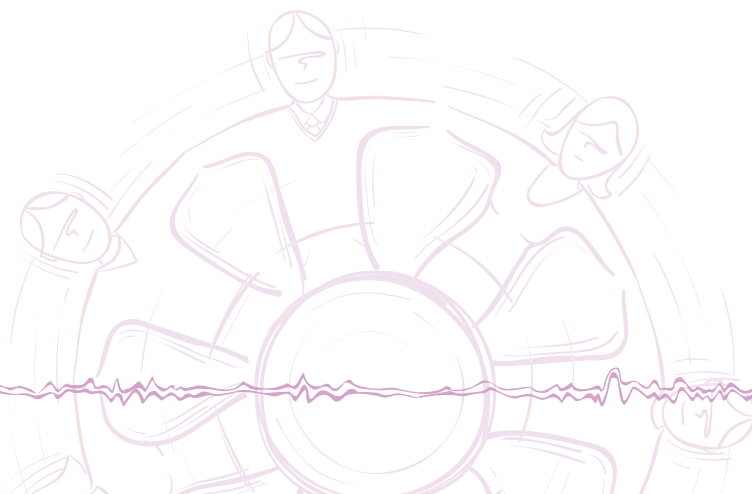
Investment options can be agreed once the project has progressed beyond the feasibility phase. Once KCWF has obtained planning permission, a grid connection and a power purchase agreement, KCC will then complete Step 3 and decide what investment strategy to follow.

How can the local community invest?

The amount the community raises to invest will impact on the appropriate investment vehicle. In the Killala project...

- KCC could establish and manage a plc as a community investment vehicle. This makes commercial sense for KCC if the investment amount is greater than €1 million.
- KCC could manage a plc as a community investment vehicle with the setting up and operational costs subsidised by the lead developer. If the amount raised is less than €1 million it does not make commercial sense for KCC to operate the plc.
- KCC can explore other simpler options to the plc. For example, a loan type option where public investors could subscribe for preference shares with specific rights issued by the lead developer (e.g. a fixed annual cumulative dividend in the region of 10 per cent).

What is evident from the Killala experience is that a community needs a professional financial advisor to guide them through the negotiations with the lead developer.



Step 4

Selecting the investment option

Once Step 3 is complete, the community group can move on to Step 4. Now the community must choose the best investment option as analysed and set out in Step 3. For example, what if at Step 4 KCC decides to progress the plc option? Experience of renewable energy projects in the UK indicates that while the share offer is fairly straightforward for the individual investor, it can present difficulties for a community group – it requires adherence to Financial Regulator procedures and can be costly. However, the plc would allow KCC to earn an income from managing the investment fund, an income that could be used in other community projects. In addition, the investment vehicle could be used in other community investment initiatives.

If the plc option is chosen by KCC, it will be necessary...

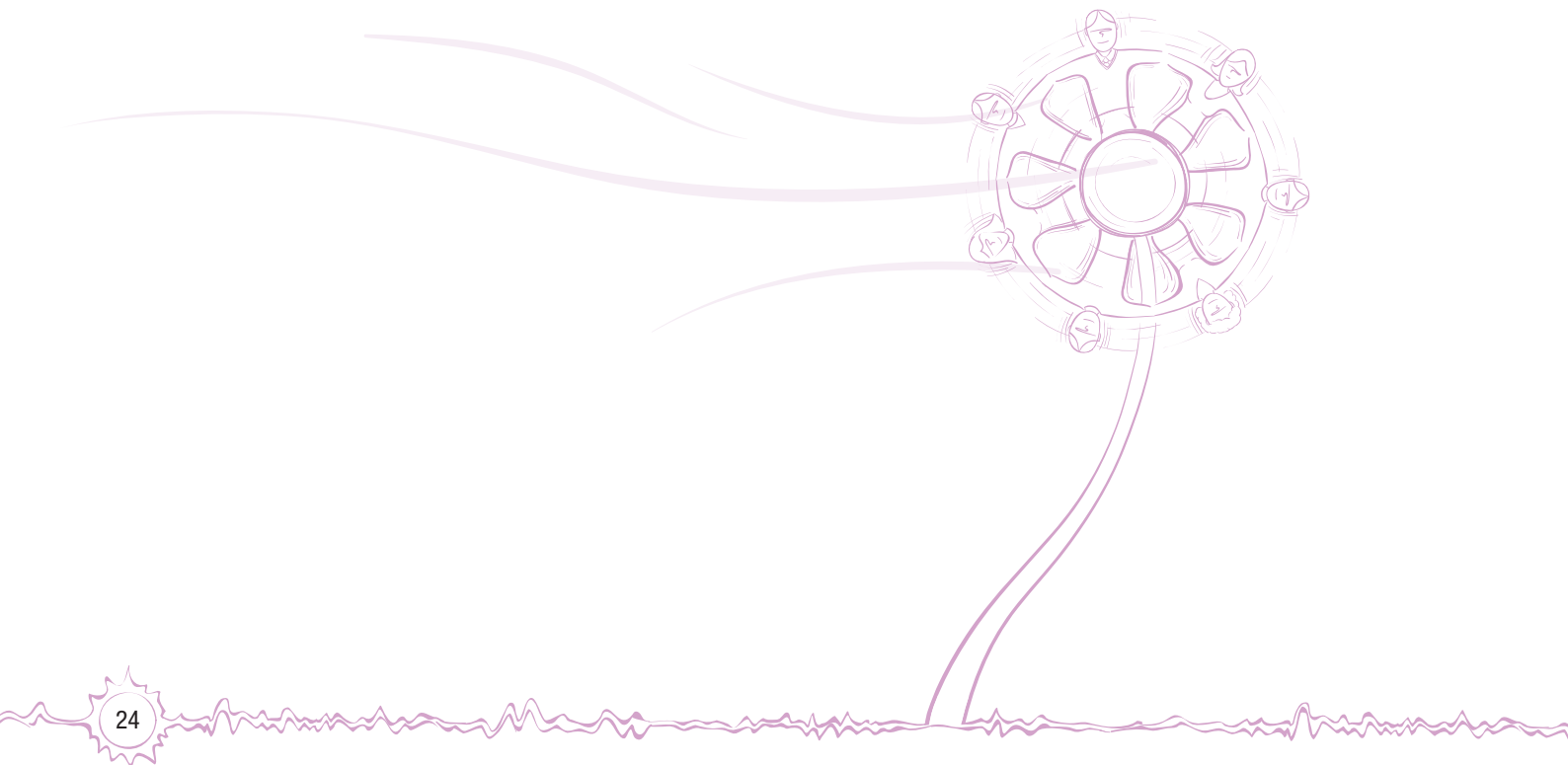
- To establish the plc company structure. Investor/members will meet in a general meeting to appoint a board of directors who will supervise and manage funds and the investment in KCWF.
- The plc will enter the overall financial package of the wind farm once the banks have carried out their project due diligence (the review of all legal, financial and technical aspects of the project to ensure project viability and address any risks that may occur). This means that KCC would not bear the cost of carrying out this expensive **due diligence** process. KCC would need a financial advisor to identify and address key issues for it as they arose.
- To issue and draft the share offer prospectus and deliver on the share offer. If conducting a share offer, the community group can either contract a financial services company to manage it or manage the offer in-house.

Managing the offer in-house

As noted above, if conducting a share offer, a community group should build a database of potential investors by seeking expressions of interest at an early stage in a wind farm project. The community group will need staff to build this database and to issue and draft the share prospectus. Because this is a legal document, professional advisors will also be needed. A share offer would be actively marketed to the local community (for example, website, phone and leaflets in local shops). Processing application forms and bank cheques, and issuing share certificates can also be managed in-house. Energy4All has successfully carried out community share offers in the UK and advises other community groups on how to manage the process.

*In the Killala project, the lead developer was committed to facilitating the community group to co-invest in this manner as recommended in **To Catch the Wind**.*

Whatever final option is agreed on as best for the community, a financial advisor is required at each of the steps identified above.





4. LEARNING FROM THE KILLALA EXPERIENCE

What lessons can we take from the Killala experience?

The experience highlights the elements that play a key role in getting a project off the ground: community characteristics, lead private developer characteristics and the availability of a facilitator/catalyst to support the partners. It also sheds light on challenges to such a project: external policy environment, gaining wider community support, securing resources and the difficulties of community involvement in such a large-scale renewable energy project.

4.1 Factors that helped the project

Maturity of the community group

The particular characteristics of the Killala community were central to getting the project started. KCC is a very experienced community development council with a history of pioneering new enterprise projects that have generated economic benefits for the wider Killala community. It currently manages a number of community enterprises in Killala, including a community day centre and a community transport scheme. In addition, it has worked in partnership with the private sector in the past.

Trust between the partners

KCWF has strong community values with knowledge of – and commitment to – the community development process. One of KCWF's directors is an experienced community activist and a former chair of KCC. This meant that there was mutual trust between the lead developer and the community group. The lead developers demonstrated their community based approach by offering KCC its shareholding for a nominal fee until such time as planning permission is granted.

Role of facilitator

The role of a facilitator was integral to the success of the feasibility phase of the project. WDC acted as project facilitator and coordinator, and actively supported the community group's involvement in the project. The WDC provided project management expertise and knowledge of the renewable energy sector. The WDC assigned a rural development executive to the project and provided direct financial support to KCC.

4.2 Factors that challenged the project

There will always be challenges to getting a community involved in a renewable energy project. They can stem from external factors, gaining wider community commitment, securing resources and the complexity of renewable energy projects for community participation. The experience of the KCC feasibility phase highlights how these can be tackled.

External factors

A range of external factors presented challenges. First, there were no explicit policy supports to actively encourage this type of community investment in Ireland. Second, negative local and national media coverage of wind farm developments had an impact on the wider community's willingness to get involved in the project. Third, renewable energy projects can take a long time to progress, especially if planning permission is required.

The length of the project process can place a considerable strain on community resources, and also allow time for pro- and anti-positions to become entrenched in the local community. Negative external factors can have an impact on the community's ability to maintain its engagement over an extended period of time.

Gaining wider community commitment

Effective communication between the project partners and the wider community is vital for any renewable energy project to succeed. However, the complexity of renewable energy projects can make it difficult to convey key messages to the wider community.

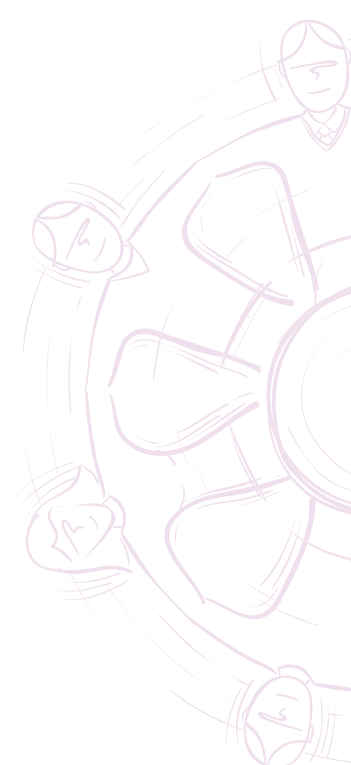
In Killala, KCC members had to approve the decision to participate in the feasibility phase of the wind farm project. Securing this buy-in was challenging as there are pressures on the Council and their staff to show tangible benefits to the wider community from enterprise projects within a reasonable timeframe. The process of community consultation was also difficult as both KCC and KCWF had limited resources to carry out such actions. More importantly, and as anticipated in many renewable energy projects, the wind farm project had strong anti- and pro-supporters within the community. Therefore, it was difficult to assess and manage the expectations of the wider community. While a legally defined community structure was needed for formal community involvement with the lead developer, it was not easy to identify an appropriate community entity (in project terms) that is inclusive and representative of the whole community.

Resources and expertise required

Because KCC was funded by specific project funding programmes, risk finance to carry out the feasibility phase was not available. The WDC and SEI provided funding on the basis that this could be considered a demonstration project. KCC had to give staff time to carry out the required steps in the process and to engage with the lead developer. In addition, a high level of expertise was required to specify contract requirements and to liaise with consultants.

Complexity of the project for community involvement

Renewable energy projects can be complex to develop because of, for example, technical assessments, the need for large amounts of finance and the range of interested players involved. In the Killala project, it was difficult to achieve effective communication between the various players, and gaining a full understanding of the financial and legal complexities of the project was challenging. This was compounded by the relatively limited resources available to KCC to buy in advisory support. The complexities of the project had an impact on the decisions made. In addition, KCC had to bear the burden of being the first mover to progress community investment in the wind sector. This created an additional risk as the proposal was an untested financial vehicle in the Irish market.



5. CONCLUSIONS

The Killala experience shows how a community group can progress the co-investment option with a private developer in the development of a wind farm. This guide outlined the steps taken by KCC and KCWF and the process carried out by the partners. It is to be hoped that the general guidelines will assist other communities in assessing their options for co-investing with a lead developer. While project stages and guidelines can be outlined, based on the Killala project, it is likely that the appropriate investment option for a community group will be project specific and therefore will be negotiated on a project-by-project basis. The Killala experience also demonstrates that a community group will need a professional financial advisor to analyse their investment options within a project, guide them through the negotiations with the lead developer and assist in the setting up of the proposed community investment vehicle.

It also serves to highlight the challenges to such community involvement, namely: the community group's lack of access to risk finance to invest at a feasibility phase of a project, the capacity and commitment of the community group to engage with a lead developer of a renewable energy project, the commitment of the lead developer to the community involvement, and the availability of a facilitator to support the community group in carrying out the tasks required.

In the Killala project, the WDC acted as project facilitator and thereby supported KCC's involvement in the project. The WDC and SEI provided financial support to the community group. The facilitation role provided by the WDC demonstrates the type of active support needed by communities if they are to engage with private developers and co-invest in renewable energy projects. Based on this experience, a specific community support structure is required if community involvement and investment of this nature is to occur on a widespread basis.

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