

# BWCE 2019 AGM

## Overview of the year 2018-19, Financial Report and Proposal for Member and Community Fund Payments

### Report from the BWCE Board

#### 1. Brief Overview of the Year 2018-2019

During the year we:

- Launched Solar Streets, an innovative pilot project to reduce peak demand for electricity through the installation of domestic solar PV and batteries and household demand management within a small neighbourhood in Bath, funded by grant;
- Launched a new share offer with a lower minimum investment to increase the number and diversity of members. The share offer will raise capital to create an innovation fund, support the installation of community solar roofs and ease the process of share withdrawals for existing members;
- Recruited a full time community outreach and communications co-ordinator;
- Established a supporters' network from within our membership, with the aim of increasing awareness about climate change and community energy within local communities;
- Completed the second phase of BWCE's debt refinancing with Triodos, worth around £4 million;
- Partially redeemed BWCE's second bond, including meeting in full all bondholder redemption requests;
- Supported the transition of Mongoose Energy into a fully community client owned renewable energy asset manager, Bright Renewables. BWCE was one of the founding members of the new organisation.
- Engaged with national policy through government consultations and independent lobbying activities.

#### Renewable Energy Assets

We were unable to develop any larger renewable energy projects during the year as a result of cuts in government subsidies for renewable energy and the uncertainty during the year about the Smart Export Guarantee, the replacement for the Feed in Tariff. We remain hopeful that it will become possible to develop new projects again as installation costs fall to the point that subsidy-free projects become financially viable and the Smart Export Guarantee is finally implemented. We are investigating potential sites for both community solar PV and ground mounted solar on this basis.

The total capacity of our projects remains at 12.35MW of solar PV, plus one small hydro scheme. During the year our projects generated just over 12,600MWh, enough electricity to meet the equivalent annual electricity demand from over 4,000 typical UK homes<sup>1</sup> and reduce carbon dioxide emissions by the equivalent of the carbon footprint of nearly 1,000 B&NES residents<sup>2</sup>.

Sunshine levels during the year were above average with some excellent summer months, offset by poor sunshine levels in April and August. Project performance was hampered by technical problems at some of the smaller sites.

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<sup>1</sup> Assumes 3,100 kWh per year consumed by a typical home without electric storage heaters. From Ofgem <https://www.ofgem.gov.uk/gas/retail-market/monitoring-data-and-statistics/typical-domestic-consumption-values>

<sup>2</sup> Assumes 3.8 tonnes CO2 emissions/capita for residents in Bath & North East Somerset. From DECC <https://www.gov.uk/government/statistics/uk-local-authority-and-regional-carbon-dioxide-emissions-national-statistics-2005-to-2017>

### Low Carbon Services

In line with our business strategy we have been developing our capacity to deliver low carbon services, as well as renewable energy assets.

Our first target has been to test what role we can play as a community enterprise in supporting 'Demand Side Response' or the ability of electricity consumers to shift when they use electricity, away from peak hours, as well as how much they use. This is going to be increasingly important as electricity demand goes up with the rapid increase in electric vehicles and the electrification of space heating.

Solar Streets has been our first practical pilot. But we are also developing partnerships that will enable us to simplify the ability of householders to shift electricity demand, as well as to sell solar generated electricity to their neighbours.

### Community Engagement

Offering services to householders requires us to change how we engage with local people and this year we have recruited Nick Bird full time to lead on community outreach and communications.

We need to raise awareness of what we do and increase the active support for new renewable energy projects, including wind turbines. We believe that the best way for us to do this is to build an active network of members and supporters able to increase both the flow of information within local communities and the level of debate about climate change and community energy.

This year our supporters' network has made an excellent start and has already actively involved members in a number of successful initiatives, from public events to drafting briefings on wind turbines and the production of display boards. We'd like to thank all our members who have got involved for their time and commitment.

For information on the excellent range of community projects supported through last year's community fund contribution, see <https://www.bwce.coop/communityfund/bwce-fund-2019-allocations>.

### Local energy supply

This year we also developed a partnership with community owned energy supplier Our Power, to deliver a local electricity tariff that would have enabled us to sell electricity from our projects to local people. Unfortunately, the volatile electricity market has put a number of energy suppliers into administration during the year, including Our Power which ceased trading in January 2019. We are still committed to the idea of a local electricity tariff that enables people to buy local community energy and we are reviewing our options with regard to energy supply partners.

### Networking and Policy work

We continue to participate actively in national policy debates, responding to government consultations and engaging through sector associations as a board member of Community Energy England and a member of Regen. We are active members of the Wessex Community Energy Network and are working with community energy groups in Somerset to understand how we can collaborate more effectively. Our MD has been chairing central government's local energy advisory group and is an advisor to B&NES Council's Environmental Sustainability Partnership.

## **2. Background to BWCE Finances**

The following principles underlie our finances and are useful to consider when reviewing BWCE's accounts:

- BWCE is an asset owning community enterprise, generating secure long-term income streams, subject to performance and market conditions;
- BWCE's assets are subject to depreciation at a rate that significantly undervalues these assets in the early years and that has a considerable impact on the profit and loss account;

- BWCE generates significantly more cash in a year than the profit shown in its consolidated accounts due to the impact of depreciation;
- BWCE adopts a recognised approach to re-valuing its assets in line with their market value, based on an analysis of its discounted future cashflow using independently verified discount rates;
- BWCE commits to paying interest on members' investments and repaying members' capital over the life of its projects, as finances allow, as well as recycling surplus cash back into local community action on fuel poverty and carbon reduction;
- BWCE's accounts show member interest and community fund payments made in that financial year, but which relate to the previous year's performance, i.e. payments made in 2018/19 relate to generation in 2017/18; and
- BWCE's board assesses its ability to pay interest to members and make contributions to its community fund based on the gross profit/loss made by its projects compared to budget and the cash surplus generated by projects during the year, alongside consideration of investments required to continue developing the company to meet its strategic objectives.

### 3. Commentary on BWCE Accounts for Year Ending March 2019

We believe BWCE is in a strong financial position with a significant portfolio of solar PV projects generating a healthy cash surplus. Across its portfolio, BWCE now has fixed assets worth £16.3 million and annual income of nearly £1.8 million, with an operating profit of just over £630,000.

Both income for the year and gross and operating profits have gone up significantly this year on the back of good solar project performance.

The board has taken the prudent view that the projected yield for the Portworthy project should be reduced by 5% in light of project performance over the last couple of years. This decision is taken into account in this year's revaluation.

Each year, BWCE's projects are revalued based on the net present value of future cashflows, before financing costs. As part of this, we use a forecast of wholesale electricity prices drawn from third party industry standard forecasts. These forecasts have reduced this year. Independent market analysts suggest that this is due to a view that assumes higher fossil fuel supply and lower fossil fuel prices for longer than previously thought. Though of course this could change again, not least depending on how Brexit unfolds.

The change to the yield forecast for Portworthy and the reduced wholesale electricity price forecast, depresses the revaluation figure presented in the accounts.

On the balance sheet, a presentational change in approach from last year sees the re-finance costs that were held as intangible assets shifted to prepayments, where they will still be amortised over the life of the relevant loans and bonds, so there is no change in the impact on the profit and loss account. However, the change in approach does increase significantly the debtors figure in the consolidated balance sheet; note 14 (in the consolidated accounts) provides a more detailed breakdown.

Trade debtors (note 14) are also high for the year. This is due to higher than normal outstanding FIT income payments, all of which were received soon after year end.

Cash at bank position includes £550k in debt service and maintenance reserve accounts. Of the remaining cash of just over £600k, £220k is a capital reserve generated by the re-finance for investment and/or repayment of share capital.

During the year, nearly £250k of shares were withdrawn, representing all requests met in full, and over £120k of new shares were allocated.

The losses shown in the profit and loss account to date are offset by the revaluation reserve, generated as outlined above.

The impact of the second phase of the debt re-finance, completed this year, can be seen in note 15 with an increase in loans held and a decrease in bonds. Overall, the refinance undertaken over the last 2 years has reduced our cost of capital from an average of 5.8% to 5%. This has the effect of adding a net £1.5 million into our cashflow over the life of our current portfolio of renewable energy projects, providing a significant increase to our lifetime community benefit.

The table below gives a summary of BWCE's finances, drawn from the consolidated accounts.

<b>Trading Performance</b>	<b>2018-19</b>	<b>Notes to 2018-19 summary</b>	<b>2017-18</b>
Electricity Generation Income	1,702,399	Feed in tariff plus export & on-site income	1,520,992
Other income	75,473	Grant received for Solar Streets	
	<u>1,777,872</u>		<u>1,520,992</u>
Cost of sales	(382,267)	Project costs, not inc. cost of capital	(403,127)
Administrative expenses	(123,022)	BWCE overheads, including community fund	(85,975)
Finance fees	(43,613)	Annual charge for refi fees from prepayments	(13,590)
Interest on loans and bonds	(486,363)	Interest goes down following refi	(549,395)
Surplus Before Members' Interest	742,607		468,905
Members' Interest	(342,067)	Interest paid to members in year	(327,657)
	<u>400,540</u>		<u>141,248</u>
Revaluation of assets	455,780		585,819
Depreciation	(589,668)	Includes impact of additional write off	(702,650)
<b>Total Comprehensive Income</b>	<u><u>266,652</u></u>		<u><u>24,417</u></u>
<b>BWCE Assets</b>			
Project Fixed Assets	16,333,533	Renewable asset value without refi costs	16,693,182
<i>Debtors less Creditors</i>	<i>299,002</i>	Debtors include refi costs in prepayments	<i>(132,323)</i>
<i>Cash at Bank</i>	<i>1,153,636</i>	Includes reserve accounts and unused capital	<i>1,188,058</i>
Net Current Assets	<u>1,452,638</u>		<u>1,055,735</u>
Total Assets Less Current Liabilities	17,786,171		17,748,917
Less Long Term Liabilities	(11,088,472)	Larger bond reduction than debt increase	(11,193,220)
<b>Net Assets at Year End</b>	<u><u>6,697,699</u></u>		<u><u>6,555,697</u></u>
<b>BWCE Capital &amp; Reserves</b>			
Share Capital	5,549,950	Member shareholding	5,674,600
Reserves less P&L account	<u>1,147,749</u>		<u>881,097</u>
<b>Total Group Funds</b>	<u><u>6,697,699</u></u>		<u><u>6,555,697</u></u>

#### 4. Proposal for setting Community Fund and Member Payments for the Period to March 2019

In the year to end March 2019 BWCE's projects performed a little above target. Based purely on performance, we could pay 7% interest to members holding shares issued prior to 2019 and allocate at least £50,000 to our independent community fund for distribution to local communities for projects to reduce carbon emissions and alleviate fuel poverty.

However, we are facing a crucial time for the organisation as we transition away from a reliance on Feed in Tariff projects, bringing with it a need to develop new ways of doing business that help us to continue playing our part in addressing the looming climate crisis. We are also facing an unprecedented moment in the wider movement to address climate change, with a growing recognition of what needs to be done over a very short period of time. This brings with it an urgency to act that we cannot ignore.

**The BWCE board is therefore recommending to members an interest payment of 6.25% (3.5% above long run RPI) and a fund payment of £35,000, thereby allowing us to invest £55,000 into the development of the organisation.**

The first interest payments on the new shares earning 4% will not be due until after next year's AGM in October 2020.

The additional resource will enable us to invest in a concerted effort to generate new roof top solar schemes that are still viable if we can sell all the electricity on site, as well as investigate opportunities for larger subsidy-free wind & solar projects. We also want to further develop new ways of doing business including:

- Demand Side Response (shifting electricity demand away from peak times and generating an income from the network operator for easing grid congestion);
- Peer to Peer Trading (the selling of electricity generated locally, direct to local consumers); and
- Battery storage both on existing renewable energy sites and on new sites.

We believe these new business models, as they mature, will underpin a new generation of financially viable community owned renewable energy projects. However, we need to invest in the business now in order to prepare ourselves for the future.

We will share more information on what this means for us at our AGM. Come along and tell us what you think.

## **5. Early Indications for Financial Year 2019-20**

Project performance in the first quarter of this year April to June has been 3% below target, due primarily to a very poor June.

A full update on this year's performance to date will be provided at the AGM, together with implications for next year's payments to members and the community fund.