

Bath & West Community Energy Ltd

Business overview – October 2011



Introduction

The purpose of this document is to explain Bath & West Community Energy ('BWCE') to potential members. It should be read in conjunction with the prospectus.

BWCE's is a community-owned sustainable energy company. We believe a community-owned structure is the right model to create local support for renewable energy installations, and that local, decentralised supply offers a viable and resilient business model.

The introduction of Feed in Tariffs ('FIT') in April 2010 provided the economic stimulus to make this business model financially viable. Our management team has the experience and expertise to build a viable business, and we are convinced that our business model is robust, profitable and competitively differentiated.

We believe that focusing on renewable electricity, in particular solar PV, will enable us to build a platform from which we can develop community based services supplying renewable heat and energy efficiency.

This document gives an overview of BWCE for potential members, and accompanies the prospectus being issued to invite members to invest in the company.

Our business plan in the short term is to finance and install our first portfolio of solar photo-voltaic (PV) systems totalling 400kW of generating capacity. These systems are already in the process of installation. In the longer term we have ambitions to become a major local generator of renewable energy through solar, wind and other renewable technologies.

A key part of our plan is to provide community benefits that include generating a significant community fund from surplus profits, offering local people opportunities to invest in local projects and generate good returns, an emphasis on building local supply chains wherever possible, all within the context of a community enterprise offering good governance and local accountability.

Our vision is to create a financially sustainable, community-owned energy enterprise that will deliver renewable energy, energy efficiency and energy supply services, via a strong community model that will maximise local investment, strengthen our local economy and build community resilience.

BWCE's objectives are to:

- generate at least 25% of the local renewable electricity by 2026, amounting to over 25MWe. BWCE will also assess the contribution it can make to the local renewable heat target, as soon as is practical
- offer opportunities to local people to invest and generate a good return from BWCE and its projects
- generate a community fund that will recycle surplus profits back into further local low carbon projects covering for example energy efficiency, sustainable transport or local food initiatives
- support local businesses by sourcing goods and services locally wherever possible
- establish itself as a key partner within the delivery of energy efficiency measures through the Green Deal
- develop opportunities to supply (as well as generate) heat and electricity and establish itself as a community-owned energy service company or ESCo

As an Industrial and Provident Society set up for the benefit of the community (or 'Community Benefit Society'), BWCE has a democratic governance structure, with one member one vote regardless of size of shareholding thereby maximising local accountability and control.

BWCE Goals 2011 - 2014

Short term goals: 2011 to 2012

Initial focus 2011: maximise installation of solar PV on schools and community buildings before the solar PV Feed in Tariff starts to reduce. An early focus on solar PV offers the quickest approach to demonstrating tangible progress and an ability to deliver, whilst also enabling widespread communication with communities on the back of practical action.

First year fundraising targets

Target	Current status
£1m asset finance from corporate investor	Agreed terms with corporate investor
£150-400k via local share offer	Prospectus issued
£1.5m from bank asset finance and/or social investors	Negotiations underway with range of banks and social investors
£400k development finance (grants and loan stock)	In advanced discussions with funders for development finance

Short term goals (by March 2012)

- **First portfolio** of 400kW of solar PV currently being installed, financed with loan from a corporate partner.
- **Share offer:** launch of first local BWCE share offer with a target of £400k, which will be used to release loan finance from corporate partner.
- **Second tranche** of around 600kW of solar PV to be installed before March 2012 with financing from the released corporate partner loan, further bank loans and share issues.
- **Development finance** - BWCE will invest in project development financed via grants and development loans. BWCE will identify and secure options on wind and hydro sites and do the survey work and community consultation necessary to get projects ready for planning.
- **By March 2012**, BWCE expects to be in a position to generate turnover (not including capital finance) in excess of £300k during the following year.

Medium term goals: 2012 to 2015

Next phase of development

Building upon the foundation laid during 2011/2012, BWCE expects to be able to move into a further phase of development including:

- Expansion into renewable heat projects, utilising the Renewable Heat Incentive
- Development of wind turbine and hydro projects
- Continuing development of solar PV, dependent on government changes to Feed in Tariff levels
- Further development of BWCE's business model to integrate energy efficiency including the Green Deal, and the supply of electricity and heat

Medium term business goals (by 2015)

- 4.5 MW of renewable energy capacity installed, approximately 2500kW wind, 2000kW solar PV and some small hydro
- £11m capital raised for asset investment, £4m equity and £7m debt and/or co-investment
- Interest paid to members of 3-4% over 10 year average RPI (initially equivalent to a target return of around 7%, though this figure will change over time in the light of changes to RPI and will be subject to the performance of our projects)
- Forecasted income over project life enabling nearly £7m to be invested in a community fund, an average of £275,000 per year
- Building a financially sustainable community enterprise supporting a permanent staff team and appropriate organisational overheads
- By July 2014, BWCE aims to be generating an annual turnover of between £1.5m and £2m, not including capital investment

The time is now!

There is a convergence of circumstances that support the delivery of BWCE's vision.

These include:

- Implementation of the **Feed in Tariff** and the **Renewable Heat Incentive**, providing index linked income streams for renewable electricity and heat projects, guaranteed for 20-25 years once established
- Building momentum behind the **government's localism agenda** that attaches an increased sense of value to community attempts to generate collaborative and collective responses to climate change
- Development of the **Green Deal**, offering opportunities and benefits from embedding a strong community dimension into the delivery of energy efficiency measures
- Recognition within the renewable energy industry that there is a scale of project development (below 5MW) that is more difficult to make work on a commercial footing but that can be pursued via a **community model**, thereby offering significant added value to the delivery of wider climate change targets
- Increased focus and recognition amongst potential investors of the value of **low risk long term investment**
- Increasing **local desire to take positive action** regardless of government.



Photomontages of proposed solar PV systems on Peasedown St John, Colerne and Corsham schools.



Why Bath & West Community Energy?

BWCE is a community benefit society committed to recycling surplus back into the local community through member returns, a community fund and by developing local supply chains wherever possible. Through its governance structure BWCE will also maximise local accountability and control.

There are a number of similar initiatives being established by communities around the country, though in some cases with important distinctions, including Low Carbon West Oxford, Sheffield Renewables, Brighton Energy Coop, The Green Valleys, The Ouse Valley Energy Service Company, Totnes Renewable Energy Society among many others.

Many of these initiatives have carried out share offers that emphasise social rather than financial returns, often at a time when they have limited track record of delivery and prior to planning approval. These share offers have tended to attract tens of thousands of pounds.

With a target of hundreds of thousands of pounds, BWCE plans to deliver its share offer on the back of a tangible track record of delivery, to refinance already installed systems and offering a fair financial return on investment as well as substantial social and community benefits.

In addition, within the Bath area there is no other initiative that is adopting a community model. BWCE is therefore able to offer significant added value and clearly differentiate itself from the remaining private sector suppliers of renewable energy technology.

BWCE's approach of working at scale but embedding its operation within local communities, both by recycling surplus locally and offering local accountability and control, will enable it to:

- Offer better deals to building owners than commercial competitors
- Increase the community support for projects and therefore the chances of planning success
- Draw in lower cost finance on the back of its strong social and community ethos
- Offer individual communities, with the necessary enthusiasm and commitment, the opportunity to set up their own community enterprises linked to BWCE where
 - BWCE will provide project development expertise and asset finance
 - The community can run local share offers and directly control their own community fund.

Offering opportunities for individual communities to secure direct benefit as part of a wider BWCE umbrella of support and financing will increase the potential success of BWCE's longer term aspirations. It will do this by maximising the potential for other community initiatives to grow up alongside and in partnership with BWCE, to the wider benefit of all.

Community benefit

BWCE is established as an **Industrial Provident Society** set up for the benefit of the community or a '**Community Benefit Society**', with an asset lock and a governance structure based on one member one vote, regardless of the size of shareholding.

From this foundation BWCE will prioritise the provision of significant local community benefits by:

- Building local energy infrastructure that will make the community more resilient in the face of increasing energy costs and hedge against energy price inflation
- Creating a community fund that will enable BWCE to reinvest its surplus profits back into the community, over time reducing the loan burden on community assets and undermining local grant dependency
- Delivering economic value for local communities by creating an opportunity for local people to invest in and make a financial return from local projects and by creating a demand for local services that can offer new opportunities for local businesses
- Providing local accountability with regards the operation of BWCE and drawing local people into a wider debate how local energy services should be delivered in the future.
- Supporting local communities that want to take greater responsibility and retain greater control to set up their own community enterprises that can work alongside BWCE

Community fund objectives and scope

The overall aim is to support projects which can help mitigate against the effects of peak oil supply and climate change in Bath and surrounding areas. The aim is:

- To allocate a proportion of the surplus income from BWCE renewable energy generation projects to the Community Fund, to be decided by a vote of members at each AGM
- To provide financial support via grant funding or investments in local projects within the Bath area that meet the selection criteria.

Project proposals would have to:

- Demonstrate that they promote environmental sustainability, (rational use of energy, low/zero carbon energy use or production, or renewable energy generation - but not in competition with BWCE's project development activities).
- Emphasis will be on practical projects that lead to real community benefits.

Business model: 'build, own, operate'

BWCE's business model involves:

- Developing community renewable energy projects through local partnerships
- Securing investment via local share offers and matching debt finance, institutional investment and/or co-investment
- Securing income via the Feed in Tariff and the Renewable Heat Incentive and sales of electricity exported
- Operating and maintaining its own assets.
- Re-investing surplus profits in a Community Fund.

BWCE will utilise this foundation to develop its business plan to take advantage of new policy developments such as the Green Deal and look to develop appropriate partnerships necessary to set itself up as a local community owned energy supplier.

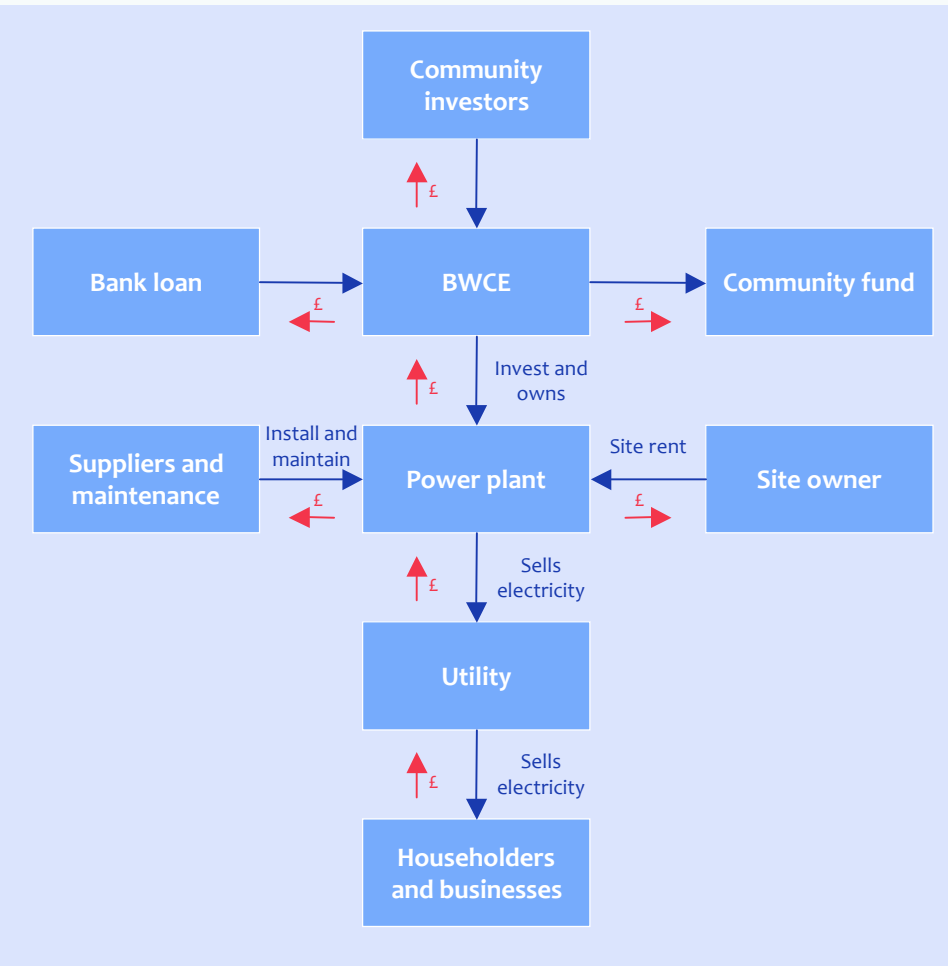
BWCE will manage its power plant installations through one or more Special Purpose Vehicles (SPVs). These are limited companies wholly owned by BWCE, which enable third party funding and contracts to be associated directly with the generating assets being funded/contracted.

BWCE is keen to establish the ability to work at a scale sufficient to draw in capital finance and fund project development, but do so in a way that retains local community identity.

In order to do this, BWCE will work with communities to set up their own independent community enterprises. BWCE will offer development expertise and operation and maintenance of projects under contract and by bringing together projects, be able to draw capital finance at a scale that would otherwise not be possible.

The local community enterprises will be able to draw in their own local investment from building their own member base and potentially take control of their own community fund derived from their own projects.

Investment flows and returns



Organisation and governance

ORGANISATIONAL DEVELOPMENT

- Initial equity investment into BWCE is £29k.

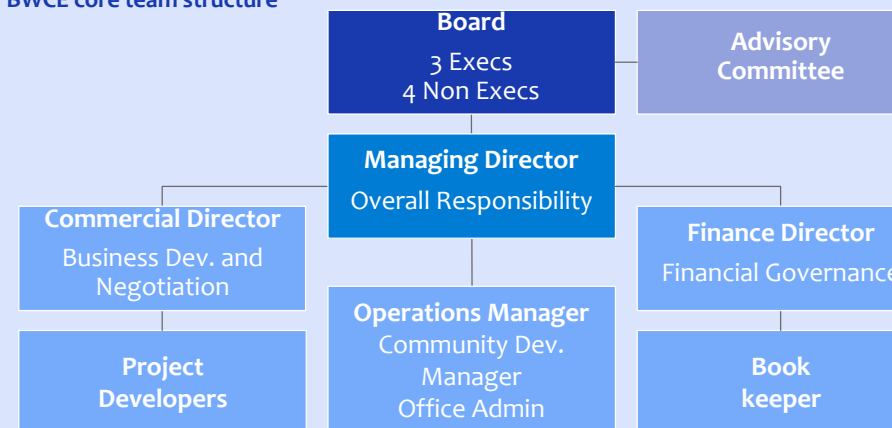
Short term position

- Voluntary work:** To date, work undertaken has largely been on a voluntary basis by the Directors
- Success fees:** In order to resource project development at the scale and speed required, the Board has contracted some directors and project developers to work on the basis of success fees, i.e. payable when projects are completed and income to the company is secured.
- Company's cash is used to pay essential direct costs such as planning fees & application costs.
- Labour costs (which are the highest component) are paid on financial close of each portfolio. In the case of wind, the Board has agreed to pay some labour costs once a project is contracted with a land owner in recognition of the planning risks of wind projects.

Development plans

- Core team** with an office in Bath - to be pulled together starting in Spring 2012
- Desired structure of core team:** MD, 2 part time executive directors (one commercial, one financial), Operations Manager, 2 Project Developers, Community Development Manager and Office Administrator.
- Advisory Committee** to be established, drawing in local private sector, community and education figures able to act as ambassadors for BWCE.

BWCE core team structure



GOVERNANCE

BWCE will be run by its board of directors which will comprise three executive directors, the MD, and Commercial and Finance Directors and at least four non executive directors, providing a majority of non execs at all times.

- Non executive directors will be voted onto the Board by BWCE members at AGMs, with a third (or approx.) of non exec directors coming up for election each year.
- Advisory Committee will provide oversight of BWCE's operation with a particular focus on its social and community objectives.
- Advisory Committee members will be appointed by the Board and will meet at least twice a year.
- Members will have the opportunity to vote on key decisions affecting the operation of BWCE at AGMs and will be kept informed of developments during the year.
- The geographical coverage of BWCE's membership will be monitored to ensure that the majority of members are from the local area.

Strategic development

The short term goals described in this document here represents the first step in developing BWCE as a successful community energy enterprise. With a proven business model, new tranches of projects will be rolled out to achieve our vision of over 25 MW of electricity capacity by 2026.

BWCE intends to continue to develop its business plan to ensure that it remains robust and able to deliver BWCE's overall vision and objectives. This will require a greater focus in business planning in the future on:

Developing energy efficiency services

- To include generating finance and delivery capacity to provide energy efficiency services to schools and community buildings
- Together with key partners, including B&NES council, BWCE is exploring ways to deliver domestic whole house retrofit via the government's Green Deal
- BWCE could play a key role within a Green Deal Provider partnership providing the community interface and providing key services around both delivery and potentially community financing.

The renewable heat incentive

- A number of the schools and community buildings already engaged are interested in looking at renewable heat alongside solar PV.
- BWCE is considering the role it can play in both providing the technology and supplying heat. This will require further study around local biomass supply chains and building a business model that considers the balance between scale, cost and local availability.
- Working on renewable heat will also require a focus on energy efficiency to concurrently ensure heat loss is minimised.

Electricity supply

- BWCE aims to ultimately be able to supply electricity to consumers from the renewable electricity capacity it develops locally, providing a stronger link between supply and use in the minds of consumers.
- An earlier potential opportunity, currently under careful consideration includes providing a BWCE tariff, re-badging existing energy supplier tariffs and generating an income stream into BWCE from both switching and annual loyalty payments.

Overview of initial portfolio

We have secured 12 sites totalling 400kW

Site	Size kW	Site owner	Planning status	Installation
The Mead School Trowbridge	49	Wiltshire Council	Permitted	October
Corsham School	50	Corsham School Academy	Permitted	October
St Martins Garden School, Bath	10	B&NES Council	Permitted	October
Lindley's Farm, Corsham	50	David Walker	Approved	October
Walcot Rugby Club, Bath	27	Walcot Rugby	Permitted	November
Newbridge School, Bath	35	B&NES Council	Permitted	November
Oldfield Junior School, Bath	46	Oldfield School	Permitted	November
Oldfield Infant School, Bath	7	B&NES Council	Submitted	November
St Michael's Junior School, Bath	15	B&NES Council	Submitted	November
Colerne School	9	Bristol Diocese	Permitted	December
Peasedown Junior School, Bath	45	B&NES Council	Submitted	December
Ralph Allen School, Bath	46	B&NES Council	Submitted	December

Contracts are in place to install, operate, maintain and insure the sites over 25 years

Contract type	Counterparty	Comment
Solar panel Manufacturer	Yingli	25 year guarantee
Solar panel installer	SSE Contracting Ltd	Fixed price contract
Operations and maintenance	SSE Contracting Ltd	Fixed price increasing by RPI
Insurance	RSA	Covers fire, theft, damage and public liability
Site lease	Site owner	25 year lease, giving BWCE the right to install and operate equipment in return for free on site electricity

Financial performance and sensitivity analysis

Our projected member return of 3-4% above long run RPI is based on a set of key factors influencing the potential return. These factors are shown below and the sensitivity of the member return to a change in each factor illustrated.

Factor	Basis for financial projection	Potential for variance	Impact of +/- 10% change in factor on projected member return	Comment
Feed In Tariff (FIT) revenue per kW	UK Govt. tariff, guaranteed for 25 years, increases by RPI	None as long as sites installed by April 2012	n/a	The FIT is guaranteed by UK Government
Performance of solar panels	Long term average performance data from manufacturer	Breakages and faults could reduce output.	10% variation on kWh produced over 25 year life would result in financial returns varying by 1.5 percentage points	25 year performance guarantee on panels and labour costs covered by O&M
Solar panel and associated equipment installation cost	Contractually agreed with SSE	None	n/a	
Installation operations and maintenance costs	Contractually agreed with SSE for 25 years	Increases by RPI, so any increase matched by increase in FIT revenue	10% variation in operating costs over 25 year life would result in financial returns varying by 0.5 percentage	
Insurance costs	Contract with Tysers	Annually renewable contract		BWCE will seek competitive terms at each annual renewal
BWCE management costs	1% of installation cost	Under control of BWCE management		

The projected member return is not guaranteed and could vary depending on actual performance against these factors.

The plans contained in this document are made by Bath & West Community Energy Ltd ("BWCE") and is in all respects subject to the negotiation, agreement and signing of specific contracts. It contains information that is commercially sensitive to BWCE, which is being disclosed to you in confidence and is not to be disclosed to any third party without the written consent of BWCE.

BWCE would like to warmly acknowledge the pro bono support and guidance received from BDO, via Carbon Leapfrog, in the development and production of this business plan.

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