

Briefing: 2016 Interest Payments to Members and payment to the Community Fund

More information on the detail that informs this briefing paper will be shared and discussed at the AGM.

Brief Overview of the Year 2015-2016

At the beginning of the year BWCE's project development activities were transferred to a new company, Mongoose Energy. Mongoose Energy is majority-owned by the ten community enterprises, including BWCE, to which it provides project development and asset management services. This means that BWCE can take on the acquisition of much larger scale projects as it does not assume the liabilities of those projects until all the money is raised or until construction is complete. This reduces significantly BWCE's financial risks when it undertakes new projects.

During the year BWCE, in partnership with Mongoose Energy:

- Raised £1.22 million from a community share offer to build a 250kW solar array at Stowey Farm in Bath & North East Somerset and a replacement water wheel to generate electricity at the Old Mill Hotel in Bathampton. These two projects will be built and commissioned during the 2016-17 financial year.
- The share offer was carried out in time to secure EIS tax relief for investors before the scheme, for this type of project, was closed by government. More funds were raised at the time than required for these two projects.
- The balance of funds raised through the share offer was allocated alongside BWCE's first ever bond offer (raising £1.68 million) to buying BWCE's largest project to date, the 4MW Portworthy solar array, near Plymouth.
- BWCE took the Portworthy project into community ownership before government support schemes closed and the opportunity would have been lost. Portworthy was financed with the additional support of local community enterprises, one of which will buy into the project when BWCE's bond matures in two years and the project is refinanced. The community fund from the Portworthy project will be allocated locally.

BWCE also supported a range of excellent community projects through last year's community fund contribution. See <http://www.bwce.coop/communityfund/> for more details.

By the end of the year BWCE had a generating capacity of over 7MW from solar PV. This will produce enough electricity in a full year to meet the equivalent annual electricity demand from nearly 3,000 typical UK homes¹ and reduce carbon dioxide emissions by the equivalent of the full carbon footprint of nearly 700 B&NES residents².

¹ 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>

² Assumes 4.7 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-2005-2014>

National Context

The 2015/16 financial year has seen significant changes in legislation that are already having an impact on BWCE. As well as the removal of EIS tax relief for community energy project investment, the government has also removed the climate change levy exemption from renewable energy and introduced major cuts in the Feed in Tariff for new projects. Ongoing issues within the wider economy have also resulted in low wholesale electricity prices and lower than expected increases in inflation, as measured by the Retail Price Index (RPI). RPI is important to BWCE because Feed in Tariff (FIT) payments to clean electricity generators are increased annually in line with RPI.

These and other issues have reduced our flexibility to respond to fluctuations in project performance. However, along with others in the sector, BWCE is reviewing its strategy in the light of these changes to ensure it can continue to expand in line with our vision for community energy.

Proposal for Payments from Financial Year 2015-2016

We have generated sufficient cash up to the end of March 2016 for us to pay 7% interest to members, and £40k into the community fund, from unallocated cash reserves as of the end of the financial year.

During 2015-16 we did not secure the level of profit we were expecting from our remaining project development activities. This was due to the complexity and innovative nature of the projects under development. Also the Portworthy solar array performed below forecast, due in part to some operational issues and to lower than forecast sunshine levels.

The impact of these issues was accommodated within our financial margins during 2015-16, because Portworthy was operating only during the final part of the financial year (December to March).

Early Indications for Financial Year 2016-17

It has become clear that the major additional impact of these issues will be during the current 2016-17 financial year. We already know for example, that the Portworthy project has continued to suffer from lower than forecast sunshine levels during what should be the most productive summer months. In general, this has not been a good year for levels of direct sunlight, particularly further south, but we do expect to see an improvement in future years.

As a result of the above, we would like to give early notification to members that next year's interest payment, which becomes due in October 2017, may be lower than 7%. The board currently believes it should be in the range of 6-7%, depending on the performance of all our projects for the remainder of the year. The board believes this still represents a fair and reasonable return after inflation. We will keep members informed on how projects have been performing and what impact we think this might have on future member interest and community fund payments.

Future Plans

BWCE's core business model remains viable and robust. We have put plans in place to correct or reduce the impact of the challenges we are facing. These plans also give us an opportunity to look beyond the short term to create sustainable solutions to delivering community energy, even when the Feed in Tariff finally closes for new projects.

Our plans include:

- All new development work being delivered by Mongoose Energy, distancing BWCE from the risks and liabilities associated with developing new projects
- Increasing operational efficiency to deliver improvements in project performance and asset management
- Reducing costs, for example by re-financing existing loans at a lower interest rate
- Increasing our income by selling the electricity we generate for more. An example could be selling direct to large consumers rather than just exporting to the grid
- Diversifying our income streams, by:
 - participating in Mongoose Energy's local energy supply offer in partnership with other community energy enterprises
 - reviewing new technology opportunities such as grid connected batteries & Combined Heat and Power
 - reviewing new models such as electricity demand management and investment in energy efficiency
- Spreading our risks by implementing a programme of solar PV installations on the roofs of large, commercial or public buildings and selling the electricity generated directly to the occupiers.

Good progress is being made on the above actions, although some of these will take more than a year to implement fully.