

**Renewable Energy on the National Forest Estate**

**A Guide to Community Options - Stage 1 Wind**

**Document for Communities in accordance with FCA requirements on financial promotion**

Wind Generation Scheme –  
Cowal and Trossachs Forest  
District Wind Farm- Bachan Burn  
March 2014  
Scheme size over 50 MW

PNE WIND UK Limited – Forest  
Renewables

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## 1. Introduction

PNE WIND UK Limited was appointed as a developer through a comprehensive selection process in 2011. Since then PNE WIND UK Limited has been working with Forestry Commission Scotland (FCS) to develop wind energy projects on the National Forest Estate which they manage on behalf of Scottish Ministers.

This document is provided to Community Organisations to enable them to consider options for Community involvement with Cowal and Trossachs Forest District Wind Farm - Bachan Burn. There will be further and more detailed information available in due course as set out later in this document.

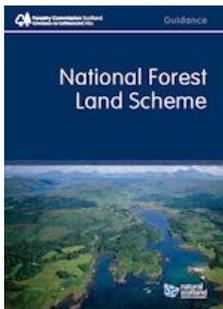
## 2. Regulatory constraints

Because the promotion of certain financial products is regulated under the Financial Services and Markets Act 2000 ("FSMA"), PNE WIND UK Limited is restricted on what information can be given to Community Organisations at each stage. Therefore PNE WIND UK Limited cannot answer questions about this document or provide further information about Community ownership at this stage.

## 3. Is your Community Organisation connected to the project?

The renewable energy generation programme planned on the National Forest Estate is a new opportunity designed to ensure that communities have flexibility in how they benefit from the various developments. However, in order to benefit, an appropriate Community Organisation has to be either already in place or established where one does not exist.

### Step 1 – Define geographical boundary to show that a Community Organisation is connected to the renewable energy project



[www.forestry.gov.uk/website/forestry.nsf/byunique/infd-66re5j](http://www.forestry.gov.uk/website/forestry.nsf/byunique/infd-66re5j)

An appropriate Community Organisation:

The criteria to define an appropriate "Community Organisation" comes from the National Forest Land Scheme. These include:

- being properly constituted
- being geographically defined and situated by, near to, or on the land proposed for development
- having open membership - membership of the Community Organisation is expected to be open to all members of the Community the Organisation represents
- ensuring members of the Organisation remain in control of the Organisation etc.

Responsibility resides with the Community Organisation to show how it has defined the community area. Existing geographical boundaries that can help with this include: Community council areas, postcode units, council wards etc.

The Scottish Government has developed a Rural Community Mapping Tool to assist communities: [www.scotland.gov.uk/Topics/farmingrural/Rural/rural-land/right-to-buy/MappingTool](http://www.scotland.gov.uk/Topics/farmingrural/Rural/rural-land/right-to-buy/MappingTool)

Voluntary organisations listed below will be able to assist with this. This is not the role of PNE WIND UK Limited.

If a Community Organisation would like further advice and assistance on meeting these requirements the following organisations are able to assist:

Under the Scottish Government CARES contract - Local Energy Scotland:  
Freephone 0808 808 2288      [info@localenergyscotland.org](mailto:info@localenergyscotland.org)

Other organisations include:-  
Scottish Council for Voluntary Organisations: 0800 169 0022  
[enquiries@scvo.org.uk](mailto:enquiries@scvo.org.uk)  
Development Trusts Association Scotland: 0131 220 2456  
[info@dtascot.org.uk](mailto:info@dtascot.org.uk)  
Community Woodlands Association: 01309 674 004  
[jon@communitywoods.org](mailto:jon@communitywoods.org)  
Community Energy Scotland (CES): 01349 860 129  
[info@communityenergyscotland.org.uk](mailto:info@communityenergyscotland.org.uk)

The National Forest Land Scheme criteria are used as it is an established approach based on the principles of the Community Right-to-Buy process outlined in the Land Reform (Scotland) Act (2003). There is growing experience across Scotland of meeting these requirements and it is viewed as a robust process in demonstrating a Community's connection to Cowal and Trossachs Forest District Wind Farm - Bachan Burn.

## **Step 2 – Take initial advice on the options available**

The advice and information that the organisations listed above are able to provide will not extend to financial advice. It is a requirement that Communities take their own legal, financial and taxation advice and that the Communities shall be responsible for paying any associated fees.

Free advice and support on community ownership (ownership also includes projects where communities have a share) of renewable energy is available from Local Energy Scotland on behalf of the Scottish Government under the CARES Scheme until March 2015 - <http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Energy-sources/19185/Communities>

There may be other organisations as well and there is no restriction on who Communities can work with.

#### **4. Indicative Timeline**

Developments of this type can take a long time before construction actually starts. PNE WIND UK Limited aims to ensure that Communities have enough information in time to act on the Community involvement options open to them.

#### **5. Project Vehicle**

A new legal entity (the "Project Vehicle") will be established by PNE WIND UK Limited to take this renewable energy project forward should planning consent be granted. The Project Vehicle will own, develop and manage the project and will be owned by PNE WIND UK Limited, FCS and one Community Vehicle (if a Community Organisation or Organisations decide to invest in the Project Vehicle).

#### **6. Community Vehicle**

If a Community Organisation which fits within the definition in Section 3 wants to be involved with this renewable energy project, a legal entity ("Community Vehicle") will need to be in place through which the Community Organisations can channel their investment. The Project Vehicle will deal with only one Community Vehicle in relation to the project so if more than one Community Organisation is interested in the project the Community Vehicle will need to represent all of the relevant Community Organisations and, in those cases, it is likely that it will be appropriate for a new Community Vehicle to be formed for that purpose. Please see section 8 below for more information.

## 7. What are the Options?

There are a number of options available to Community Organisations wishing to be involved in Cowal and Trossachs Forest District Wind Farm - Bachan Burn (all of which must be channelled through a single Community Vehicle, with all connected Community Organisations in agreement).

**A: Community Benefit Payment to Community Vehicle. This is the current conventional approach to community participation in Schemes**

**B: Convert the Community Benefit Payment into a Carried Equity stake\* for Community Vehicle**

**C: Capital Investment by Community Vehicle**

Community Organisations may collectively decide to take **A** only, but some of these options can go together.

**A and C: Community Benefit Payment to and Capital Investment by Community Vehicle**

**B and C: Convert the Community Benefit Payment into a Carried Equity stake\* for Community Vehicle and Capital Investment by Community Vehicle**

Community Organisations cannot put **A & B** together, as the payment for **A** is converted into **B**.

\*A Carried Equity stake is one where the Community Vehicle converts its entire Community Benefit Payment into an investment in the '**Project Vehicle**' (see section 5. above). In this case the Community Vehicle foregoes the right to the annual Community Benefit Payment, but in return receives a stake in the Project Vehicle and **may** receive a payment from the profits of the Project Vehicle - **if any**.

## **A: Community Benefit Payment**

This is a conventional benefit payment and is simply paid to the Community Vehicle on an annual basis.

- Once the Scheme is operating, the Project Vehicle pays an agreed sum of £5,000<sup>1</sup> per MW of installed capacity (MWi) of the renewables scheme each year to the Community Vehicle.
- It is for the Community Vehicle to determine how to share its Community Benefit Payment among interested Community Organisations. Please note that as indicated above, payment will be made by the Project Vehicle to only one Community Vehicle irrespective of the number of Community Organisations that may be involved.
- No cash outlay is required.
- Independent advice from Voluntary Sector bodies, as listed above, is available to support communities wishing to receive this payment.
- Low risk, as it is an agreed payment to the Community Vehicle irrespective of the performance of Cowal and Trossachs Forest District Wind Farm - Bachan Burn.
- **Community action** – register an interest with Cowal and Trossachs Forest District Wind Farm - Bachan Burn, if not already done so, preferably before Cowal and Trossachs Forest District Wind Farm – Bachan Burn receives planning consent. Payments can be made only to the single Community Vehicle.

## **B: Convert the Community Benefit Payment into a Carried Equity stake**

It is possible for the Community Vehicle to convert the Community Benefit Payment of £5,000 per MWi<sup>2</sup> pa into a Carried Equity stake in the Project Vehicle relating to Cowal and Trossachs Forest District Wind Farm - Bachan Burn.

- The size of the stake will be calculated by reference to the amount of the Community Benefit Payments being invested as a proportion of the value of the Project Vehicle as a whole. Any investment made by the Community Vehicle in the Project Vehicle will be non-voting.
- Other than foregoing the Community Benefit Payment, no further cash outlay is required, in order to fund the investment, however this does not take into account any costs incurred in relation to the Community Organisation's professional advisers.
- If the Community Vehicle chooses this option, it must convert the entire Community Benefit Payment for the life of the Scheme. There will be no Community Benefit Payment paid out (i.e. Option A).

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<sup>1</sup> Index-linked to the Retail Prices Index

<sup>2</sup> This is not index-linked to the Retail Prices Index

- The Community Vehicle cannot change its decision later once it acquires the stake in the Project Vehicle.
- The Community Vehicle total investment under both Options B and C is capped at 49% of the overall Project Vehicle.
- Any returns on the carried equity stake by the Community Vehicle in the Project Vehicle will be dependent on the performance of Cowal and Trossachs Forest District Wind Farm - Bachan Burn, which may vary from year to year and there can be no guarantee of any return. There is also the possibility that the entire investment could be lost. There is therefore considered to be a higher risk associated with this option compared to Option A.
- Prior to any returns being made to the Community Vehicle, the Project Vehicle would need to be generating sufficient cash flows to cover its ongoing costs and service its other financial commitments such as debt (if any).
- A number of factors will determine when and if there will be any returns on the sums invested and the level of those returns, including the Project Vehicle's ability to meet its current and future liabilities. It is important to carefully consider and take advice on section 9 "Risk Factors".
- If the Community Vehicle elects for this option it will become a member of the Project Vehicle.
- No voting rights will be attached to any stake held by the Community Vehicle in the Project Vehicle. The Community Vehicle will therefore not be able to influence the decisions of the Project Vehicle or the operation of Cowal and Trossachs Forest District Wind Farm – Bachan Burn.
- **Community action** – register an interest in writing with PNE WIND UK Limited, if not already done so, before Cowal and Trossachs Forest District Wind Farm - Bachan Burn receives planning consent. Community Organisations will need to take independent advice (including independent financial advice). Information will be provided to Community Organisations by PNE WIND UK limited later in the development process when more work has been done (Stage 2), unless Community Organisations have collectively advised PNE WIND UK Limited that they wish to take Option A only.

## **C: Investment in a Developer's Scheme**

If a Community Vehicle can obtain funding of its own, there is an option for it to invest in the Project Vehicle relating to Cowal and Trossachs Forest District Wind Farm - Bachan Burn.

- PNE WIND UK Limited must retain majority ownership of the Project Vehicle, but a Community Vehicle may purchase a stake in it.
- Market value is used to calculate the stake that can be purchased for the amount the Community Vehicle can invest. Any investment made by the Community Vehicle in the Project Vehicle will be non-voting.

- The return to the Community Vehicle (if any) is then dependent on the performance of the Project Vehicle, which may vary from year to year and there can be no guarantee of any return. There is also the possibility that the entire investment could be lost.
- A number of factors will determine when or if there will be any returns on the sums invested and the level of those returns including the Project Vehicle's ability to meet its current and future liabilities. It is important to carefully consider and take advice on section 9 "Risk Factors".
- The Community Vehicle will still receive the £5,000 per MW of installed capacity per year provided they have not elected to convert this into a Carried Equity Stake under Option B. If the Community Vehicle has elected to convert the Community Benefit Payment it can add this to the stake it has decided to purchase under this Option C provided PNE WIND UK Limited retains at least 51% ownership of the Project Vehicle and there may be a minimum level of investment required by the Community Vehicle.
- If the Community Vehicle elects for this option it will become a member or shareholder of the Project Vehicle.
- Investment in the Community Vehicle has higher risk than simply taking the Community Benefit Payment. However there is potential for a greater return as well as the loss of the entire investment income.
- **Community action** – register an interest in writing with PNE WIND UK Limited, if not already done so, before Cowal and Trossachs Forest District Wind Farm - Bachan Burn receives planning consent. Community Organisations will need to take independent advice. Community Organisations will receive further information from PNE WIND UK Limited at Stage 2 of the development unless Community Organisations have collectively advised PNE WIND UK Limited that they wish to take Option A only.
- The Community Vehicle will need to raise the necessary funds for investment, this needs to be in a timely manner in accordance with the project programme. Please note that not all sources of funds will be acceptable to the Project Vehicle, in particular, if they adversely affect the Project Vehicle's ability to receive any form of revenue or funding from the operation of the project.
- No voting rights will be attached to any stake held by the Community Vehicle in the Project Vehicle. The Community Vehicle will therefore not be able to influence the decisions of the Project Vehicle or the operation of Cowal and Trossachs Forest District Wind Farm - Bachan Burn.

<p><b>Step 3 - Begin considering chosen method of involvement for a Community Organisation(s)</b></p>
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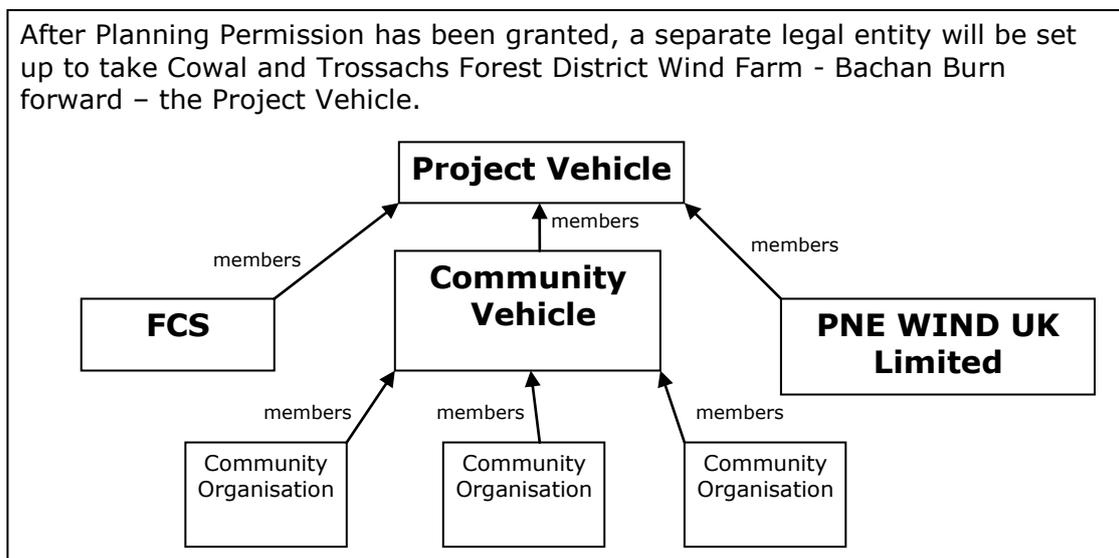
## **8. Making the necessary arrangements**

- There may be more than one connected Community Organisation wishing to be involved in Cowal and Trossachs Forest District Wind Farm - Bachan Burn, but only one Community Vehicle can be a member of the Project Vehicle. If more than one Community Organisation is interested, they have

to come together to form one new organisation known as the "Community Vehicle", as explained earlier. **Figure 1**, below, shows how this will be set up. All of the connected Community Organisations must unanimously agree to invest in the Community Vehicle and form the Community Vehicle otherwise the only option available is the Community Benefit Payment (Option A). It is only properly constituted Community Organisations that may invest in the Community Vehicle and only a properly constituted Community Vehicle can receive the Community Benefit Payment.

- Community Organisations must reach agreement amongst themselves on their level of involvement and the distribution of funds between them within the Community Vehicle. PNE WIND UK Limited is not responsible for deciding how funds are distributed.

**Figure 1 – Legal structure for the wind farm development**



The Community Actions are listed under each of the Options, **A**, **B** and **C** at Section 7. PNE WIND UK Limited will provide Community Organisations with more information at Stage 2 of the development when more work has been done, unless Community Organisations have collectively advised PNE WIND UK Limited that they wish to take Option A only.

## 9. Risks

Risks have been mentioned earlier in this document. The list of Risk Factors set out below is not exhaustive and there may be other risks which relate to an investment in a wind farm. It is essential that Community Organisations take their own independent financial and other advice before making any decisions about the options available.

- The return derived from investment under Options B and C can go down as well as up. Additionally the entire investment made by Community Organisations in the Community Vehicle and the value of any interest in the Project Vehicle held by the Community Vehicle could be lost.
- Each relevant Community Organisation is required to take its own legal, financial, investment and taxation advice from a suitably qualified person specialising in this type of investment.
- The financial operations of the Community Vehicle may be adversely affected by the impact of general economic conditions.
- The Community Vehicle will have no voting rights in the Project Vehicle, therefore will have no control over the direction or decisions of the Project Vehicle.
- Any investment in the Community Vehicle will be difficult to value.
- Any investment in the Community Vehicle should not be regarded as short term in nature and Community Organisations must be prepared to take a long term view of their investment.
- Changes in economic conditions and legislation can substantially adversely affect investments.
- The Project Vehicle may be adversely affected by external events such as fires, floods, war etc.
- No representation or warranty is or can be made as to the future performance of the Community Vehicle which becomes a member of the Project Vehicle. There is no assurance that the Community will achieve its investment objectives, and it is possible that it could lose all monies invested.
- The Project Vehicle may require further funding post Financial Close and if the Community Vehicle does not participate its stake may be correspondingly reduced.
- By their nature, energy generation projects such as Cowal and Trossachs Forest District Wind Farm - Bachan Burn have significant construction risks arising from delayed operation and commissioning, costs escalation during the construction period, environmental issues and logistical challenges.

## **10. Next Steps for Developer**

More detailed information will be issued to Community Organisations in the form of a Stage 2 document, hopefully, by Summer 2014 which will contain information about the specific project unless Community Organisations have collectively advised PNE WIND UK Limited that they wish to take Option A only.

PNE WIND UK Limited is not allowed to provide any further information about the options set out in this document at this stage due to the regulatory constraints set out in **Section 2**, above, but on request PNE WIND UK Limited is able to provide Community Organisations with ongoing updates on the development of Cowal and Trossachs Forest District Wind Farm - Bachan Burn and its progress through the design and consenting process.