

Shared community ownership of renewable energy systems

Voluntary protocol

The government's [Community Energy Strategy](#) proposes that shared ownership should be routinely offered by developers of onshore renewable energy projects by 2015. The [Shared Ownership Taskforce](#) report due in November 2014 will give details of a voluntary protocol.

The protocol shows how developers should offer communities the right to invest in renewable energy projects to obtain beneficial ownership in a share of these projects or the energy they produce. Shared community ownership is therefore separate from undertakings to make payments into [community benefit funds](#).

The regulatory background to the Taskforce and the voluntary protocol is further detailed [here](#), together with backstop powers to be enacted, if by the end of 2015 the government is not satisfied that the voluntary protocol is being sufficiently widely implemented.

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Voluntary protocol

This document has been drafted by Community Energy England (CEE) while the Taskforce report is being finalised, to provide guidance for developers and communities, who wish to prepare for – and start to implement – the protocol. It will be updated on an ongoing basis to reflect the development of the protocol and the industry..

This document links to an [online information resource](#) and several aspects herein are hyperlinked to pages of that website, where they are described more fully.

The Taskforce recognises that shared community ownership has hitherto been relatively rare in the UK. The protocol will not therefore be too prescriptive about the precise approaches taken by developers and communities in meeting their obligations hereunder. It is similarly recognised that new approaches will evolve as experience increases; and this may lead to subsequent iterations of the protocol.

Because the Taskforce report will not be definitive about some of the thresholds and figures, *this document provides guidance on some of these issues from the perspective of CEE. Where this is done, the relevant sections are identified in italics.*

Core requirements under the protocol

This section summarises the core requirements. Expressions in bold are further explained under [terminology](#) below. The [methodology](#) then suggests possible steps and also details when developers obligations have been fulfilled. More detailed guides for [developers](#) and [communities](#) are available separately.

The key obligation on **developers** of **eligible** renewable energy projects of **significant scale** is to seek to engage with **communities** about their potential involvement in the projects, with the aim of offering at least one route to a **meaningful level** of **shared community ownership** at a **fair price**.

Developers may also offer **other participation options**. If the community partners wish to pursue a **shared ownership option**, the developer must use best endeavours to deliver it.

If no community group exists or is created to participate in the project, or if communities opt for other means of participation than community ownership; then the developer's obligations under this protocol are discharged.

Eligibility, thresholds and terminology

In meeting the core requirements above the following criteria are proposed:

A **developer** is a commercial organisation planning a renewable energy project, and will normally be responsible for identifying sites and obtaining consents. *The developer may not be the eventual owner of the (non-community portion of) the project, in which case it should keep the intended plant owner informed about the shared community ownership options.*

Communities are recognised **community enterprises**. These may not yet be legally constituted when negotiations commence, but will need to be prior to contract closure.

Projects are **eligible** under the protocol where they produce electricity¹ for the primary purpose of exporting it². This includes all renewable technologies, both on- and off-shore³

The Taskforce proposed a threshold of £2.5m above which projects were of sufficiently **significant scale** to justify offering shared ownership.

Shared community ownership is the **collaborative involvement** by a **community enterprise** in a renewable energy project by a commercial developer; where:

Collaborative involvement includes a financial investment in equity and/or debt available for substantially the lifetime of the project, with appropriate protection of minority rights.

Community enterprise means a social enterprise such as a co-operative or community benefit society, which pays a fair rate of return sufficient to attract and retain the capital it requires, and also meets broader social or environmental goals of benefit to the community.

Some examples of shared ownership options are given [here](#).

The Taskforce suggests **meaningful levels** of ownership imply a minimum share in the range 5%-25%. A sliding scale is probably appropriate. Smaller projects would need to offer at the top end of the range, otherwise the transaction costs will be too high in relation to the investment. Whereas for projects in the £100m range, communities could probably only offer lower levels of investment. These figures may change over time.

The **fair price** at which the ownership should be offered should not exceed the free market value. Where communities are engaged early in the project (prior to planning approval for example) the price should be based on the asset value of the project.⁴

Other participation options include ways in which communities and individuals can be involved as an alternative to (or in addition to) ownership, in recognition that not all communities will have an appetite for ownership. Some examples are given [here](#).

It is assumed that in many cases the community groups will comprise mainly people living close to the development; but 'communities of interest', 'twinning' (for example between rural and urban communities), and other social enterprises are not excluded.

Suggested methodology

The following process (shown diagrammatically [here](#)) suggests how the protocol can be implemented – but is again not intended to be prescriptive. *The process should start as early as possible so that the lead times proposed here do not unduly extend the overall timetable.*

Finding suitable partners

Early in the development process, developers should identify relevant community groups (whether or not they are formally constituted at this stage) through their own pre-planning activities and/or the intermediaries identified [here](#); some of which already have registers of qualified community groups interested in shared ownership.

New community groups may nucleate around project development opportunities; so these intermediaries should be engaged by the developer to help catalyse the creation of new groups in areas where there are no evident existing prospective partners. In some locations, there may be more than one suitable community group; and the developer may prefer to select one, or to work with multiple partners.

- ✓ When no suitable community partner has been identified or formed, even after a developer has used best endeavours to find one, *both independently and through a intermediary over a 3 month period*; its obligation under the protocol is discharged. It can still explore any [other approaches](#) which might be delivered without an established community group.

Considering participation offers

Both developers and community groups may table participation options. These should include at least one route to shared community ownership, such as those shown in the examples [here](#). External factors, such as the [eligibility for incentive schemes](#) may influence the model chosen. The parties may also discuss other participation options which do not qualify as shared community ownership, such as some of [these examples](#).

In discussing shared ownership options, the developer should indicate the range of the ownership share which it is able to offer, to give the community an indication of the scale of financial contribution required. As discussed [above](#), the lower limit should not be so small as to be unviable or tokenistic; *so would typically not be below the greater of 5% or £500,000*. The upper limit will probably depend on the fundraising capabilities of the community group, and the financial parameters of the development.

Project timetables should allow up to 6 months consideration of participation offers.

Formalising the preferred offer(s)

During this process, the developer and the community group(s) would aim to agree on one or more of the participation options.

- ✓ If the community wants to take up the offer of [shared community ownership](#) the developer is expected to make a formal offer to be pursued as described [below](#).
- ✓ If the community all prefers [other option\(s\)](#) to shared community ownership, then the developer's obligations under this protocol are discharged by delivering those options.

The discussion and offer of various options may be an iterative process during the project development phase. Developers are advised to keep their funders and other interested parties informed. It may be that the formal offer, and its acceptance, are not finalised until about the time when the commercial development achieves financial close.

Completing shared ownership agreements

Where the parties adopt a shared community ownership option, the community enterprise will need to [raise the funding](#) to contribute for its agreed share. *This may take 6-9 months initially, though funds may be available in the future to provide bridge finance for this purpose.*

Where possible, developers may seek to agree some flexibility with their funders to allow for a range of possible outcomes of the community's fund-raising activities, including over- and under-subscription.

Success criteria

The intention is that substantially all qualifying developments should follow this voluntary protocol.

- ✓ For some projects it may be that the developer's best efforts will fail to find suitable community partners, even with the assistance of intermediaries. Hopefully this will prove to be the case only for a minority of projects. In these cases the developer would have complied with the protocol and would hopefully still consider any other approaches, which could be implemented without an established community group.
- ✓ There may be reasons, both financial and otherwise, why community groups may not want shared ownership; in which case the development should not be judged adversely. Developers' obligations under the protocol will have been discharged in the making of the offer.
- ✓ Finally, it is hoped that a significant proportion of projects will achieve [shared community ownership](#); thus building an experience list of case studies, exemplars and of best practice, which future shared ownership schemes can follow.

It is anticipated that there will be a [central register](#)⁵ where developers will be required to give details – both public and confidential – of eligible projects. This will enable progress towards shared community ownership to be monitored and new approaches and best practice to be highlighted. CEE is developing such a register and has offered it to the taskforce and DECC for compliance monitoring under the protocol, and Local Energy Scotland is working on a database for Scottish projects.

¹ There is strong justification for also including heat and bioenergy projects which export to a public network, but the protocol currently focuses only on electricity.

² The Taskforce considered that 'self-generation' projects (which primarily serve a connected energy consumer such as a factory) should not be **required** to follow the protocol – though they may decide that it would be good practice to offer participation to local communities.

³ Though it is noted that the government's [Strategy](#) and the draft [legislation](#) refers to a more restricted list of technologies.

⁴ *It seems inappropriate that the price charged to communities should include 'development gain' if the communities have participated in securing consents.*

⁵ or national registers for Scotland and for England and Wales