

# Small Projects – Making Them Work

## Turning an Ugly Duckling into a Financial Swan

### Understanding Challenges Facing Small Wind Projects

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# Why Community Wind

- Allows environmentally concerned citizens to participate in the wind industry
- Improves the acceptability of the wind industry in general
- Part of the movement toward distributed generation
- Complimentary to seasonal variations of other renewable technologies

# Advantages

- Easier permitting with community support
- Reduction of owner's costs by volunteer participation in early stages
- Lower returns expected on equity for community groups than commercial investors

# Difficulties

- No economies of scale in purchasing power
  - Turbine supply
  - Balance of plant
- May be a lack of required skill sets to complete project development and operation
- Inherently higher technology risk
- Difficulty finding debt and equity financing
- Risk of failure may be embarrassment to FIT program

# Turning Ducklings into Swans

- Make full use of FIT Program incentives
- Federal and provincial programs to support community wind projects
  - Special financing programs
  - Equity investments
  - Grants
- Team up with other parties to gain access to required skill sets and stronger balance sheets

# Sample Grant Programs

- **Community Energy Partnership Program**
  - sponsored by the OPA, Government of Ontario & Deloitte
  - seed capital for community FIT projects
- **Aboriginal Renewable Energy Fund**
  - seed capital for development work for Aboriginal FIT Projects
- **Aboriginal Loan Guarantee Program**
  - loan guarantees for equity in Aboriginal renewable energy projects

# FIT Program Incentives

## The Community & Aboriginal Adders

- Varies by type of renewable energy project
- For wind & ground mounted solar Community Adder is maximum of 1¢/kWh
- For wind & ground mounted solar Aboriginal Adder is maximum of 1.5¢/kWh
- Applied for prior to or at Notice to Proceed stage of Project
- Benefits: Reduced Initial and Incremental Security Requirements if Participation Level  $\geq 50\%$
- To get maximum benefit need to show Participation Level at 50% at Initial FIT Application stage

# Who Qualifies for Community Adder?

## Four categories of Community Investment Members

- Individuals Resident in Ontario
- Registered Charity with head office in Ontario
- A Not-For-Profit Organization with head office in Ontario
- A co-op as defined in Co-operative Corporations Act (Ontario) all of whose members are Resident in Ontario

# Who Qualifies for Aboriginal Adder?

## Four categories of Aboriginal Communities

- **First Nation Band as defined in the Indian Act (Canada)**
- **Métis Nation of Ontario and its active Chartered Community Councils**
- **Entity determined by Ontario Government to represent communities of Métis or aboriginal individuals.**
- **Corporations wholly-owned by one or more of the categories set out above.**

# Do the Adders Work?

- Compare Rate of Return for 3 MW Project without Adder then with Community Adder and Aboriginal Adder.
- Approximate Capital Cost of \$7.5 - \$8 million
- Approximate Equity Required \$2.7 million
- Community or Aboriginal Equity Required \$1.35 million for maximum adder
- Return calculated using pre-tax levered rate of return with 65 per cent debt funding
- Results
  - Base Case No Adder 11.3%
  - Community Adder 14.7%
  - Aboriginal Adder 16.0%

# Solutions – One Approach

- Turn a “small” project into a “big” project
  - Organize a group of communities to achieve economies of scale
    - Share some development costs in EA and WRA
    - Stronger buying power with turbine suppliers
    - Better pricing on post warranty service contracts
    - Possible role for OSEA?

# Solutions – Another Approach

- Take advantage of 3<sup>rd</sup> party programs for community wind developers

## You Provide

- Wind Resource Assessment
- Land Access
- Initial Equity Investment
- Permitting
- PPA
- All “soft” costs

## They Provide

- Turbine supply agreements
- Equity shortfall
- Debt financing
- Interconnection Agreement
- Construction and project management
- Operations expertise

## Who is the Prince who Kisses the Frog who Turns the Ugly Duckling into a Glamorous Princess?

- **Local Distributor Companies (LDC)**
  - have skill sets, balance sheets, community ties
- **Infrastructure Investors**
  - strong balance sheets, sector knowledge
- **Combination of LDCs & Infrastructure Investors**
  - May be best of both worlds

# Conclusions

- Community wind projects face significant challenges over large utility developments
- Technically and financially strong entities required to complete projects successfully
- FIT Program pricing and grants are strong support for community and aboriginal projects
- Utility/LDC presence is likely necessary for widespread successful development
- Understanding the issues will aid in overcoming obstacles facing community and aboriginal projects



## For More Information

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