Policy Challenges for Renewable Energy Co-operatives in Canada

Summary research from the Measuring the Co-operative Difference Research Network

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Introduction

In many jurisdictions, the regulatory environment does not favour (and in some cases, it even prevents) small-scale, community-owned energy developments. It can be difficult for community groups to get access to the grid when electricity systems are centralized and highly regulated in favour of large players. Furthermore, in many provinces one company or crown corporation has a monopoly on energy generation and distribution.

A major finding from the CURA research was that currently, the success of community energy projects is heavily dependent on the policy environment in the jurisdiction where they are located. In many parts of Canada, there is inadequate or absent policy support to enable any sort of community energy development, let alone RE co-op development.

Although policy changes are happening in some jurisdictions to create a more favourable environment for small community energy projects, the dominance of existing corporate players and monopoly holders in the energy sectors, who wield enormous influence on policy, can make this process painfully slow.

Even where policy enables co-operative energy projects, the development process is generally very cumbersome from both an administrative and bureaucratic perspective (this may, in part, be due to the newness of these enabling government policies and programs—bureaucrats are not yet familiar with them, and procedural wrinkles have not yet been ironed out). Administrative and bureaucratic hurdles can be particularly discouraging for small, volunteer-run organizations with limited experience and limited resources.

Many community groups lack the technical expertise to get community energy projects off the ground—they face a steep learning curve in terms of the regulatory environment, technical knowledge, business financing, etc. Because the sector is so new, there tends to be a shortage of shared learning and resources.

Community-based groups may also be challenged by a lack of capacity and resources: it is an enormous amount of work to get an RE project off the ground. Private energy companies have deep pockets to pay for staff and consultants with professional expertise to conduct feasibility studies, jump through administrative hoops, complete environmental assessments, etc. RE co-operative projects may be initiated and run entirely by volunteers, especially in the first few years.

RE co-op development is also hindered by a general lack of knowledge, amongst both policy makers and the general public, about renewable energy technologies, energy policy alternatives, and the environmental and local economic benefits that RE projects can offer. This leads, at best, to a policy environment that is non-conducive to RE project development

and, at worst, to outright public opposition to RE project proposals (e.g. protests against wind farms).

One of the most significant challenges for community-based energy projects is financing—RE projects generally have very expensive development costs. RE co-ops are generally unable to raise sufficient capital through community equity (i.e. sale of shares to local members), but also have difficulty accessing debt financing, as most lending institutions view such projects, particularly if 100% community-owned, as too risky.

Ensuring the long-term profitability of an RE co-op is also a major consideration. Experience in Ontario has shown that the scale required for operating a successful, cash-positive co-op over a 20-25 year time span requires a significant portfolio of assets (estimated at above $10 million in the case of solar). This mean that scale is an important consideration and when policy changes, co-ops cannot always be assured they will reach the scale they need.

Overview of Policies in two Canadian provinces that affect renewable energy co-op development

ONTARIO FIT PROGRAM

The Ontario Feed-in Tariff Program is structured to encourage the development of a range of renewable energy projects, varying in size, technology type and proponent type. It was introduced legislatively through the Green Energy and Green Economy Act in 2009 and first implemented in 2010. Since then the program has seen a number of changes, which have influenced the RE co-op sector significantly.

Initially the Ontario FIT program was open to various parties including, Aboriginal proponents (First Nations and Metis), community groups, individuals, co-ops, educational and health institutions as well as commercial developers. There was also a program for micro-generators of under 10 kW which were procured under the Micro-FIT program. Many farmers, business owners and home owners applied to this Micro-FIT program, and at least 20,000 contracts were awarded in this category. Co-ops like the Agris Solar and SolarShare Co-op were also able to take advantage of this program.

During the first FIT round, the program was heavily subscribed to by the commercial sector and while there were some community energy proponents that were awarded FIT contracts, very few co-operatives were successful in securing a contract. The problem was that many community groups, including co-operatives, submitted their applications relatively late in the process, and the program was suddenly closed without warning. The government had not expected the level of applications that were received and it decided to put the program on hold while it reviewed and revise the rules.

The result was FIT 2.0 which included only co-ops and aboriginal groups (First Nations and Métis Nations) as the only forms of community entities eligible for participating in the FIT application process, alongside commercial proponents.

Community Set-Asides in Fit 2.0

At the behest of the co-op sector, a set-aside of contracts was also created under FIT 2.0 to allow co-ops and Aboriginal groups more time to submit their contracts, while not forcing them to compete against commercial developers. The set-aside was 25 MW each for co-ops and Aboriginal proponents, and co-ops under the set-aside had to be majority owners of the projects. In addition, under the commercial stream there was a stipulation that proponents who had a co-op or Aboriginal partner holding at least a 15% stake would receive additional points on their application. The creation of set-aside and point system resulted in a flurry of

new co-op incorporations leading up to the FIT 2.0 application deadline. The result was that by the end of FIT 2.0 more than 12 MW of FIT projects were awarded to co-ops, all but one developing solar projects.

NOVA SCOTIA FIT PROGRAM

Nova Scotia's Feed-in Tariff Program is known as COMFIT*—with "COM" standing for community—Nova Scotia's FIT program differs from FITs in many other jurisdictions in that it is available only to community-based (not commercial) groups. Nova Scotia's COMFIT projects are also connected to the grid at the community (i.e. local distribution) level—such that energy created locally is guaranteed to be used locally.

While co-ops are eligible to apply to COMFIT either independently or through a community investment fund (see below), there are no special provisions in Nova Scotia's COMFIT program to promote the co-operative model. As of January 2015[1] there were only two NS co-ops within the COMFIT application process; the other 80+ projects were initiated by other types of community-based groups including municipalities, universities, First Nations communities, non-profits, and community investment fund corporations.

Comparing the Nova Scotia and Ontario frameworks, we can see that Ontario's co-operative-specific policies create a more favourable environment for the development of RE co-ops, as opposed to other types of community energy projects. It is also notable that Ontario allows solar photovoltaic as an eligible technology under its FIT program, while Nova Scotia does not. The long-lead time, more involved development processes and high capital costs of wind projects (because of the size needed for viability), along with the higher risk involved, makes wind a less desirable technology and less feasible venture for community-led projects.

[1] As of Jan 2015, the NS COMFIT program is on pause while the department of energy evaluates the program.

Funding for Renewable Energy Projects

There are many steps involved in getting to the building phase and lots of uncertainties (i.e. risks) leading up to that point. Renewable energy projects are expensive to develop and build, given the highly regulated environment in which they operate, and the high cost of electricity generation technology. Significant reductions in the cost of solar photovoltaic and wind turbine technology have been achieved over the last few years, but to build a project at a scale needed to have a viable co-op still requires significant investment, both in the start-up phase and even more so in the build-out phase.

Without grid access and a power purchase agreement (PPA) over the long term, RE co-ops in Canada cannot achieve a viable business plan, but securing an agreement requires significant effort and risk. As a result, it can be very difficult to raise enough funds from the community to pursue a project. In some jurisdictions, start-up or feasibility grants or loans help address costs leading up to the application for grid-connection and pre-PPA.

In Ontario, the government earmarked a pool of funding called the *Community Energy Partnership Program* (CEPP) to be accessed by co-ops to help them with start-up costs. The CEPP is a granting program which does not need to be repaid; however to make it more sustainable, it could also be structured as a forgivable loan so that co-ops that are successful and move forward with their business could repay the loan over a period of time. Access to Capital
Once projects are certain to move forward they require a large infusion of cash to pay for the hardware and installation of the system. Co-ops may choose to finance their project entirely from community debt and equity (i.e. loans – in the forms of bonds and debentures - and/or shares), however given the high capital investment needed in many cases, many co-ops seek construction financing and then long-term debt to compliment their member investments.

Accessing debt by RE co-ops in Ontario has been and continues to be a challenge. Construction debt has been a little easier to secure because the installation companies (EPC – Engineering Procurement and Consulting firms) often offer financing to address these high up-front costs.

Long-term debt, however, has been a major challenge. There are several reasons for this:

1. Many RE co-ops are newly formed and do not have a long operational history that they can offer as an assurance of their business acumen, hence commercial lenders are hesitant;
2. Co-ops are not (well) known entities among financial institutions except the credit union sector;

3. The credit union sector has not responded to RE co-op needs with favourable loan terms, nor have other financial institutions like banks;
4. The size of the loan required by RE co-ops is considered small by commercial banking standards and the cost and timelines associated with securing such loans can be significant, increasing the cost of capital.

Community Investment Funds

In some jurisdictions RE co-op development has been fostered through an innovative capitalization mechanism known as a Community Economic Development Investment Fund (CEDIF). A CEDIF is a for-profit corporation or co-operative whose main purpose is to establish a pool of capital through the sale of shares to persons within a defined community.

In Nova Scotia, a CEDIF is one of the types of entities eligible to apply to build and operate an RE project under the COMFIT program. Investments in a CEDIF are pre-approved holdings for a self directed RRSP and are subject to a 35 per cent Equity Tax Credit. Renewable Energy CEDIF Co-operatives therefore provide members with the ability and incentives to invest larger sums in an RE co-operative, and thereby help co-operatives to raise more of the capital they need.

Government Loan Guarantee Programs

Another option to address the problem of debt access would be for the government to *insure loans* or *provide a loan guarantee* to RE co-ops that demonstrate a solid project plan. In Ontario, such a loan guarantee program – whereby the government secures or backs the loan – has been implemented for Aboriginal power projects, but it has not been extended to the RE co-op sector.

Another option suggested to government by the RE co-op sector in Ontario is access by RE co-ops to the provincial Ontario Infrastructure Loan Program – which allows access to low interest loans by qualified proponents. Currently the program is limited to municipal proponents and extending it to co-ops has been entertained by Finance Department staff but not pursued.