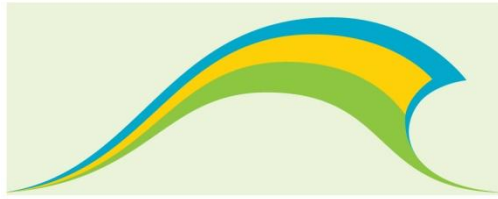


Réseau de recherche pour mesurer la
DIFFÉRENCE COOPÉRATIVE



Measuring the Co-operative Difference
RESEARCH NETWORK

Features of a Positive Policy Environment for Renewable Energy Co-ops (2012)

Addressing the ecological damage due to carbon emissions is one of principal challenges of our time. Responsible Canadians recognize the magnitude of the problem and support the development of clean renewable power, including solar, wind, biogas and small hydro, to displace the impacts of non-renewable electricity generation.

Community power projects enable individual citizens to make a difference in fighting climate change. An important type of community power enterprise is the renewable energy co-operative (or RE co-op). A fundamental role of RE co-ops is to educate people on energy issues and develop grassroots community support for renewable energy projects. Individuals can then join the RE co-op as members, invest in the co-op's project and have a say in the co-op's activities. In this way, RE co-ops ensure community involvement in project development and the redistribution of the economic benefits of green energy generation back to the local community.

While it is easy to become enthusiastic about the concepts of community power and green energy in theory, in practice RE co-ops are expensive and logistically complicated endeavors. The success of the RE co-op sector in Canada is heavily dependent on provincial electricity policy, co-op regulatory processes and access to financing.¹ A policy environment that encourages RE co-op development would have a number of key features, including:

- a feed-in-tariff that guarantees a fixed price for the power produced;
- a "set aside" that prioritizes RE co-ops access to the grid;
- a tax framework that encourages community investment; and
- an economic framework that supports RE co-op access to debt financing.

¹ Judith Lipp ; Emanuele Lapierre-Fortin, J.J. McMurty. *Renewable Energy Co-op Review: Scan of Models & Regulatory Issues, Preliminary Research Findings, January 2012*. Measuring the Co-operative Difference Research Network. Web. <http://ec.msvu.ca:8080/xmlui/handle/10587/1510>

Feed-in-Tariff

A feed-in-tariff (or FIT) refers to the fixed price paid to a renewable energy supplier for the electricity produced by the generating facility. The prices are designed to cover total project costs and provide a reasonable rate of return over a fixed period of time. The prices paid for electricity produced vary according to the renewable energy source used and the size of the project.

The growth of the RE co-op sector in Ontario can be attributed to a FIT program introduced in 2009.² The Ontario FIT provides guaranteed purchase of all of the power supplied by renewable energy projects for 20 years (40 years for waterpower) at a fixed price that is high enough to generate a decent rate of return. The price guarantee is intended to instill confidence in the developers and their lenders to undertake projects.

Community Power Set Aside

One of the core goals of the Ontario FIT Program is to encourage the development of community-based renewable energy projects. However, under the original Ontario FIT, community power enterprises, which are slow to organize and therefore commercial producers were quicker to contract for the available grid.

In order to encourage public participation, Ontario revised the FIT rules (known as FIT 2.0). Under FIT 2.0, ten percent of the contract grid-capacity is reserved for renewable energy projects that are majority owned by co-ops³ or aboriginal communities.

Whereas Ontario has almost 20 established or emerging RE co-ops, in most provinces there are only 1-2 (and in some cases zero) co-ops in the business of generating power.⁴ The FIT 2.0 program in Ontario, featuring a feed-in-tariff and a community power set aside, provides a lower-risk political and economic environment in which to develop RE co-op projects.⁵

Community Investment

Access to the grid is only one aspect to fostering RE co-op development. Nova Scotia, New Brunswick and P.E.I have an interesting capitalization mechanism known as a Community Economic Development Investment Fund (or CEDIF).

A CEDIF is a pool of capital, formed through the sale of shares (or units), to persons within a defined community, created to operate or invest in local business or co-

² Ibid.

³ Under FIT 2.0, co-ops can gain priority access to the grid if they meet the following criteria:

- the co-op must own greater than (not equal to) 50% of the project for which the co - op is submitting a FIT application, and
- the co-op must have at least 50 members that own property in the municipality in which the applicant project is located.

⁴ Supra note 1.

⁵ Supra note 1.

operative. Investments in CEDIF co-ops are pre-approved holdings for a self directed RRSP and are subject to a 35 per cent Equity Tax Credit. Typical RE co-op members are environmentally conscious individuals whose savings are largely held in RRSPs. The CEDIF, featuring RRSP eligibility and taxable benefits, provides RE co-op members with the freedom to invest larger sums in their co-operative.

Debt Financing

While member equity remains the foundation for co-operative funding, the expense of constructing and maintaining an electricity generating facility requires debt financing. Unfortunately, co-operatives traditionally face additional hurdles when approaching financial institutions for loans due to their unique organizational structure. Even in Ontario, where a FIT contract provides for a 20-year price guarantee, RE co-ops have difficulty securing long-term debt. One option to address this problem would be for the government to insure loans to RE co-ops that demonstrate a solid project plan.

Summary

Community power projects, such as RE co-ops, are major pieces of the puzzle in Canada's attempts to phase out high impact electricity generation, develop renewable energy technologies and create new green jobs. However, the successful development of the RE co-op sector in Canada is heavily dependent on a favorable policy environment. The best policy environment provides RE co-ops access to the grid and a guaranteed competitive rate for the power produced. A favorable tax framework such as RRSP eligibility is important to facilitate community investment. Beyond community financing, RE co-ops need long-term debt financing to develop renewable energy infrastructure.

This briefing note was written by Dan Taylor and is based on research on Renewable Energy Co-operatives in Canada, conducted through [Measuring the Co-operative Difference Research Network](#) and led by J.J. McMurtry and Judith Lipp.