Fighting the NIMBY war with a gamble

The cost of owning or operating an onshore wind project of 5 MW or more in England has just risen by a minimum of £5000 a year, or £100,000-125,000 over the average 20-25 year lifespan of an onshore wind farm. Why? At the instigation of the industry itself.

But although this will potentially dent profit margins a little, it’s “not going to break the bank from an economic point of view,” notes Steve Read, Managing Director of Ventus Funds, a subsidiary of investment firm Climate Change Capital, which focuses specifically on funding small-scale renewables projects. Plus, it’s all in a good cause.

The need to cut carbon emissions, develop secure sustainable energy supplies, and even the job creation potential of wind farms has not been enough to convince some people that wind farms are necessary nor that they should be encouraged. Just as the adoption of strict best practice guidelines by the industry and the enforcement of rigorous environmental impact assessments for every project have done little to appease some people’s fears.

And neither has the fact that the development and operational cycle of a wind farm actually results in over £1 million/MW being pumped into the local and regional economy (according to ongoing studies), as claimed by Maria McCaffery, CEO of trade association RenewableUK, at the launch of the industry’s latest initiative.

Art, eye-soar or simple necessity?

Nothing, it seems, has really succeeded so far in overcoming certain kinds of objections, especially those based on what is essentially a rather subjective issue – visual intrusion. Like a piece of abstract art, a wind turbine can be viewed as an eye soar or a stunning addition to the landscape. Alternatively, it can be seen as just a practical, necessary fact of modern day life. The attitude is down to personal preference.

For those against them, it’s eyesore territory all the way. Arguments against projects are often fuelled by a mass of misinformation about intermittency or actual energy yields from wind farms, or a lack of understanding that a 30% capacity factor is fairly good for any generation type, and so on.

That’s not to belittle local concerns. Some are absolutely legitimate - potential noise issues; effects on radar systems; wildlife; or health. And as such, wind projects are rightly subject to rigorous assessment and ongoing study – by those within and outside the industry.

But it is important to recognise the vital contribution the sector is already making to our society. Not just in the fight against climate change, but in ensuring sustainable energy supplies, as well as jobs long into the future. We need to help it to fulfil its full potential in this regard (without giving it carte blanche to stick turbines up left, right and centre). And it is therefore important to recognise that to do this, those same companies need to be able to turn a profit, as with any business.

Sadly though, as Energy and Climate Change Minister Charles Hendry says, some members of a local community just cannot see what they gain from a wind farm. They often see them as simply imposed upon them against their will (and that never goes down well).

On some well-documented occasions, whole communities have been ripped apart as the fight against wind farms has turned emotional and nasty.

Something needs to give

“There needs to be a new relationship between wind farms and the communities which host them,” the Energy Minister says. He’s right. The wind industry agrees too, especially knowing that local communities are set to have an even bigger say on what developments take place in their areas under new proposals in the UK Government’s Localism Bill.

When first announced last December the proposals sparked concern amongst the UK’s onshore wind industry. After all, the costs associated with planning delays or rejections – resulting largely from the anti-wind lobby’s Not-In-My-Back-Yard (NIMBY) philosophy – have long been one of the biggest obstacles to development the industry has endured.

“Many of the [Localism] Bill’s proposals could have a profound impact on renewable energy projects, while others could have a bearing on project economics and overall renewable energy targets,” warned
RenewableUK at the time. Its Director of Communications, Charles Anglin, said: “There is no doubt that this Bill, once it becomes law, will dramatically alter the rules for developing renewable energy projects...we could be looking at a radically different planning process, with councillors allowed or even encouraged to campaign ahead of the decision, and the result in some cases being made by referendum. We will need to make sure that the economic and community benefits are clear.”

With all this in mind, the association has, quite rightly, worked with central government, local government organisations, community groups and other stakeholders to help boost its arsenal of weapons. The result is the Community Benefit Protocol, something all the wind members of the association have apparently signed up to.

The solution: Industry pay-outs

Basically what this Protocol amounts to is that if a wind project submitted for planning approval from mid-May is built, the operator will give the local community a bundle of cash each year for the duration of the project’s operational life (or benefits in kind if agreed with that community).

More precisely, the protocol specifies a £1000 minimum payment each year for each megawatt of installed wind power during the lifetime of the wind farm. Currently only applying to wind farms of 5 MW or above in England, similar plans for Wales and Northern Ireland are due to be launched later this year.

Payments will be index-linked with the RPI for the lifetime of the project and will be made to community benefit funds. Decisions about how the money (or benefits in kind) will be allocated rest with the community living in the vicinity of the wind farm.

It’s nothing new. There are already a number of such voluntary funds existing in the UK, but now the same will be true for every new 5 MW or bigger wind farm that gets built, RenewableUK says.

“There are a number of ways communities across the UK benefit economically from onshore wind, both in terms of business and employment, but community benefits have a special role to play, as they are distributed according to the wishes of the local community itself,” says McCaffery. The Protocol, she adds, was “inspired by the success of community benefit funds thus far.”

Community involvement is without doubt the key to further wind power deployment and “community benefit schemes are now deemed to be essential by our members,” she says.

The Government loves the idea so much it has agreed to let the local council of host communities keep the business rates paid by a wind farm operator too. A welcome move and a double financial whammy for local people. “The Protocol, in line with Government proposals, clearly sets out what every wind farm in England could bring to the local community’s table,” says McCaffery.

While unsurprisingly greeted with scepticism by some in the anti-wind camp, including the Renewable Energy Foundation, which has called for a “more generous and less divisive form of community reparation”, others have welcomed it. “There is a need to encourage renewable generation, and if an incentive scheme results in more communities supporting wind farm projects, then that should be welcomed,” says law firm DWF.

One man optimistic the new scheme will do just that is the Founder of Ecotricity, Dale Vince. He says it may mean “communities could soon be seeking to attract wind energy projects to their area.” The company’s four turbine Berkeley Vale wind farm in Gloucestershire could bring some “serious funding” amounting to £10 million overall into its local community. While already in the planning system, Ecotricity is applying the Protocol to it also, resulting in an additional £9200/year or £184,000 over its 20-year operating lifetime for community use, if it gets planning permission. Vince says: “With all the current talk of libraries, community centres and sports halls being closed because of Government cuts, here’s a great way for local communities to replace that funding.”

Ecotricity believes the Protocol needs to go further: It should, it says, be applied to already operational projects: “It seems quite unfair that the 3000 or so existing wind turbines in Britain should not be bringing the same kinds of local benefits as the new developments,” it says. “Those communities that have already accepted wind energy are losing out.”

The Community Benefit Protocol should also be applied to all types of generation, including new coal-fired or nuclear power stations, Ecotricity continues. “Residents of Somerset, say, could benefit from a very healthy £3.2m a year from EDF Energy’s proposed Hinkley C nuclear plant, a sum that could replace a lot of budget cuts.” Even though this could potentially counteract the wind-specific relationship-building purpose of the Protocol’s introduction, by offering communities a financially attractive and alternative reason to say no to wind.

Turning attention back to the wind industry specifics, developers and operators may want to ensure that a charitable trust is established for each community concerned to whom they can make the community payments, DWF believes. This will ensure they take advantage of tax benefits from making charitable donations: “The more guidance and support the developer can provide to the respective community on the setting up of the trust, the quicker the respective scheme can progress,” it suggests.

A risky gamble?

For the onshore wind industry, the introduction of the Protocol is
a gamble. As Read points out, there is nothing to say it will turn a single NIMBY mind set. While the launch of the Protocol shows the wind industry recognises its obligations to local communities, “I don’t think it will change a thing,” he says. Indeed, the introduction of the Protocol could be counterproductive in that it simply fuels the venom of anti-wind protestors even further while costing the industry more. Particularly if the protocol leaves the wind industry open to being perceived as an “empty gesture”.

Why could that happen? Firstly, if payments to communities end up being made via a charitable trust, as DWF suggests may be possible, the wind firm can take advantage of any related tax benefits. Some will no doubt scorn this, but those that do were always going to. Still the words ‘tax benefits’ could potentially be used to good effect in any empty-gesture argument the NIMBYs plan to use.

More significantly, wind developers already make financial contributions to communities via Section 106 agreements. These are legal obligations on companies to make a social or environmental investment in return for permission to develop a project. Read would like to see any community funds raised from the new protocol linked directly to Section 106 agreements. This, he says, would ensure the money gets spent where it’s most needed and in a timely manner, rather than risk communities not organising themselves sufficiently well enough to administer the money effectively.

Meantime, according to DWF, it is expected that any Section 106 obligations are likely to be taken into consideration when it comes to agreeing payments under the Community Benefit Protocol, “meaning the developer should not have to pay twice.” If this turns out to be so, where’s the concrete additional benefit to a community that has been promoted in a blaze of PR glory?

To be fair, as DWF says, “the detail of how the scheme will operate in practice will need to be ironed out.” But if there is no perceived additional benefit to the community, in line with the PR fanfare the industry and Government has hailed it as providing, watch out for the NIMBY backlash.

To stand any chance of really working and achieving its aims, this Protocol really does need to result in meaningful additional benefits to communities, precisely in the way Dale Vince suggests it will. And assuming that to be the case, then it has to be communicated to the public loud and clear.

And whether it will reduce planning delays remains a complete unknown. The impact of the devolution of planning powers under the Localism Bill could potentially add more time and cost to project plans anyway.

But with so much policy still up in the air compounded by cash-stricken times, adding a potential additional cost to wind industry players, albeit a voluntary one, may prove a pointless expense initiated too early. Lending conditions are tough enough at the moment and not every company may be able to swallow taking an additional hit on their bank balances quite as contentedly as Vince’s Ecotricity appears to be.

While the Renewable Energy Federation suggests the additional cost to wind operators will amount to just 0.5% of the annual income they get from operating projects and is thus negligible, DWF warns it could actually see some planned projects scrapped. “This additional cost may result in some schemes becoming unviable, particularly as the Government’s incentive schemes for projects (Renewable Obligations Certificates) will be reviewed periodically,” explains Anita Gupta, a Partner at DWF.

But as the old adage goes, ‘you have to speculate to accumulate’, and it’s a gamble the industry seems willing to take. For that it should be applauded, again on the proviso that it is truly talking about an additional benefit to communities. Hopefully the only projects to see their demise as a result of this initiative are those that really should not have been entertained in the first place.

Either way, interesting times lay ahead. As long as sensible, pragmatic, and honourable approaches to project development proposals, the planning approvals process, and the implementation of the Protocol are maintained by all parties involved, it really should be a win-win situation for all. Significantly, for the first time, the wind industry in England now has a formalised method of really engaging with local communities at a meaningful level. Let’s hope it pays off.

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The Community Benefit Protocol (pdf) http://tinyurl.com/6yx4ksv
UK wind industry windfall to communities http://tinyurl.com/5wvsq78
UK Localism Bill and renewable energy http://tinyurl.com/6ktafwa
Industry reactions to UK electricity market reform http://tinyurl.com/5xkvwz

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Yearly potential value of community benefit across energy industry (Source: Ecotricity)