

Onshore enlightened self-interest

Smaller-scale renewables vital to UK's energy future, Ventus Funds managing director Steve Read tells Gail Rajgor

The UK needs development of onshore renewables, in particular wind, according to Steve Read.

"We can't continue on the path of being reliant on imported energy. It's not a greenhouse gas emission issue; it's not a carbon reduction issue. For the UK, it's actually about our own energy security."

The managing director and lead investment manager of Ventus Funds, an offshoot of investment firm Climate Change Capital, says offshore wind, or emerging technologies such as wave and tidal, cannot do the job alone, at least not in the medium term.

Read believes the new government understands the situation. "There's strong recognition within the government that the renewables industry has to be supported in an appropriate fashion because it is critical for our future energy self-sustainability," he continues.

While there will inevitably be reductions to some energy programmes as part of the planned 25% departmental budget cuts for DECC and Defra, "the large-scale renewable sector and... the small-scale sector look highly likely to stay in my view", says the man who previously headed up the renewable energy debt team at Barclays Bank.

Ventus focuses solely on

funding the small-scale end of the market and an onshore sector that requires a steady flow of decent projects going forward.

"There is a massively long way to go," says Read. "I think the policy to onshore is tending towards smaller scale, regionally-sited schemes that have a degree of community involvement – not necessarily community ownership but community involvement and community benefit arising from this particular end of the market."

Any suggestion that the UK market is already saturated, he says, is simply a red herring. "We see significant opportunity going forward in small to medium-sized onshore wind and other forms of small-scale renewables, particularly hydro schemes, particularly as supported by the feed-in tariffs announced earlier this year."

However, more needs to be done to strike a balance between appropriate siting of projects and local attitudes of "we've already got enough of this around here", says Read. "That's a major problem in councils."

Wind turbines should not be put where inappropriate because of visual impact. "And it's stupid to put turbines in places where the wind speed is too low to be economically viable. So there's a sensible



Planning lottery: Steve Read says nation needs to redress balance for wind farm applications

Photo: Climate Change Capital

balance but I think the industry is far more sophisticated than it was 10 years ago in terms of site selection. The problem we have is the planning system."

There is a fear that the first wind farm to get consented is the thin end of the wedge, he explains. "When you go through local planning it's a real lottery as to whether you get a positive decision or not, regardless of whether the planning officer recommends for approval."

Appeals are expensive and

mean delays, which for the smaller developer and local landowner can often make or break a project financially, says Read. He is calling for the pot-luck local planning system to be replaced with more sensible decision-making procedures.

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Venture capital trusts are coming to the rescue of small renewable energy developers in a capital-constrained world.

"We are finding an extremely strong deal flow at the moment," says Steve Read.

Just a few years ago there was a very competitive market for bank finance debt for renewables projects of virtually any size.

"Even in the early part of 2008 there was a pretty long queue of banks that were financing projects in increasingly aggressive terms. But the credit

crunch put a sharp break on all of that."

Smaller developers or the private landowner seeking to stick up a wind turbine or two have it particularly tough.

"Private landowner developers simply can't go (to a bank) and get 100% debt finance for building the project out anymore," says Read.

"The handful of lending banks that remain active at this end of the market are looking to cap their total debt gearing on a single project at typically the 75% to 80% level."

For many small guys this is not enough, which is

where outfits like Ventus come to the rescue.

"The product we offer, which is primarily project finance equity for the small end of the market, and also the skills and expertise to put in place the off-take contracts and the debt finance by working with a small panel of banks, is a package that is very much in demand for SME developers," says Read.

In its early days, Ventus worked closely with Alliance & Leicester, now part of Santander, while recently it has been more closely aligned with the Co-operative Bank group.

"It's now only the Co-operative Bank and Triodos that are really open to long-term project finance below £10m," Read points out.

Under trust rules Ventus can only back small projects, typically requiring a total investment of no more than £15m to £20m.

For a wind farm this would mean no greater than around 20MW in capacity, and for the smaller developer it is a critical lifeline.

"The largest project we've done to date is six turbines," says Read.

Besides wind, Ventus has also invested in landfill gas, some waste wood biomass typically in the 2.5MW range, and small-scale hydro.

Since June 2005, just over 2500 individuals have invested in Ventus fundraising rounds, generating an investment pot of just under £65m for the venture capital trust to plough into projects. To date this

has helped build more than 60MW of wind, 15MW of landfill gas, 12MW of hydro and 8MW of biomass.

"We get involved at the point construction finance is required. We take the project from the point where the planning permission is in the bag to the blades spinning and beyond."

Critically, it also helps secure off-take contracts. With the offers that are on the table from the utilities being relatively low in the current climate, Ventus has focused its attention on a different kind of buyer.

This includes the likes of Sainsbury's, which has contracted to take all the power generated by the Lochhead wind farm in Scotland that became operational in May 2009.



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Tax efficiency hook for investors

The attraction of venture capital trusts like Ventus for potential developers is clear, they offer 100% construction finance when the bank's doors have slammed shut, but what about investors?

"The biggest boost to the VCT market over the last two years has been the progressive withdrawal of tax advantages on pension contributions, particularly for higher rate tax payers," says Steve Read. "That's one area that's going to continue to bite hard."

In addition, while other types of investment products took a tax hit in the emergency budget back in June, VCTs remain unscathed.

"They've established a fairly solid position in the UK economy as being, at a critical time, a quite important source of finance for small businesses."

VCTs are retail

investment products that have been around since the mid-1990s. Read describes them as "a bit like super-charged ISAs" for individual investors.

Individuals subscribing for shares in a VCT get tax relief on their investment. Under current rules the relief is 30%.

"So if you subscribe for £10,000 worth of shares in a VCT you're entitled to get £3000 knocked off of your income tax bill in that tax year," he says.

Technically the

individual holds shares in a company listed on the London Stock Exchange for a minimum period of five years. Any dividends received in future years is free of income tax, Read says, while if the shares are sold after the five-year period there is no capital gains tax.

Ventus aims to pay investors a long-term tax-free return in the range of 6% to 10% per annum once the funds have been fully invested and the assets are fully operational.

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