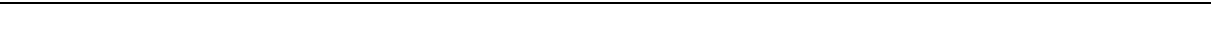




CABINET- 24TH MARCH 2021

SUBJECT: PEN MARCH WIND FARM – MEMORANDUM OF UNDERSTANDING

REPORT BY: INTERIM CORPORATE DIRECTOR - COMMUNITIES



1. PURPOSE OF REPORT

- 1.1 This report requests approval for the Council to enter into a non-legally binding Memorandum of Understanding with RWE, a renewable energy company, for a proposed wind farm development at land above Rhymney.

2. SUMMARY

- 2.1 This report requests Cabinet approval for the Council to enter into a non-legally binding Memorandum of Understanding (MoU) with the private green energy company RWE. Initial discussions have been held between the Council and RWE as to the possibility of a shared ownership wind farm development on privately owned land north of Rhymney.
- 2.3 RWE are keen to proceed with this development and require the Council to sign up to the MoU to give them the comfort to allocate resources to modelling the shared ownership options for consideration.
- 2.4 If a model is developed which is attractive to both parties, the Council would look to take a 'stake' in the development. Simplistically, it is likely that this will consist of a percentage of the build cost. The Council would then receive the same percentage return on the revenue generated by the project.

3. RECOMMENDATIONS

- 3.1 That Cabinet:
- i) Approve the signing of the non-legally binding Memorandum of Understanding;
 - ii) Approve that officers work with RWE and the Welsh Government Energy Service to amend the MoU so it reflects the Council's aspirations for the scheme.
 - iii) Approve that officers work with RWE to explore shared ownership models; and
 - iv) Approve that shared ownership model options be presented to Cabinet at a future

date for further discussion.

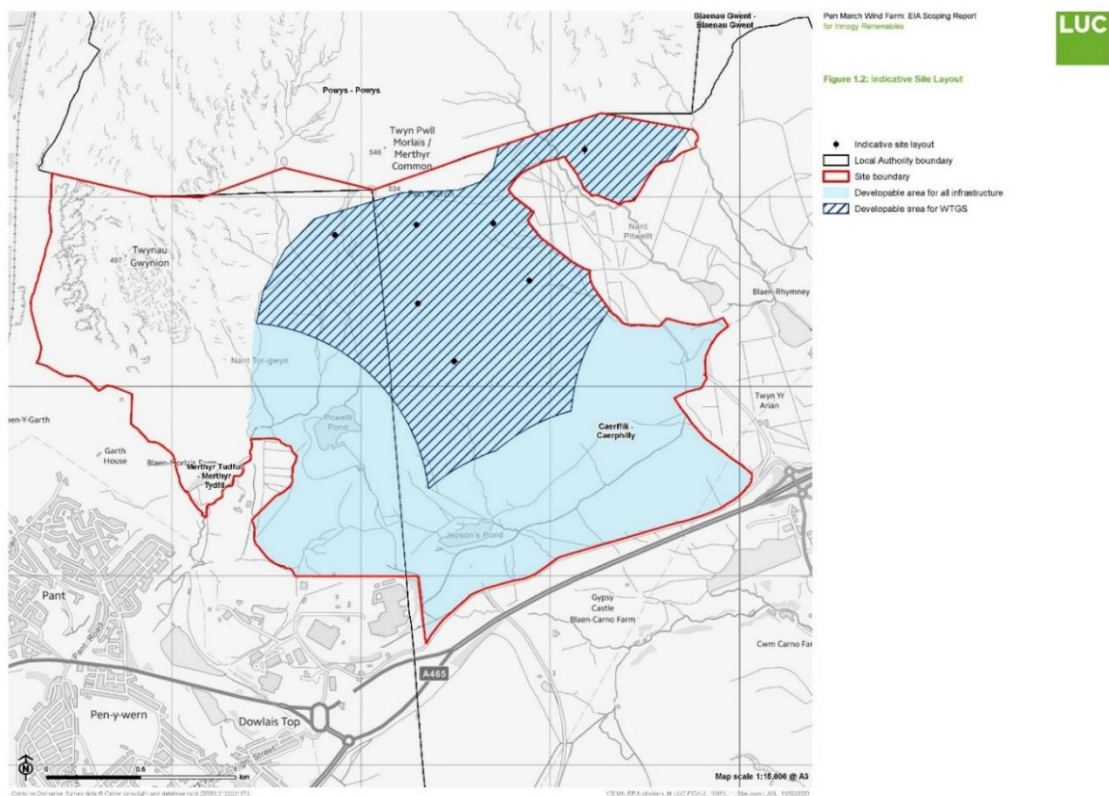
4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To allow further investigation into the possible shared ownership of a wind farm development at Pen March, Rhymney
- 4.2 This opportunity will help the Council meet its green energy production goals as set out in the recently adopted Decarbonisation Strategy: Reduce, Produce Offset, Buy and it will also help deliver on the 'Social Heart, Commercial Head' agenda.

5. THE REPORT

Background

- 5.1 The Cabinet Member for Regeneration and senior officers met with RWE officials on the 18th July 2019. The meeting had been requested by RWE and it focused on RWE outlining proposals to introduce wind turbines on land north of A465 above Rhymney. RWE plan to introduce at least 7 turbines at this location. The turbines, if constructed, will have a tip height of up to 180 metres and generate up to 5 megawatt per turbine. Since the initial meeting, a dialogue has been open over a possible partnership arrangement for this project, with the Council taking some interest in the development. The area concerned is shown on the plan below:



- 5.2 It is anticipated that a full planning application will be submitted in quarter 4 of 2021. It is important to acknowledge that as this will be a Development of National Significance (DNS), the final planning decision will be subject to the new DNS process, whereby an Inspector examines the application and makes a recommendation to the Welsh Minister

based on planning merits and national priorities. The Minister then decides whether or not to grant permission. The local authority will be statutory consultees but will not determine the application. RWE is targeting a national grid connection for 2026 as the existing system cannot cope at present. RWE refer to the scheme as the Pen March Wind Farm Project.

Current Position

- 5.3 In July 2020, the Innogy Renewables business was integrated into the RWE Group as part of RWE Renewables, hence all dialogue is now with RWE.
- 5.4 CCBC approved an anemometer mast on the site under application reference 19/0848/FULL. This wind monitoring (anemometer) mast is now in situ and RWE will start to get meaningful data soon (it needs to measure for 6 months before the data is of any real value). Based on the initial data coming from the mast, RWE hope to have an advanced draft layout to share with the Council early in the Spring of 2021.
- 5.5 In addition, Environmental Impact Assessment (EIA) work has begun on the project. RWE aim to hold non statutory consultation during Quarter 1 2021, statutory consultation during Quarter 2/3 with the aim to submit a planning application at the end of 2021/22 financial year. Whilst this project will be submitted to Welsh Government through the Development of National Significance (DNS) process, RWE will keep lines of communication open with the Council throughout the process. It is worth noting that RWE are exploring an opportunity to extend the wind farm onto land within Merthyr Tydfil county borough.

Commercial Opportunities

- 5.6 At the meeting on the 18th July 2109, RWE outlined that the scheme could generate around £5k per megawatt for community benefits. This led to a discussion about the opportunities for the Council to co-invest/co-own the development should the scheme proceed. RWE were open to this idea, stating that there were multiple potential models of co-ownership in Europe of this nature. Since that date a series of communications between both parties has continued.
- 5.7 RWE have stated that partnering on this relatively small project would be beneficial to them, especially where the partner is willing and able to takes on some of the development risk via partially funding the project at the development stage.
- 5.8 However, the difficulty with modelling this is that RWE Renewables are at the very early stages of development, so the economics attached to both the project costs and the future wholesale/retail prices of energy are variables that are liable to change. This makes it very difficult for them to map out options for co-ownership and to negotiate agreements with the Council until further on in the process. Therefore, it has been agreed to explore both parties entering into a Memorandum of Understanding (MOU) on this development.
- 5.9 Such an agreement would **not** be legally-binding, but it would set out the principles of working together on the Pen March project. RWE have now forwarded a draft MOU to the Council and await our response. A copy of the draft MOU is attached at Appendix 1 for consideration.
- 5.10 This project aligns with a number of corporate priorities. It links with the actions set out in the Council's recently adopted Decarbonisation Plan. Under the Produce theme, this project helps achieve action P8 as set out in the adopted action plan.

P8 – Produce green on-shore wind energy (Take a commercial interest in private sector on-shore wind developments within and outside of the county borough where opportunity presents itself)

- 5.11 The project also aligns with the Council's transformation and commercial strategy as set out in section 7.4 below
- 5.12 Officers recommend that the Council enter into the MOU to allow senior officials from both parties to develop option models for a proposed partnership. This recommendation is based on the fact that the MOU is not legally-binding and the Council can effectively walk away from the partnership if it desires.
- 5.13 Entering into the MOU will give RWE the confidence to dedicate resources to investigating and developing partnership models as the scheme progresses. Without the MOU in place, RWE would not commit these resources.
- 5.14 There are several benefits associated with the Council taking a commercial interest in the wind farm development, namely:
- Financial return on our initial investment – (see finance section for more detail).
 - Influencing the impact on the local community. For instance, helping to develop the community benefit fund so that it is targeted towards regeneration and economic goals. This fund is likely to be circa £5k per MW per annum. With this farm aiming to produce 30MW then this equates to circa £150k per annum towards this fund. Examples of how this fund could be used include provision of employment and training opportunities and tackling issues with digital deprivation
 - Ensuring local supply chains and employment opportunities are maximised for the benefit of the local community.
 - The opportunities for the Council to take green electricity directly from the wind farm will be investigated. A Corporate Power Purchase Agreement (CPPA) i.e. a long-term agreement to take electricity directly from the windfarm, could form part of the overall deal.
- 5.15 It is proposed that a small working group will be established to represent the Council's interests in this project. Their remit will include agreeing the final wording of the MoU, liaising with RWE over the evolving shared ownership models and developing the project further should it proceed. There will be representation from CCC Finance and Legal on this group.
- 5.16 The Council is being supported by The Welsh Government Energy Service in this venture and their continued support will be invaluable to the working group. Their expertise will be invaluable in understanding the Council's position throughout the development of the shared ownership delivery models. They have already stated they will support the Council in revising the MoU to ensure the Council and the local community get maximum benefit from the scheme.
- 5.17 The opportunity to sign a MoU with RWE that could lead to the Council taking an active interest in the wind farm project has been endorsed by the Council's Regeneration Project Board.

- 5.18 The Local Member has expressed concerns over signing the MoU before all statutory permissions are in place. They have been informed that it will not be possible to wait until such time to sign the MoU as this would affect programme. They have been made aware that is a non-legally binding agreement and that a further report will be presented to Cabinet for a decision once these models have been fleshed out. This timeline is likely to coincide with that of obtaining planning permission for the project. The Local Member would also like to ensure that the local community would be the main beneficiary of a scheme of this nature.

Conclusion

- 5.19 The MoU is a non-legally binding agreement that will allow both parties to explore options available for shared ownership. As such there is no risk attached to agreeing the recommendations in this report. Once models have been developed, they will be brought back to Cabinet for consideration.

6. ASSUMPTIONS

- 6.1 It is assumed that if the MoU is signed that RWE will develop a range of investment models that will be presented by Officers to Cabinet at a future date.

7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 The proposal is relevant to the following Council policies:

7.2 **Corporate Plan 2018-2023.**

The report recommendations contribute towards or impacts predominantly on the following Corporate Well-being Objectives:

Objective 2 - Enabling employment.

Objective 6 - Support citizens to remain independent and improve their well-being

7.3 **Decarbonisation Strategy: Reduce, Produce, Offset, Buy**

The proposal contributes to the aims of the Council's recently adopted Decarbonisation Strategy. The plan concentrates on 4 main themes, Reduce, Produce, Offset and Buy. Under the Produce theme, this project helps achieve the following action as set out in the adopted action plan.

P8 – Produce green on-shore wind energy (Take a commercial interest in private sector on-shore wind developments within and outside of the county borough where opportunity presents itself)

7.4 **Commercialisation and Investment Strategy**

Caerphilly Commercial & Investment Strategy adopted by Council on 8th December 2020 confirmed the Council's commitment to seeking good long-term investments for the good of the Council. The Strategy highlights the commercial principles upon which the Council have agreed and include:

- *We will look in all directions for commercial and investment opportunities, demonstrating our commitment to innovation and collaboration by having an open learning environment and launching the Licence to Innovate scheme.*

This opportunity sits comfortably under the 3rd pillar of the Strategy 'Enhancing our Relationships with our Partners & Communities' under the following headings:

3. Consider investment opportunities which provide good financial return but also support key strategic aims such as Decarbonisation Strategy

5. Explore any commercial, income generating opportunities or innovative ideas which will boost productivity using seed money allocated by directorate.

7.5 **Transformation Strategy**

The 'Team Caerphilly – Better Together' Transformation Strategy adopted by Council in July 2019 is driven by the notion of 'Commercial Mind, Social Heart' and seeking profit with a purpose. This project is closely aligned with that ethos and seeks to maximize on the community benefits, decarbonization benefits and commercial income.

7.6 **A Foundation for Success 2018-2023:**

The Council's Regeneration Strategy - A Foundation for Success has the following vision: ***“To make Caerphilly County Borough a more prosperous, resilient, healthier, more equal place with strong cohesive communities where everyone is empowered to participate.*”**

In particular, the proposal contributes towards the following key theme and Action:

Creating employment opportunities, increasing entrepreneurial activities, encouraging innovation & improving access to employment.

Action 41. Work with partners to explore and support where possible energy efficiency initiatives, renewable energy generation, community energy generation projects and energy cooperatives.

8. **WELL-BEING OF FUTURE GENERATIONS**

8.1 The proposals outlined in this report contribute to the Well-being Goals. As such it aligns with the following:

- *A Prosperous Wales* – Providing more jobs in the area will create more wealth for the local population.
- *A Resilient Wales* – Providing additional and more diverse employment opportunities will make the area more resilient to external economic factors. The production of green energy within the county borough will also guard against fluctuations in energy prices.
- *A Wales of Cohesive Communities* – providing local employment opportunities will help to stabilise and develop local communities and prevent outmigration as people seek work. Providing cheaper green electricity will also benefit the community.

8.2 The report recommendations are consistent with the five ways of working as defined

within the sustainable development principle in the Act. The five ways of working of the sustainable development principle, listed in the Act are:

- Long Term – The importance of balancing short-term needs with the need to safeguard the ability of future generations to meet their long-term needs;
- Prevention - How acting to prevent problems occurring, or getting worse, may help public bodies meet their objectives;
- Integration – Considering how the public body’s well-being objectives may impact upon each of the well-being goals, on their other objectives, or on the objectives of other public bodies;
- Collaboration – Acting in collaboration with any other person (or different parts of the body itself) that could help the body to meet its well-being objectives;
- Involvement – The importance of involving people with an interest in achieving the well-being goals and ensuring that those people reflect the diversity of the area which the body serves.

9. EQUALITIES IMPLICATIONS

- 9.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and / or low level or minor negative impact has been identified, therefore a full EIA has not been carried out.

10. FINANCIAL IMPLICATIONS

- 10.1 The MoU is a non-legally binding document so there are no immediate financial implications to the Council.
- 10.2 The signing of the MoU will allow RWE to develop a number of financial models for consideration by the Council. The overall cost associated with developing this 5-7 turbine facility could reach £30m. RWE have indicated that they are relaxed as to the actual investment level by the Council. They have started to sketch out skeletal models based on 5%, 10%, 15% and 20% investment input by the Council. If the MoU is signed, they will build on these models to give more detail on each. RWE are currently offering the opportunity to invest at Final Investment Decision (FID) stage, and the timescale (planning application to be submitted late 2021) leaves a limited window during which CCBC could consider investment at an earlier stage.
- 10.3 Such investment would be at risk (for example if consent was not secured) but would lever higher returns from the investment of capital at FID. Welsh Government Energy Service can offer guidance on managing the development risk.
- 10.4 Based on two indicative project layouts: and assuming a 15year Contract for Difference and merchant tail with a 30 year project life from RWE’s experience, projects dynamic payback is typically 13-17yrs. Investment by the Council could be Financial Investment Decision (FID) stage to reduce the risk exposure to the Council. Outlined below are some very preliminary figures forwarded by RWE. Welsh Government Energy Service have considered these returns and advise that whilst they can be used as a basis for initial agreement to this MoU, an open book approach to agreeing the final share of net returns from the project, which each party should receive at a level reflecting the balance of risk taken during development, and share of capital committed at FID.

- 5% investment at FID would be approx. **£1.25-1.75m**. Indicative annual returns (minus share of OPEX*) of £105-185k based on £40-60/MWh electricity price.
- 10% investment at FID would be approx. **£2.5-3.5m**. Indicative annual returns (minus share of OPEX) of £210-370k based on £40-60/MWh electricity price.
- 15% investment at FID would be approx. **£3.75-5.25m**. Indicative annual returns (minus share of OPEX) of £315-555k based on £40-60/MWh electricity price.
- 20% investment at FID would be approx. **£5.0-7.0m**. Indicative annual returns (minus share of OPEX) of £420-740k based on £40-60/MWh electricity price.

* OPEX – Operational Expenditure

- 10.5 As outlined above, there may also be the option for the Council to build into the model the option for a CPPA to take green energy produced from the wind farm. This could be in lieu of revenue generated by the scheme.
- 10.6 Community investment opportunities will also be explored.
- 10.7 It is too early to present more detailed financial models to Cabinet but officers from the proposed working group will develop them with RWE and present them to Cabinet at the earliest opportunity.

11. PERSONNEL IMPLICATIONS

- 11.1 There are no personnel implications associated with this report.

12. CONSULTATIONS

- 12.1 All consultation responses are reflected in the report.

13. STATUTORY POWER

- 13.1 Local Government Act 1972

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Consultees: Cllr Sean Morgan, Deputy Leader and Cabinet Member for Economy and Enterprise
 Cllr John Ridgewell, Cabinet Member for Environment and Infrastructure
 Christina Harray – Chief Executive
 Mark S. Williams, Interim Corporate Director Communities
 Stephen Harris, Head of Business Improvement Services and Section 151 Officer
 Lynne Donovan, Head of People Services
 Rhian Kyte, Head of Regeneration and Planning
 Robert Tranter, Head of Legal Services/Monitoring Officer
 Paul Hudson, Business, Enterprise and Renewal Team Manager
 Dave Roberts, Principal Accountant, Corporate Finance
 Victoria Camp, Transformation Manager
 Paul Cooke, Senior Policy Officer

Lisa James, Principal Planner
Paul Rossiter, Energy and Water Officer
Anwen Cullinane, Senior Policy Officer, Equalities and Welsh Language
Cllr Carl Cuss, Twyn Carno ward

Appendices:

Appendix 1 RWE Draft Memorandum of Understanding

MEMORANDUM OF UNDERSTANDING (MOU)

RWE Renewables UK Ltd.

And

Caerphilly County Borough Council

This is an agreement between RWE Renewables UK Ltd, hereinafter called RWE and Caerphilly County Borough Council, hereinafter called CCBC.

I. PURPOSE & SCOPE

The purpose of this MOU is to outline how RWE and CCBC will work together, over the course of development and through to construction, to ensure that RWE's proposed development of an onshore wind farm near Rhymney, within the CCBC boundary, hereinafter called Pen March, to secure both a viable project and deliver local benefits in line with CCBC's and Welsh Government's aspirations.

II. BACKGROUND

RWE Renewables UK Ltd is Wales's biggest renewable energy generator. Assets include Gwynt y Môr Offshore Wind Farm, and Clocaenog Forest, Mynydd y Gwair and Brechfa Forest West onshore wind farms. RWE employs over 110 people in locations across Wales, and the development team project manages new onshore wind developments from securing land options through the planning process, to consent.

Caerphilly County Borough Council is a local authority delivering a range of services to citizens within its geographical boundary. CCBC is not responsible for consenting the Pen March Wind Farm, as this is the responsibility of the Welsh Government.

In 2017, the Welsh Government announced a target that all renewable energy projects should have an 'element of local ownership' from 2020 onwards. Guidance is under development.

III. RESPONSIBILITIES UNDER THIS MOU

This MOU is *not* binding on either party and is only an expression of an intent to continue negotiations in good faith. This MOU is not necessarily exclusive to CCBC and may be replicated with other parties.

This MOU is intended to recognise and facilitate future discussions on:

- **Shared ownership:** where CCBC could benefit from owning a share of the Pen March Wind Farm, by investing in the project at a later date and receiving a return of net revenue appropriate to the size of investment and the amount of risk taken.
- **Local suppliers:** where RWE and CCBC will work with local businesses to increase the contract opportunities available for the local supply chain, especially during construction, as far as is practicable.
- **Corporate Power Purchase Agreement (cPPA):** either as part of shared ownership (in lieu of revenue) or otherwise, where RWE and CCBC will prior to Financial Investment Decision

(FID) discuss the future opportunity for a cPPA relating to all or some of the electricity generation from the project.

- **Infrastructure:** that options for improving infrastructure alongside the development are explored, for example:

- fast broadband rollout in areas close by that are under served.

- **Community Benefit Fund:** RWE is committed to providing a community benefit fund. This money could be used to facilitate some of the above. RWE will listen to the views of CCBC on the proposals for the geographical extent and uses of the fund, as well as consulting with local community representatives and wider stakeholders in line with industry best practice guidelines.

IV. FUNDING

This MOU does not include the reimbursement of funds between the two parties.

V. EFFECTIVE DATE AND SIGNATURE

This MOU shall be effective upon the signature of authorised officials from both parties. It shall be in force from (date) ____ _ to (date) ____ _.

Signatures and dates

on behalf of RWE Renewables UK Limited on behalf of Caerphilly County Borough Council

Name: _____ Name: _____

Position: _____ Position: _____

Date: _____ Date: _____