

# WP2 Report on Contracts

## Background

1. The majority of the contracts entered into within the scope of the OxFutures programme were part of the Low Carbon Hub's development and project delivery, hence this report on contracts provides background on the legal structures of the Hub for context. In addition Oxford City Council implemented a project to leverage Energy Company Obligation (ECO) funded energy efficiency measures for its social housing. These contracts are also presented here.
2. The Low Carbon Hub is a group of social enterprises working together with communities across Oxfordshire to catalyse the change from a centralised fossil-fuel-based energy system to a decentralised, renewables-based smart energy system.
3. The Low Carbon Hub IPS is a Community Benefit Society. It is an investment vehicle with no overheads. It takes investment and debt to pay for renewable energy projects. It uses the profits from these to pay a social return to investors (around 5% IRR) and a community benefit donation.
4. The Low Carbon Hub IPS has a wholly-owned subsidiary, Sandford Hydro Ltd, set up specifically to develop and own the 440kW Sandford Hydro project.
5. A total of 647 shareholders in the IPS currently hold shares worth a total of around £3.5m (correct at time of publication) with debt finance agreed for a further £2m of long-term debt finance and short-term construction finance in place for a total of £3.1m.
6. The IPS has three objectives:
  1. To supply clean, green energy to its landlords at a discount;
  2. To provide a decent return to its shareholders;
  3. To make a community benefit surplus that can be spent on further carbon saving projects in Oxfordshire
7. The Low Carbon Hub CIC is a Community Interest Company. It develops renewable energy projects to investment-readiness which are then bought by the IPS. It also receives and administers the community benefit donations from the IPS. Finally, it applies for and delivers contracts and grants. The CIC has 25 community shareholders to whom community benefit donations are distributed to help them further their work to reduce carbon emissions.
8. The CIC has three objectives:
  1. To provide grants to community groups for carbon reducing activities;
  2. To support the development of further community benefit renewable energy projects;
  3. To develop and deliver low carbon energy innovation projects.

## Pipeline

9. To date, the Hub pipeline of projects has been mainly rooftop solar PV with some Hydro and energy efficiency work including external wall insulation to 16 houses and LED projects for schools.



10. The set of projects in summary is:

- 1.4MW of solar PV on 27 schools
- 1.95MW of solar PV on 9 businesses
- 4.5MW groundmount solar PV
- 489kW of hydro at two sites
- External wall insulation to 16 houses in the Barton area of Oxford
- LED lighting to 3 primary schools in Oxfordshire.

## Contract structure

11. The structure of contracts developed by the Hub to date is grouped according to the project development stages we follow in developing each project. Our Quickbase project management system is also based around these stages:

1. Prospect
2. Feasibility
3. Pre-development
4. Project finance
5. Development
6. Operations and Maintenance

12. The table at Annex A shows which contracts are required for each stage of project development.

13. A list of examples attached as annexes to this report is provided at Annex B.

## Approaches specific to the Low Carbon Hub

14. Much of the contract structure outlined here, and the examples provided, are normal to the development of many types of construction project or renewable energy project.

15. Those specific to the corporate structure and project process developed by the Low Carbon Hub with the support of the OxFutures project are:

1. The Resource Sharing Agreement between the IPS and the CIC
2. The Revolving Construction Fund put in place by Oxford City Council
3. The framework contract for solar PV installers
4. The roof leases for schools and businesses

16. A more detailed description of each of these is given below.

## Resource Sharing Agreement

1. This agreement sets out how the CIC and IPS work together in developing projects. The CIC holds the staff, overheads and funding to cover the fully at risk pre-development stages of projects. The IPS Investment Committee has delegated powers from the joint Board to set the criteria projects have to meet to become 'investment ready'. Once projects are agreed to be investment ready, the IPS will allocate funds for them to be built. At commissioning the IPS pays back the pre-development costs spent by the CIC plus a 'success fee' consisting of a project development fee (normally 7.5%) and whatever remains of the project contingency fund. The CIC is responsible for delivering projects within the overall budget and so takes the financial hit if the contingency sum is exceeded.



2. The Resource Sharing Agreement also covers the Operations and Maintenance of IPS projects. A monthly fee is paid for Operations and Maintenance and Administration for each project.

### Oxford City Council Revolving Construction Fund

3. This fund is central to the funding strategy of the Low Carbon Hub. It is a £2.3m facility agreed for a three-year period and can be revolved if it is used and paid back in its entirety within that period. It allows the Hub to build projects in advance of raising the long-term equity or debt funding for them. In this way, projects can be built as soon as they are investment-ready and investors or funders can then be approached to make long-term funding available for a project that is already built and therefore 'de-risked'.
4. The funds are drawn down in stages and secured against the equipment and then against the FiT and PPA contracts of the commissioned projects. Interest is charged at 5% and calculated daily, so it is only paid for when it is actually in use to make projects happen. The Hub has 12 months to pay back amounts according to the date when they were drawn down. The facility covers VAT and so helps to smooth cashflow between paying and reclaiming it. It does not pay pre-development costs until commissioning when they can be capitalised into the final capital expenditure of an operational project.
5. The fund works for Oxford City Council as well as the Hub because the money comes from the City Council current accounts and so earns a lot more interest than it would if left in the Bank, but the money is paid back over the short-term and so does not affect the liquidity of City Council.

### Framework Contract for Solar PV Installations

6. The Low Carbon Hub has completed 30 solar PV installations to date, 24 on schools and 6 on businesses. In order to streamline the procurement and contracting process, the Hub uses the NEC3 Term Service Short Term (TSSC) Contract. This sets the terms and conditions for a panel of framework installers, chosen following a normal tendering exercise. Within these TSSC contracts, the price for each project is agreed by running a 'mini tender' where the four framework contractors compete with each other on both design and cost. A simple Task Order is then issued when the project reaches financial close.

### Roof Leases for Solar PV on Schools and Businesses

7. The Hub uses a template lease for the airspace above each roof. The templates cover the main categories of building we work with: academy schools, local authority maintained schools, Church of England schools and commercial buildings. The template leases have developed from the original example of its kind used by West Oxford Community Renewables Ltd for its first project in 2009. This was the first third-party roof lease for a solar project in the UK and all others in the UK are based upon it.

#### Health warning!

**Template and draft contracts have been provided as illustrations to explain the project development process and underpinning contract structure used by the Low Carbon Hub and developed with the support of the OxFutures IEE project. Templates and examples should NOT be used to undertake projects without proper, bespoke legal advice. The Low Carbon Hub can take no responsibility for any improper use of the information contained within this report.**

## Annex A: List of contract examples given

### Overarching:

CIC/IPS Resource Sharing Agreement

### Pre-development:

Template solar Heads of Terms:

- School (plus Letter of Engagement)
- commercial building

Template solar leases:

- academy schools
- maintained schools
- Church of England schools
- Commercial buildings
  - o Power Purchase Agreement between building owner and IPS

Specific hydro lease:

- Sandford Hydro: lease with Oxford Preservation Trust
- Sandford Hydro: lease with the Environment Agency
  - o Heads of Terms
  - o Agreement for Lease
  - o Lease

### Development:

Solar NEC3 Term Service Short Contract Conditions of Contract

- Contract data for 4 solar PV installers
- example task order

Specific hydro contracts:

- Civils
- M+E
- Electrical cabling

Specific Warming Barton contracts:

- MoU with Insulation North East
- Conformance Packs
- Guarantees

City Council delivery of ECO funded energy efficiency projects:

- Contract with SERS Energy Solutions Ltd
- Contract with Mark Group Ltd

## Project Finance:

Short-term construction funding:

- Oxford City Council Revolving Construction Fund
- Community Land and Finance Share Underwriting Fund

Long-term debt finance:

- Charity Bank

Long-term equity:

- share offer document
- Registry Trust shareholder administration contract
- Ethex ethical investment platform marketing contract

## Operations and Maintenance

Power Purchase Agreement:

- Solar umbrella PPA with Co-op Energy
- Outline PPA for Sandford Hydro with Opus Energy

FiT supply contract:

Included with PPAs above

Insurance

- solar operational insurance schedule
- hydro operational insurance schedule
- LCH CIC professional indemnity insurance