

The Issue of Initially-local Guaranteed Corporate Bonds For the Funding of Capital Renewable Energy Projects

An attempt will be made to explain the usefulness of the project and how it would allow large renewable energy spending within the economy and require neither Government spending nor future added taxation.

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It should be noted that: The Council is not expected to either invest in the project or guarantee any aspect to it. The economic risk to the Council finance should be seen as nil but rather as an increase in income due to an increase in business in the area. However the importance of Council locally must be seen as valuable.

Currently there are major problems concerning the development of renewable energy for this area, and many areas around England and Wales:

1. An intense feeling of 'not in my back yard', 'why should I?', 'some big company doing this in my area. Why not somewhere else?' and yet, if asked 75% of the population vote for renewable energy to be encouraged in the area. When asked it seems that the reason is that the people feel forced, and to have little decision in the matter. Young people feel that they have no chance in creation of any plans. The result of all this being that there is an intense effect that 'prevention and complaint' of any external plan being the only card they can play.
2. Keynesian spending of the Treasury being extremely difficult at this point in the economic cycle after the near collapse/saving of large banks and large sums being needed to prevent the problem.
3. Keynesian spending by the Treasury is being pointed at by UK and European groups as requiring large amounts of taxation at a later point.
4. Gas, coal, and oil prices have fallen to a level at which the price of any power that they produce is often now lower than that of renewable energy, with the capital required for the building of the power stations already having been spent.
5. Major corporations and funding groups pulling out of renewable energy plans (e.g. Thames Estuary) because of the difficulty with borrowing availability from international markets.
6. Saving currently in banks and building societies gives a very low interest return, and this is expected to be less than inflation for a period during economic deflation. There is a tendency not to invest in equities, houses, etc at this point in the economic cycle.
7. Corporate bonds prices having risen dramatically since November 2008. Corporate bond issues are currently exceptionally successful, to reliable companies, being recently grossly oversubscribed (e.g. Roche).

Corporate Bonds

These are an agreement between the buyer of the bond and the seller, in this case a corporation (economic body). The buyer would expect to receive a fixed income as a percentage of the original price of the bond every year, and to receive the full value of

the bond at the end of a fixed period. For instance there may be a 5% 10 year bond. In general there is a risk involved, in that the buyer depends on the corporate seller as remaining solvent until the money must be repaid at 10 years, and may lose all of the money if it becomes insolvent. Also, many corporate bonds are tradable such that after the original sale to the buyer, this buyer can then sell the bond to a further buyer, possibly at a different price.

Initially-local Guaranteed Corporate Bonds

These would differ from simple Corporate Bonds as described above because:

1. Renewable energy projects spend the money (from selling the bonds) on capital assets (e.g. wind farms) at the beginning, and will have a return from the electricity or heat they produce over a long period. These assets themselves have a value that can, should the company become insolvent, be saleable themselves. Renewable energy projects at 10 years would be expected to be worth more than their capital cost raised from the sale of the bonds initially, and yet would be expected to continue producing energy from a long period after this. This being so, the actual risk from spending on renewable energy capital projects should be low if assessed as such initially.
2. The formation of a locally based, trust format company, that would be associated with the local town and county councils would release the bonds. These might generally be 10 year 5% corporate bonds. Initially, probably for a period of 3 months these would not be tradable but would be available to around 2-4 million people in the NW England. After this period the bonds would be available to national corporations and become tradable. The specific aim of this would be to make sure that local people and groups were involved in deciding and organising the formation of renewable energy projects. It should be expected currently that guaranteed bonds at a reasonable return would be taken up quickly by pension funds and other groups.
3. These bonds would be from newly made companies for which there is little evidence to the market that they would succeed. As such a guarantee of repayment would be required from Government. The most important factor in this is that any capital spending would be on assets and hence any loss would be expected to be minor. In fact a £2M wind rotor tower would be expected to be worth more than this following inflation, and the expected changes in gas, coal and oil prices. Risks to any guarantor would be expected to be low. Price that is calculated for electricity generated by wind power for instance in which the tower is expected to last for 20 years, and for the wind to be at an average speed for the UK are suggested to be around 3.1p/kWhr, which would be acceptable currently using the Renewable Obligation Certificate (ROC) system or a guaranteed price using the Feed In Transfer (FIT) system.
4. The bonds would not be expected to largely change the availability of money within the spending community, except by altering unemployment.

Expected format of the Trusts that might issue the bonds with Government agreement

1. They would be run by a Chief Executive that would report to the share holders and the Trust Committee to whom the CEO was responsible.
2. The Trust Committee would be decided by local groups and would have local non-official members as specific experts in the field.
3. All shares would be owned by Government (or as Government chooses) and would be expected to be worth in excess of any bond repayment within 10 years.

(it should be noted that a very similar format of funding for the trams, electricity and tramways of Lancaster was carried out early in the 20th century)

Timespan and size of issue

It is unlikely that this kind of project could be started suddenly with a large issue of bonds. Rather it would be important that:

1. Specific policies were considered by Government, and the involved councils in advance.
2. The formation of the company would be through the Trust Committee, which would appoint the CEO and initial helpers.
3. This CEO appointment would be found to take place probably 3-6 months before the issue of bonds locally.
4. Discussion with specific financial banks for the issue of bonds and the mechanism by which this should take place.

¹. Kaltschmitt M, Streicher W, Weiser A (Eds). Renewable Energy. Springer, Leipzig. 2007

At this point discussion has already taken place with:

1. Financial Services Authority
2. Goldman Sachs
3. House of Commons MPs and specific advisory groups
4. DECC
5. BERR
6. New Economics Foundation and various City finance groups
7. Sustainable Developments Commission

It is planned to take place rapidly with:

8. OFGEM
9. Renewable Energy
10. Zero Carbon Now
11. University expert groups (e.g. NATTA, Ceta)
12. UK Business Council for Sustainable Energy
13. Renewable Energy and Energy for Efficiency Partnership (REEEP)
14. Energy 21
15. Carbon Trust
16. Lancaster Energy and Climate Change group.
17. Ben Wallace. MP for Lancaster and Wyre.
18. North West Development Agency
19. Lancaster City Council: Finance, Planning departments, Councillors
20. Local Government Authority (LGA)
21. Lancaster Chamber of Commerce
22. Lancaster Friends of the Earth
23. Lancaster Transition City (see <http://www.transitioncitylancaster.org/index.html>)
24. UK Treasury
25. University of Lancaster, Department of Accounting and Finance
26. Partnerships for Renewables (a part of the Carbon Trust)
27. Renewable Energy Assn
28. Barclays Global Investments and Virgin Climate Change Leadership Fund.

* <http://www.transitioncitylancaster.org/index.html>