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Client Briefing Note

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Renewable Energy

Many businesses are currently making investments in renewable energy. These investments can be very attractive for organisations and can provide an income for businesses whilst providing savings on energy costs.

In Scotland, the First Minister Alex Salmond, has stated that 80% of Scotland's power should come from renewable sources by 2020 with a target of 100%, by 2025. In order to support this, fiscal incentives are provided to encourage investment in renewable energy production.

Feed-in Tariffs (FITs) were introduced on 1 April 2010 and are designed to provide guaranteed payments from energy suppliers. They are available for smaller scale projects generating lower amounts of power. The level of tariff is set by the government and payments are made from the larger electricity companies to generators of renewable energy.

Renewable Obligation Certificates (ROCs) apply to projects which produce over 5MW of power. It is intended that FITs provide a higher guaranteed level of income than ROCs.

Since their introduction many have entered into the scheme but concerns have been raised over the future of FITs. These concerns stem from comments made by officials and indications that the system may come under review in the near future.

It may therefore be important that any party considering a small scale renewable project takes action now to secure FITs at their current tariffs. When in the scheme the current rates are guaranteed for 20 to 25 years.

Whilst wind may be the source of renewable energy which first springs to mind there are many different types of projects which can be undertaken. Projects covered by FITs include anaerobic digestion, hydro, wind, micro combined heat and power and solar.

If contemplating investment in renewables, consideration should be given to the project structure and whether the venture should be undertaken in a special purpose vehicle (SPV).

Organisations could absorb the project within their current business structure, which at first may seem the easiest option. This approach could result in missed opportunities from a tax planning perspective and the structure may not be suitable from a management or risk point of view.

There are various different structures which can be considered and these include forming a new limited company or limited liability partnership. Consideration could be given to using a hybrid structure, benefiting from lower corporate tax rates whilst maintaining the flexibility of a partnership. It could also be beneficial to operate the project through a trust or even a pension fund.

Many structuring solutions are available and the most attractive may be a combination of the above!

The most appropriate method will depend on an existing businesses situation and the aspirations of its owners. Professional advice should be sought as to the most appropriate solution within a business. If you require further information or would like examples of potential wind farm leasing structures please contact Mairi Drummond or Mark Thompson on 01573 224391 or email mairi.drummond@renniewelch.co.uk or mark.thompson@renniewelch.co.uk.

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