

**CABINET – 16 FEBRUARY 2011**

**EXECUTIVE SUMMARY SHEET – PART 1**

**Title of Report:**  
**PARTNERSHIP FOR RENEWABLES: WIND ENERGY**

**Author:**  
**Deputy Chief Executive**

**Purpose of Report:**  
This report presents the findings of the feasibility work carried out by Partnership for Renewables (PfR) on the development of large turbine sites and details the business case for Sunderland City Council to grant an Option to PfR to acquire 25 year leasehold interests in 2 Council owned sites for the development and operation of wind energy farms.

This report seeks approval from Cabinet to finalise the Option Agreement and Lease Agreements for the 2 sites.

**Description of Decision:**  
To enter into an Option Agreement with PfR to grant leases in respect of 2 Council owned sites for the development and operation of wind energy at Hetton Lyons Country Park and at land to the north of the former Ryhope Golf Course on the basis of the following terms and otherwise on terms to be agreed by the Deputy Chief Executive in consultation with Director of Commercial and Corporate Services and Portfolio Holder. The Option Agreement will give PfR an Option for a period of 3 years to require the grant of the Lease Agreements at the 2 sites. The 3 year option period will allow PfR time to undertake development and survey work required to submit a planning application. The Lease Agreements will provide for the leasing of the 2 sites to PfR for a period of 25 years, with the council receiving all rental income.

**Is the decision consistent with the Budget / Policy Framework?** Yes

**If not, Council approval is required to change the Budget / Policy Framework**

**Suggested reason(s) for Decision:**  
The decision to proceed to the Option and Lease Agreement stage with PfR to develop the wind turbines at Hetton Lyons Country Park and at the land to the north of the former Ryhope Golf Course is required to progress the project. The decision has been made to progress these sites as;

- The feasibility work carried out by PfR indicates that they are suitable for large scale turbines;
- The development and installation of large scale wind energy on council sites will demonstrate Sunderland's commitment to renewable energy and it's ambition to become a national hub of the low carbon economy as set

<p>out in the Economic Masterplan;</p> <ul style="list-style-type: none"> <li>• If the projects are successfully developed, the council will receive a rental income from the Lease Agreements, which will be at best consideration for land leased for wind turbine developments.</li> </ul>	
<p><b>Alternative options to be considered and recommended to be rejected:</b></p> <ul style="list-style-type: none"> <li>• For the council to invest in wind development opportunities themselves. To develop both the proposed sites, an investment of approximately £8million would be required. This option has been rejected as that level of resource does not currently exist and the council would be responsible for all the development costs and risks.</li> <li>• Do nothing. The council decide not to enter the Option Agreement with PfR and thus not develop wind energy at these sites. This option has been rejected on the basis that the council will not be pro-active in the development of renewable energy and will not receive the potential rental income from the Lease Agreements.</li> </ul>	
<p><b>Is this a “Key Decision” as defined in the Constitution?</b></p> <p>Yes</p>	<p><b>Relevant Scrutiny Committee:</b></p> <p>Sustainable Communities</p>
<p><b>Is it included in the Forward Plan?</b></p> <p>Yes</p>	

**PARTNERSHIP FOR RENEWABLES: WIND ENERGY****REPORT OF THE DEPUTY CHIEF EXECUTIVE****1 Purpose of the Report**

- 1.1 This report presents the findings of the feasibility work carried out by Partnership for Renewables (PfR) on the development of large turbine sites and details the business case for Sunderland City Council to grant an Option Agreement to PfR for the grant of 25 year Lease Agreements in relation to the development of 2 sites.
- 1.2 This report seeks approval from Cabinet to agree and enter into the Option Agreement and the Lease Agreements with PfR

**2 Description of Decision (Recommendation)**

- 2.1 To enter into an Option Agreement with PfR to grant leases in respect of 2 Council owned sites for the development and operation of wind energy at Hetton Lyons Country Park and at land to the north of the former Ryhope Golf Course on the basis of the following terms and otherwise on terms to be agreed by the Deputy Chief Executive in consultation with Director of Commercial and Corporate Services and Portfolio Holder. The Option Agreement will give PfR an Option for a period of 3 years to require the grant of the Lease Agreements at the 2 sites. The 3 year option period will allow PfR time to undertake development and survey work required to submit a planning application. The Lease Agreements will provide for the leasing of the 2 sites to PfR for a period of 25 years, with the council receiving all rental income.

**3 Background**

- 3.1 Partnership for Renewables (PfR) is a commercial venture of the Carbon Trust, set up to work in partnership with public sector bodies to develop commercially feasible large (1-10MW) onshore wind projects. PfR will fund all the development costs of wind energy projects, thereby retaining most of the resulting revenue from the production of the renewable electricity, with the public sector body receiving an income on land leases or a percentage of revenue from the electricity sales
- 3.2 Under a Confidentiality Agreement signed in December 2007, PfR undertook a desk top scoping study of 19 council owned sites, of which 8 were found to be potentially feasible to accommodate one or more 1MW turbines.
- 3.3 Following council-wide consultation, four of these sites were deemed to be suitable to be considered for more detailed feasibility work. Following Cabinet approval in December 2008, a 12 month Exclusivity Agreement was signed in February 2009 that allowed PfR to undertake

more detailed feasibility work on the four sites; Hetton Lyons Country Park; Hetton Woodlands; land to the north of the former Ryhope Golf Course and Elemore Golf Course.

- 3.4 The detailed feasibility work carried out on four council sites, identified that Elemore Golf Course and Hetton Woodland would not be suitable for large wind turbines due to their proximity to Meteorology Station at High Moorsley.
- 3.5 The feasibility work indicated that both Hetton Lyons Country Park and land to the north of the former Ryhope Golf Course are suitable to accommodate a single 2.5MW wind turbine. PfR wish now to progress under an Option Agreement
- 3.6 To proceed to development, PfR and Sunderland City Council would enter into an Option Agreement for each site PfR would manage the planning process, source the finance and implement construction and commissioning.
- 3.7 The wind turbine that has been identified for both sites is a 2.5MW Nordex N90 model with a hub height of 80m, blade length of 45m and an overall tip height of 125m. The turbine location would require access tracks and a control building on site. In both instances, the area of land PfR would lease from the council would be in the region of 31,400m<sup>2</sup> (approx 3 hectares), but this will be clarified during the development stage under the Option Agreement.

#### **4 The estimated income generated**

- 4.1 The Lease Agreement would be for a 25 year period, which can be extended for a further 25 years. The council is being offered a land rental based on percentage of the electricity sales revenue of the project, which is 6% in the first 10 years and 8% in the following 10 years, based on PfR estimates of generated output subject to basic minimum rent of £3,200 per annum for each megawatt of installed electrical generating capacity of the Leased Premises as detailed below.

##### **4.1.1 Hetton Lyons Country Park.**

- Estimated output of 7,950MWh per annum, which would power approximately 1,890 homes
- The lease rental income for the first 10 years would be approximately £47,700 per annum (based on 6% of estimated electricity sales at current market price, so income will vary depending on the market price of electricity and output of the turbine).
- The annual lease rental income for years 11-20 would be approximately £63,500 per annum (based on 8% of estimated electricity sales)

- The total estimated rental income for a 20 year period would be approximately £1,112,000<sup>1</sup>.
- Approximately 4,200tCO<sub>2</sub>/year saved (N.b. these CO<sub>2</sub> savings won't be counted towards the council's Carbon Reduction Commitment or Carbon Plan targets, but they will contribute to national legally binding renewable energy targets, which will also help lower the carbon intensity of the grid helping to reduce the city's CO<sub>2</sub> emissions).

#### 4.1.2 **Land to the north of the former Ryhope Golf Course.**

- Estimated output of 7,400MWh per annum, which would power approximately 1,760 homes
- The lease rental income for the first 10 years would be approximately £42,500 per annum (based on 6% of estimated electricity sales)
- The annual lease rental income for years 11-20 would be approximately £56,700 per annum (based on 8% of estimated electricity sales)
- The total estimated rental income for a 20 year period would be approximately £992,000<sup>2</sup>.
- Approximately 3,900tCO<sub>2</sub>/year saved

4.2 The figures above are estimated. The actual performance of the wind turbine and prevailing market prices of electricity will result in variations in income. However, under the present proposals the council is guaranteed a basic minimum rent of £3,200 per annum for each megawatt of installed electrical generating capacity of the Leased Premises, which at both sites would be £8,000 per annum. This is paid where the sales revenue attributable to the council falls below this minimum. The minimum rent will increase or decrease in line with the Index of Retail Prices.

4.3 **Discounted electricity purchase.** In addition to the land rent, PfR can also tender for the supply of electricity to the council and typically offer a 16-18% reduction of the market value. Assuming the market price of electricity at 10p/kWh, a 16% reduction in price of the 15350MWh of generated electricity would equate to £245,600 per year or approximately £122,800 per site.

4.4 Overall, the financial impact of the PfR project in terms of income and potential savings could be up to £335,000 per annum in the first 10 years, subject to the output and price being achieved at estimated levels. This income would only be derived once the initial planning period (suggested 5 years) is complete and turbines operational.

---

<sup>1</sup> Although the lease period is for 25 years, PfR estimate incomes based on a 20 year period as it is assumed the first 5 years of the lease will be taken up by the development and installation of the wind turbine.

<sup>2</sup> As above.

4.5 All development, operational and insurance costs are met by PfR.

## **5 Current position**

To proceed with the development of the project with PfR, the next stage will be to enter negotiations with PfR to agree the terms of and enter the Option Agreements. The current terms proposed by PfR are outlined in this section.

### **5.1.1 Option Agreement**

The Option Agreement grants a 3 year option to PfR to undertake site surveys and testing resulting in the submission of a planning application.

It is at this time that the form of the Lease Agreements are also agreed and are attached to the Option Agreement.

At any time during the 3 year option, PfR can call for the Lease Agreements to be granted.

The Option Agreement allows PfR to extend the Option period for a further 3 years, providing that they have submitted the planning application within the first 3 year period.

During the Option period, the council must not;

- Do anything in respect of the leased land or retained land (land outside the boundary of the leased land) that would prejudice the viability of the project (such as erecting or permitting the erection of buildings or structures or planting trees without PfR's approval);
- Interfere with PfR's work to progress the Project (for example by obstructing or hindering access to the premises, or interfering with equipment brought onto the land by PfR);
- Apply for planning permission in respect of the land<sup>3</sup>;
- Co-operate with third parties in developing a similar project on the same site;
- Create encumbrances, including easements, restrictive covenants, leases or other rights of occupation over the land without consent from PfR.

---

<sup>3</sup> N.B no mention is made of a third party submitting a planning application in respect of the leased land. As a Local Planning Authority, the council would be duly obliged to consider the application, although the actual release of the land would not be permitted.

### 5.1.2 Lease Agreement

The Lease Agreement is for a period of 25 years and is capable of extension by a further 25 years. PfR and the council must enter into the Lease Agreement within one month after the council receive notice from PfR that they wish to exercise the option.

The Lease Agreement will comprise the land required by PfR to;

- Run cables from the local electricity distribution network connection point to and between the cables;
- For the turbine bases / substation / crane pads / construction compound / control building; and
- To lay tracks from either the adopted highway or leading from any existing roads already on site.

Under the Lease Agreement, the council will, on PfR's request, grant the local electricity distribution company a lease in respect of any substation the company wishes to use.

Under the Lease Agreement, the council is restricted from undertaking activities on the "retained premises", land owned by the council but not leased to PfR, which would affect the operation of the turbine. For example, the council must not erect wind turbines on the retained premises or other structures that may interfere with the wind speed or wind direction over the leased land. Similarly, the retained premises may also contain the strip of land through which all or some of the cables for the turbine run. The council must not erect fences or plant deep rooted shrubs or trees in the area of the cables.

PfR may end the Lease, and decommission the wind turbine;

- If in PfR's opinion the project ceases to be economically viable;
- If the local electricity distribution terminates the agreement under which the project is connected to the national electricity system;
- After the 10<sup>th</sup> anniversary of the Lease being entered into, on 12 months notice; or
- If PfR is unable to maintain or comply with the necessary planning consents and generation licences for operating the project.

The Lease will terminate automatically after 25 years unless PfR gives notice to Sunderland City Council that it wishes to exercise its option to extend the Lease for a further 25 years.

## **6 Reason for the Decision**

- 6.1 The decision to proceed to the Option and Lease Agreement stage with PfR to develop the wind turbines at Hetton Lyons Country Park and at the land to the north of the former Ryhope Golf Course is required to progress the project. The decision has been made to progress these sites as:
- i. The feasibility work carried out by PfR indicates that they are suitable for large scale turbines;
  - ii. The development and installation of large scale wind energy on council sites will demonstrate Sunderland's commitment to renewable energy and it's ambition to become a national hub of the low carbon economy as set out in the Economic Masterplan;
  - iii. If the projects are successfully developed, the council will receive a rental income from the Lease Agreements, which will be at best consideration for land leased for wind turbine developments.

## **7 Alternative options**

- 7.1 For the council to invest in wind development opportunities themselves. To develop both the proposed sites, an investment of approximately £8million would be required. This option has been rejected as that level of resource does not currently exist and the council would be responsible for all the development costs and risks.
- 7.2 Do nothing. The council could decide to not enter the Option Agreement with PfR and thus not develop wind energy at these sites. This option has been rejected on the basis that the council will not be pro-active in the development of renewable energy and will not receive the potential rental income from the Lease Agreements.

## **8 Relevant Considerations / Consultations**

- 8.1 **Financial implications / Sunderland Way of Working.** The programme supports Value for Money by generating income from council owned land and also supports Sunderland Way of Working by thinking of innovative ways in which to bring an income into the council, whilst meeting strategic priorities.
- 8.2 **Climate Change Action Plan and EU Covenant of Mayors.** The PfR wind energy project will contribute to targets set out in the Climate Change Action Plan and the Covenant of Mayors obligation as the electricity generated will be fed into the national grid, helping to lower the carbon intensity of it's energy.
- 8.3 **Sunderland Strategy.** Supports Aim 5 of the Sunderland Strategy "To ensure that Sunderland becomes a clean, green city with a strong culture of sustainability, protecting and nurturing both its built heritage



and future development and ensuring that both the built and natural environments will be welcoming, accessible, attractive and of high quality.”

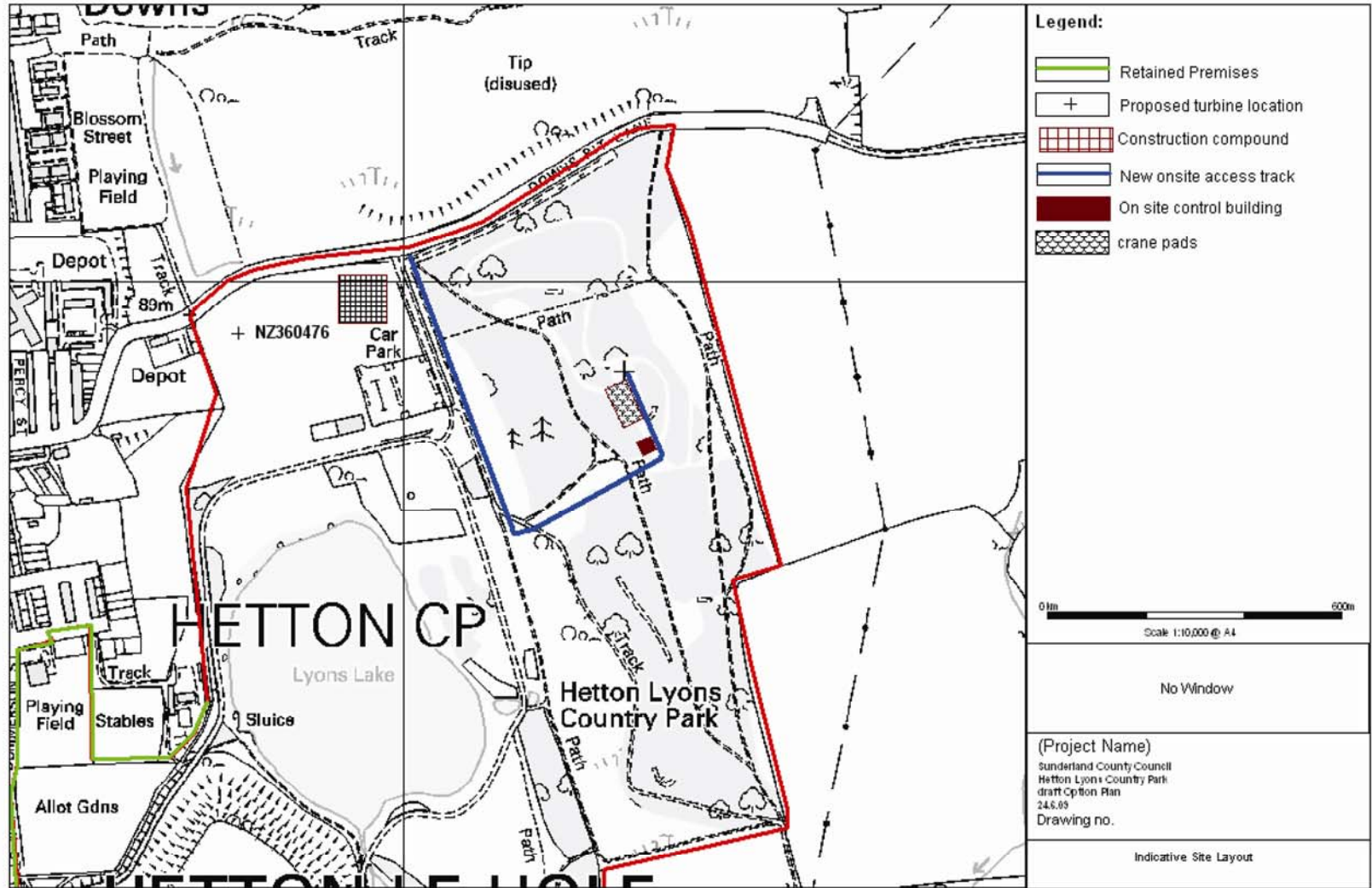
- 8.4 **Economic Masterplan.** Supports Aim 2 of the Economic Masterplan “a national hub of the low carbon economy”, by demonstrating the council’s commitment to low carbon technologies and a low carbon future.
- 8.5 **Sustainability.** A Sustainability Impact Appraisal has been carried out for this Cabinet decision, which found that there were no negative impacts of proceeding to the Option and Lease Agreement. In the main, the SIA found that the decision would bring about positive impacts.
- 8.6 **Other services.** Consultation has been carried out with the following services;
- The Deputy Chief Executive and Head of Land and Property – to seek support to conclude the negotiations with PfR; to ascertain whether the income proposed by PfR represents best value for the land and on PfR’s proposed terms of the Option Agreement and Lease Agreement. When detailed terms have been finalised it will be necessary to carry out a valuation assessment in accordance with the requirements of the RICS Appraisal and Valuation Standards as evidence that the Council is achieving Best Consideration.
  - City Services (Environmental Services, Street Scene and Community Services) – to secure support from users of the site that may benefit from installation of a wind turbine.
  - Corporate Procurement – to discuss details of the procurement procedures and whether the offer from PfR is in accordance with Procurement Rules.
  - Legal Services – to seek opinion on the legality of the PfR proposal and on the terms of the Confidentiality Agreement; Exclusivity Agreement; and on PfR’s proposed terms of the Option Agreement and Lease Agreement.
  - Finance – to seek opinion on the income being ring fenced for specific projects
  - Development Control – pre-planning advice has been sought from Development Control in respect of both sites to ensure their feasibility from a planning perspective.
  - Ward Members – a meeting was held with the Ward Members (Silksworth and Hetton) to obtain their support for the PfR proposal.

## **9 Background Papers**

- 9.1 Site infrastructure details and revenues for Sunderland sites. Copies can be obtained from Kathryn Warrington, Sustainability Officer.

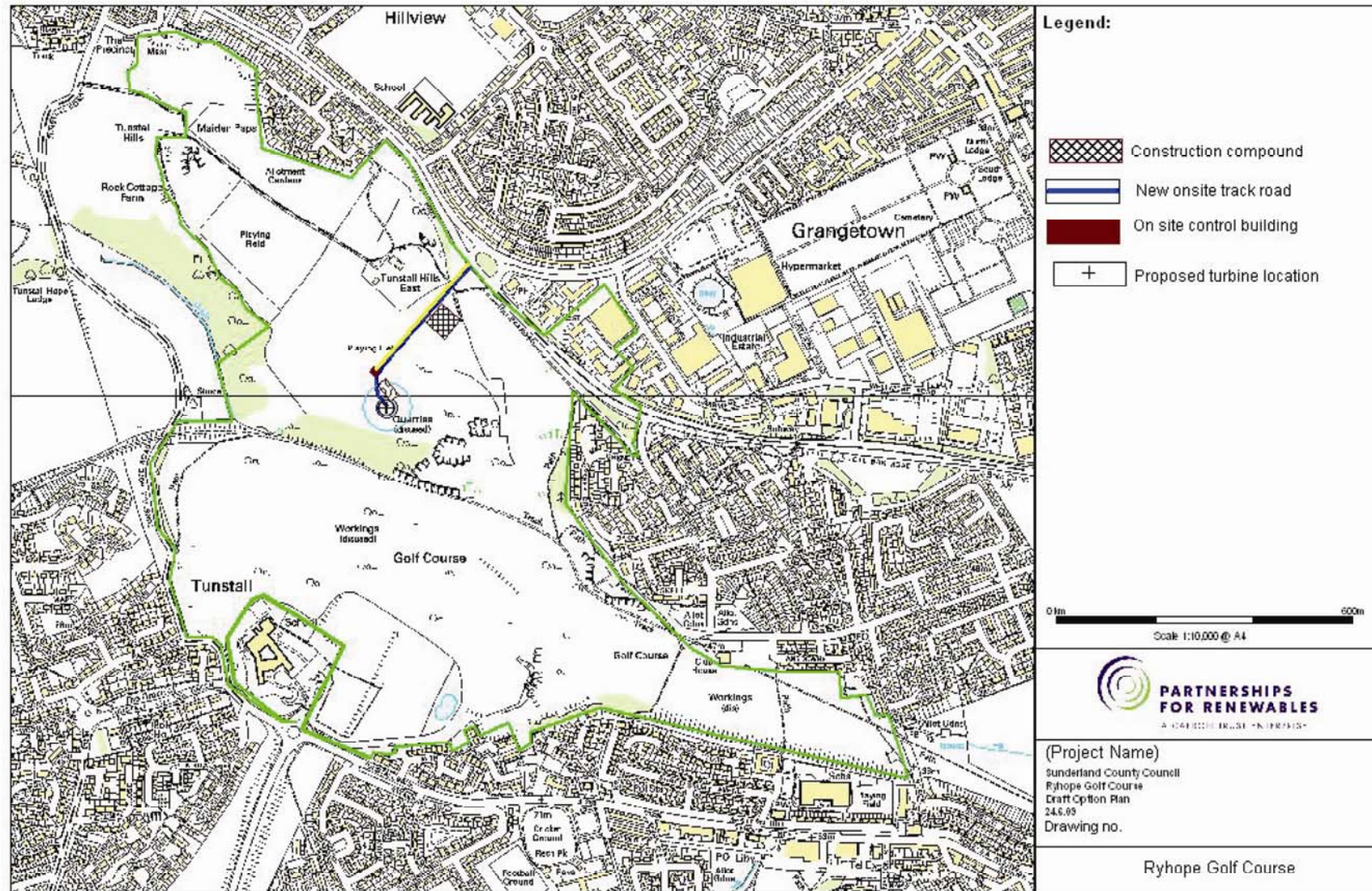
### 3. Hetton Lyons Country Park typical site layout

#### Appendix I



Based upon Ordnance Survey digital data with the permission of the Controller of the Stationery Office Crown Copyright Reserved. Licence No: 01000 31673

# Ryhope Golf Course typical site layout Appendix II



Based upon Ordnance Survey digital data with the permission of the Controller of the Stationery Office. Crown Copyright Reserved. Licence No: 01000 31673