



# Co-op Power Facilitating Grass Roots Ownership of Community Renewable Energy

## *How we Cracked the Secret Code*

What's unique and wonderful about the way the energy cooperative, Co-op Power, is building renewable energy resources in the Northeastern US? Co-op Power has pioneered an innovative capital structure that leverages its members' equity and partners with other public and private investors to build community-owned wind, solar, biodiesel and other essential energy resources. We have essentially created a grassroots renewable energy investment fund for the Northeast region.



### **Why is this important?**

- There is widespread agreement that we need more local, affordable and renewable energy resources now. We need to use energy more wisely and use less of it. More of our energy needs to come from local renewable energy resources.
- We need community-owned renewable energy resources to ensure those resources stay focused on bringing our region affordable clean energy for years to come.
- Though 56% of the U.S. economy is based on small business, non-profits, and governmental economic activity, \$50 Billion of our federal dollars are invested every year in tax breaks and other incentives that are overwhelmingly aimed at attracting large corporate "economic development" to communities (such as big box stores and large industrial developments). It's hard to access public resources to develop community-owned resources. (Most of that public money is transferred to private hands.)
- It's also difficult for us to pool our money and build things ourselves. Our laws, policies, and regulations allow every day folks to blow thousands of dollars at a local casino, but the current securities regulations (designed in the 1930's to protect inexperienced investors from fraud) make it difficult for us to invest small amounts of equity in a business in our community. Small investors are generally only able to invest in large "public" companies (on regulated stock exchanges, NYSE, NSADAQ); as opposed to small, local enterprises. (Read more to see how we figured out how to do this!)

As a result, even though small businesses, non-profits, and government entities constitute the majority, the U.S. economy, our financial structure, culture, and government policies don't easily allow local investment by small investors in local enterprises. Some of those policies need to change, but until they do, Co-op Power has had its most talented legal and business code crackers on the case figuring out how to create a structure that would allow every day people to come together to build the renewable energy resources we need.



### **Who Owns It Matters**

The members of Co-op Power believed that it wasn't enough to build renewable energy resources. They believed it was important for communities across the Northeastern US to retain majority ownership of those resources, so they could be stewarded in the communities' best interest for generations to come. When we initially worked with venture capitalists to explore ways to partner with them to build renewable energy resources, it was clear that maximizing profit was their prime goal. We believed and continue to believe that financial stability, worker benefits, consumer benefits, community benefits, and environmental stewardship are also essential priorities. It became clear that for us to achieve these goals and create a sustainable financial base, we needed to own our renewable energy resources as a community, through our governmental entities, through our non-profits and religious organizations, and through our cooperatives. If we own them, we don't have to ask the owners to do the right thing, we can just do it.

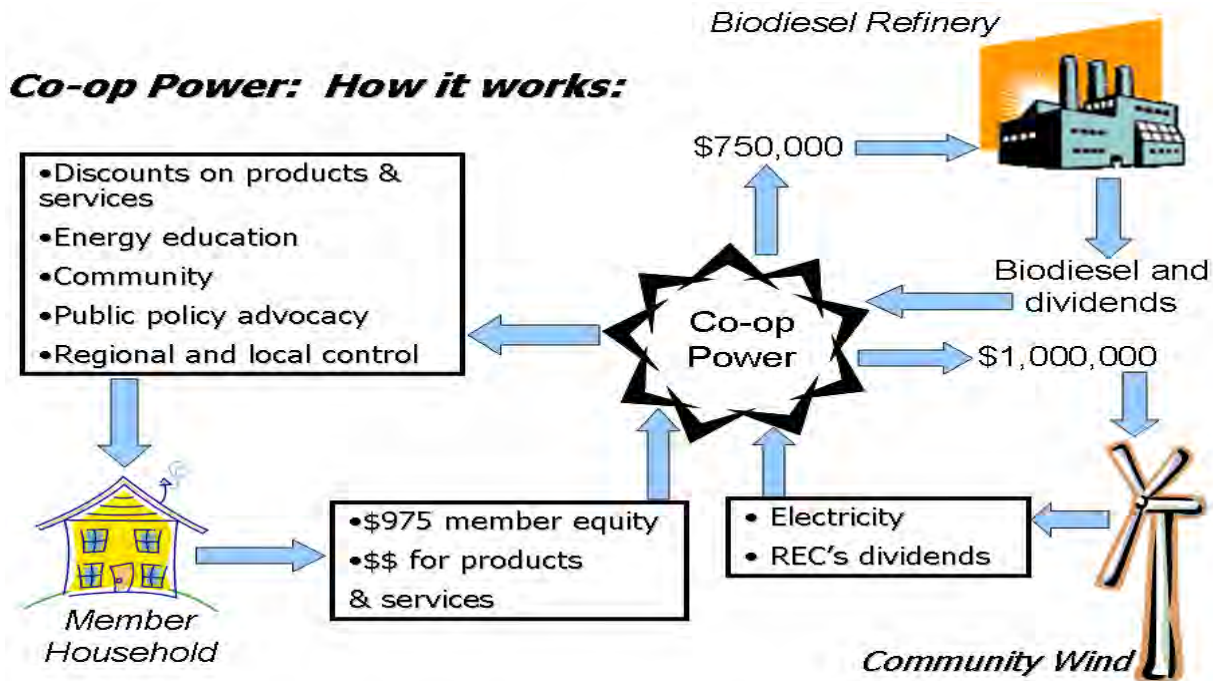
## Part One of the Secret Code – Co-op Power Member Equity

Because Co-op Power members want to use the energy these renewable energy assets produce, it's legal under US law for:

- 1) people to purchase a membership share in a cooperative,
- 2) for the cooperative to invest that member equity in a renewable energy project, and
- 3) for members to receive discounted energy products and services as a benefit of their membership share.

It would not be legal for members to receive a financial return on the money they invest in their membership share.

Cooperative statutes in most states cap a cooperative's membership share at \$1,000, so Co-op Power members decided to invest \$975 plus a \$25 a year annual fee. (Members can pay in their equity over two years; Low-income families pay \$500 over five years; Farmers pay \$750 over two years.) Co-op Power built its business plan on the assumption that they would recruit 250 people in five regions in the Northeast to build five significant projects, investing about \$200,000 per project.



With \$200,000 in local equity, it's possible to bring in another \$500,000 to \$2 million in state and federal grants to help build community-owned renewable energy resources. Large wind and solar installations and biofuel plants cost \$3-10 million each and you can't borrow more than half of that. So we still needed to find a way to partner with outside equity investors to raise additional capital and still retain majority ownership of the new energy resources we built.

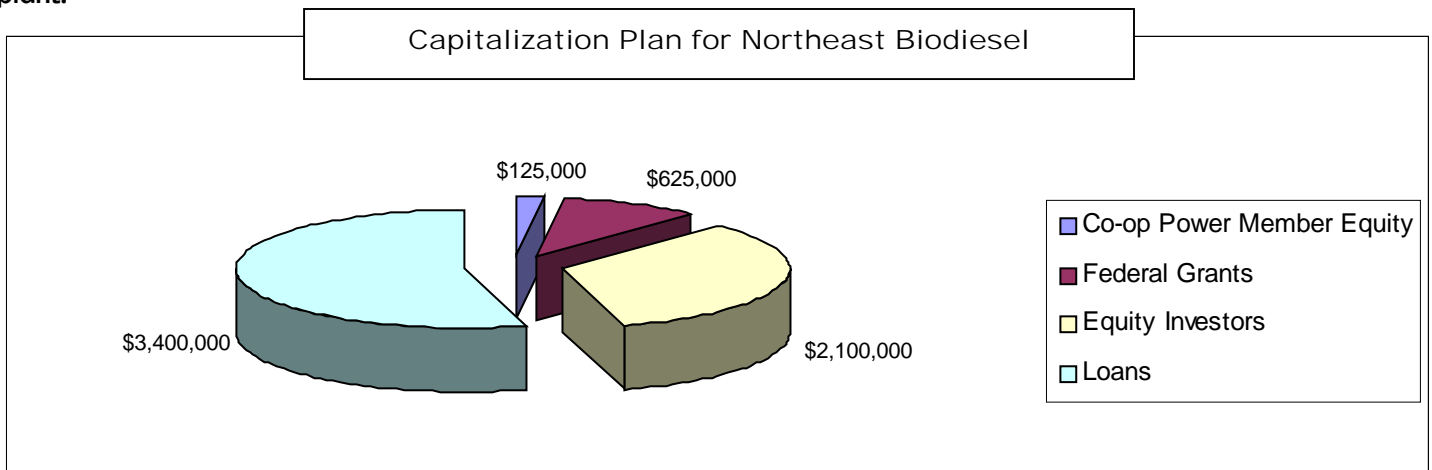
## Part Two of the Secret Code – Trading Return for Ownership

We figured out that we could incorporate a limited liability corporation (LLC) presenting specially designed investment opportunities for qualified outside investors, offering a generous rate of return for large investments in exchange for the Co-op retaining majority ownership of the LLC. Most equity investors are primarily interested in return and liquidity, so we created an investment that would give them a high rate of return and a solid exit strategy. Co-op Power members are primarily interested in having access to affordable renewable energy resources and retaining long-term ownership of those resources so members can benefit into perpetuity. To achieve that goal, Co-op Power steps aside from a good portion of the cash distributions it would be entitled to for the first ten (10) years in exchange for long-term ownership of those resources. Investors are happy to have an opportunity to help build these community resources and make some money. Co-op Power members are happy to have the control of affordable, clean energy resources.

## How Co-op Power is building Northeast Biodiesel Company, LLC

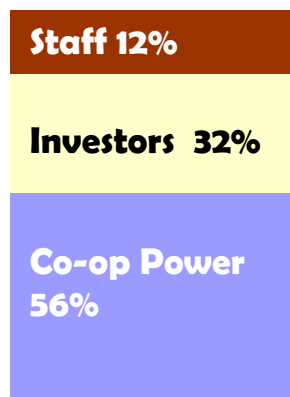
For Co-op Power's first project, Northeast Biodiesel Company, LLC, a plant making 5 million gallons a year of biodiesel from recycled vegetable oil, we created a Private Placement Memorandum that offered investors 25% of their investment a year in dividends (largely to cover the taxes they'll owe on their share of the plant's profits) plus an exit plan implemented from years five to ten that repurchased one fifth (1/5) of their investment each year for a pre-determined price (12% interest per year + four-times that portion of the initial equity investment). (\$100,000 in investment will likely pay out \$500,000 over ten years.) Outside investors bought 32% of the company for their \$2.1 million investment. By giving these socially responsible investors a generous return, the cooperative was able to trade short-term profits for long-term ownership of this biodiesel plant.

Here's where the money came from to build the plant. Co-op Power Members put in \$125,000 which leveraged \$625,000 in federal grants; that \$750,000 is leveraging \$2.1 million in equity from outside investors; that \$2.85 million and a federal loan guarantee will leverage \$300,000 in subordinated debt and \$3.1 million in primary debt; which will give Co-op Power the money we needed to build a \$6.25 million community-owned biodiesel plant.

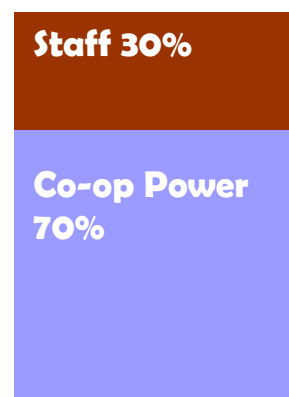


At the end of ten years, Co-op Power and the biodiesel plant staff will own 100% of the biodiesel plant.

### Ownership at Business Launch



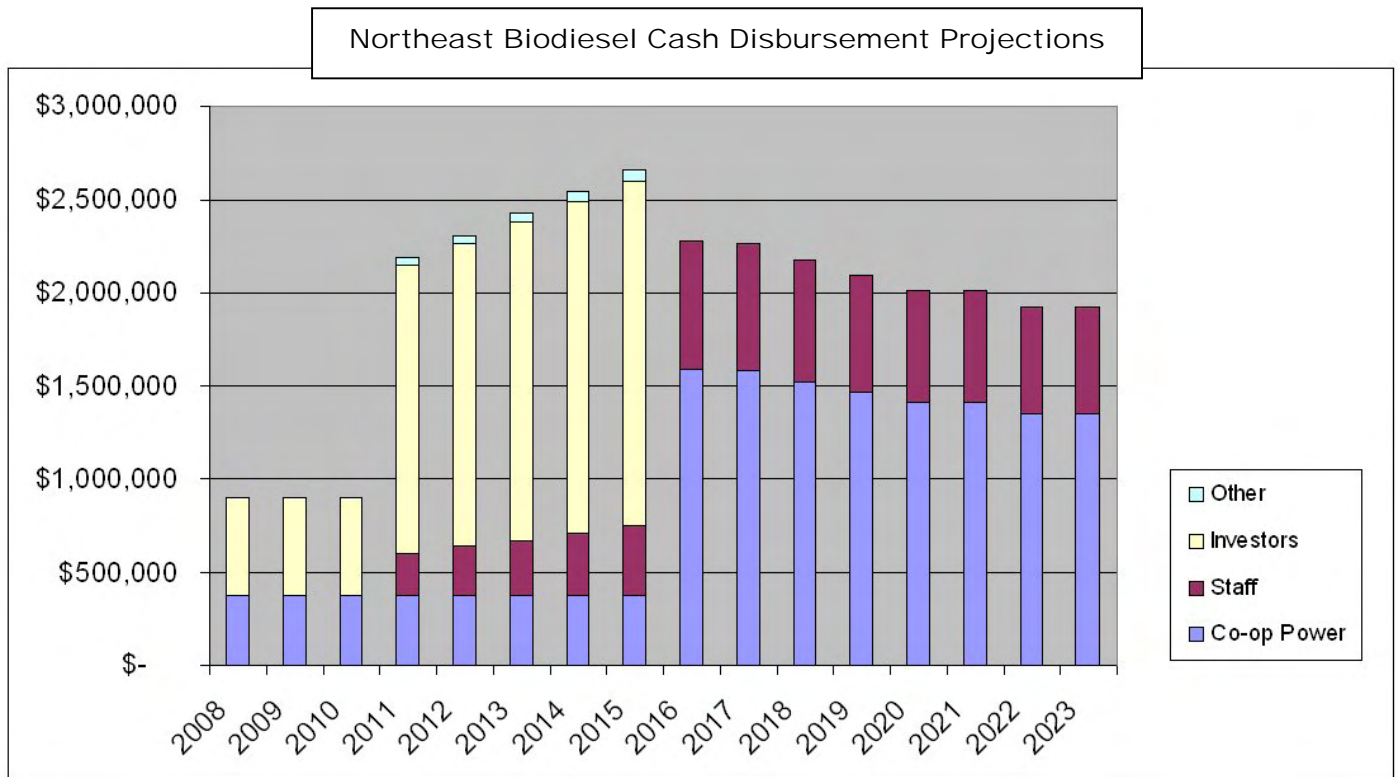
### Ownership after Ten Years



Investors are looking to get their money back, not to keep it tied up in a business for a long time, so they were pleased with a ten year exit strategy.

As you can see in the chart below showing the cash disbursements from Northeast Biodiesel, the investors (yellow bar) receive most of the cash disbursements between 2008 and 2015. In 2015 Northeast Biodiesel Company buys out their shares and the shares are owned 70% by Co-op Power and 30% by Northeast Biodiesel staff. Therefore, after 2015, the cash distribution projections show 70% going to Co-op Power and 30% going to Northeast Biodiesel staff.

The cash distributions decline over time because we expect the cost of our raw materials will go up and the competition in the biodiesel marketplace to make prices come down, so we're expecting to have smaller margins as the industry matures.



Co-op Power members will decide how much of the Co-op Power disbursement (approximately \$1.5 million/year) will be invested in building new renewable energy resources and how much will be distributed back to members in the form of discounts and rebates on energy products and services. Right now, our plan is to reinvest half of what Co-op Power receives back from Northeast Biodiesel into building renewable energy resources and the other half will be distributed to members. These benefits are added to the joint purchasing discounts members receive now on the dozen products and services Co-op Power is offering now and the new benefits that will be developed in the years to come. (For example, \$300 to \$600 off a solar hot water kit; 5-10 cents off a gallon of biodiesel for on-farm use or home heating; 10% off conservation and efficiency products; etc.)

You can see why we think of Co-op Power as an engine for building renewable energy in our region and a good deal for investors, staff, members, and the planet!