

**General Manager: Dr Ann Black**

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If calling please ask for  
**Mary Anderson**  
Direct Dial: 01595 744992

Our Ref: EMA/TA1/1  
Your Ref:

Date: 1 July 2011

Dear Sir/Madam

You are invited to the following special meeting:

**Shetland Charitable Trust  
Council Chamber, Town Hall, Lerwick  
Wednesday 6 July 2011 at 2.00pm**

Apologies for absence should be notified to Lynne Geddes on 01595 744592.

Yours faithfully

(signed) Dr Ann Black

General Manager

#### **AGENDA**

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest.

#### ***For Decision***

1. Viking Energy – Investment Budget for 2011/12. Report enclosed.



## REPORT

To: Shetland Charitable Trust

6 July 2011

From: Financial Controller

Report: CT1107048

### **Viking Energy – Investment Budget for 2011/12**

#### **1. Introduction**

- 1.1 Trustees agreed to purchase a 90% share in Viking Energy Limited, VEL, in September 2007 (Min Ref 52/07). VEL is a 50% partner in the Viking Energy Partnership, VEP, which is investigating the technical, financial and environmental issues surrounding a potential large wind farm in central Mainland. Trustees also agreed to set an investment budget of up to £3million to take the potential wind farm through the planning/consent stage, as the work required for that will inform further project appraisal (Min Ref 52/07).
- 1.2 It was believed in September 2007 that enough data would have been gathered and evaluated, mostly through the planning/consent process, to enable an informed decision to be made in 2009 on whether or not to commit to invest in the wind farm project. However, as Trustees will be aware, the project has spent much longer than originally anticipated in the planning/consent process and it is now likely to be 2012 before Trustees will have enough information to be able to decide whether or not to proceed to construct and operate the wind farm. The additional time and effort has mainly been required to react to the significant concerns raised following the original consent application in 2009. This has included re-designing much of the project, producing the addendum to the application and undertaking significant dialogue with the public and statutory consultees. Most of the £3million has now been spent, and this report asks Trustees to increase the overall Trust investment budget for this evaluation stage from £3million to up to £3.42million to take the project through the 2011/12 financial year.
- 1.3 Spend against an investment budget is not charitable, and Trustees hope to get the capital back and make a profit when it invests. Part of the investment process is project appraisal, and although the costs of this should be relatively low compared to the size of the investment being considered, by the nature of the process, if the project does not continue, the spend on appraisal will not be recovered. However, if the project goes ahead, after appraisal, it will be because Trustees expect it to be a successful investment, returning capital and generating profits. Any investment by a charity needs approval, as a qualifying investment, by HMRC. HMRC have formally accepted that the original investment budget of up to £3million, taking account of the risks involved and the size of the budget relative to the Trust's overall investment portfolio is a



qualifying investment. HMRC have informally indicated that a reasonable increase to the budget is very likely to also be accepted as a qualifying investment.

## 2. Background

- 2.1 Trustees have received regular updates on the project. Appendix A is a diary of these updates and Appendix B is a recent leaflet on the project. The project continues to appear to be a potentially attractive investment worthy of thorough evaluation.
- 2.2 In summary, early site layouts identified 192 turbine sites, but in discussion with interested parties, VEP reduced that number to 150 sites in the consent application submitted in May 2009, and further reduced to 127 sites in the addendum to the consent application submitted in September 2010. The granting or otherwise of consent for the wind farm sits with Scottish Ministers and a determination is expected later this year. The new Minister, Fergus Ewing, could decide to grant or refuse consent or require a Public Local Inquiry.

## 3. Spend to Date and Budget for 2011/12 – VEP

- 3.1 The partners in VEP are VEL (50%) and a subsidiary company of SSE plc (50%). The partners have agreed that VEP should bear all external/third party costs. The VEP accounts as at 31 March 2010 include all the relevant past costs going back to the beginning of the project in 2003. The VEP accounts have been audited by KPMG LLP and are available on the Viking Energy website. At 31 March 2010 the total VEP expenditure was £2.8million, financed 50% by VEL and 50% by SSE.
- 3.2 VEP has been fully operational in its own right throughout the financial year 2010/11. VEP meets costs directly and is financed by cash calls on the partners, VEL and SSE, on a 50:50 basis. Draft, unaudited accounts for VEP for 2010/11 show that the estimated outturn expenditure is £0.6million.
- 3.3 The table below shows VEP expenditure by broad category and indicates a suitable budget of £0.5million for 2011/12.

VEP (£)	Up To 31 March 2010	2010/11	2011/12	TOTAL
Birds	550,000	175,000	110,000	835,000
Ecology	200,000	4,000	5,000	209,000
Landscape and Visual	100,000	20,000	10,000	130,000
Soil, Water & Peat	250,000	19,000	3,000	272,000
Archaeology	150,000	19,000	-	169,000
Wind, Including Masts	350,000	92,000	94,000	536,000
Other studies ( traffic, telecoms, aviation, socio-economic, other EIA related costs)	350,000	204,000	10,000	564,000
Communications, Exhibitions, Models, Website, etc	400,000	73,000	48,000	521,000
Planning fees, Legal fees etc	450,000	32,000	220,000	702,000
<b>TOTAL (£)</b>	<b>2,800,000</b>	<b>638,000</b>	<b>500,000</b>	<b>3,938,000</b>



It is estimated that total VEP expenditure by 31 March 2012 will be almost £4million, with £2million coming from VEL, unless the Minister calls for a Local Public Inquiry, which would lead to the need to review the budgets.

#### 4. Spend to Date and Budget for 2011/12 - VEL

- 4.1 As noted above in, in paragraph 3.1, VEP bears external/third party costs. The partners meet their own, internal costs, so VEL meets staff costs, office rentals, IT support etc. Four Shetland based people worked full time on the project in 2010/11 and their costs were met by VEL.
- 4.2 The VEL accounts to 31 March 2010 have been audited by KPMG LLP and contain all relevant costs on the project going back to the beginning of the project in 2003. These accounts are available on the Trust's and Viking Energy's websites. VEL's own costs for this period amount to £1.1million.
- 4.3 Draft unaudited accounts for VEL for 2010/11 show expenditure of £0.3million on VEL's own costs broken down as follows:

Revision to Connection Agreement - Fee	£69,375
Other Project Costs	£7,544
Staffing Costs	£193,074
Office and Other Overheads	£15,847

The Revision to Connection Agreement fee is a one off cost and won't be repeated in 2011/12, so I propose a budget for 2011/12 of £0.2million based on the other actual expenditure in 2010/11.

- 4.4 It is estimated that total VEL expenditure on its own costs up to 31 March 2012 will be £1.6million and VEL will need to fund £2million as 50% of VEP's estimated spend to 31 March 2012. Together these estimates come to £3.6million. I would like to include a contingency for cash flow purposes bringing the total up to £3.8million.

#### 5. SCT Investment Budget

- 5.1 I have estimated that the total funding required by VEL up to 31 March 2012 will be £3.8million. The project is awaiting a determination by the Scottish Minister of the application for consent as modified by the addendum. The investment budget for 2011/12 proposed in Sections 3 and 4 above is based on the assumption that a determination is not reached in 2011/12. In fact, VEL are hopeful that a determination will be achieved in 2011. A determination, whether it is granting consent or refusing consent or requiring a public inquiry, will require a further report to the Trust. Such a report may require a further examination of the budgets.
- 5.2 The Trust owns 90% of VEL and 90% of the required £3.8million is £3.42million. The Trust has committed all of its current £3million





investment budget by buying £1 shares. I will recommend that the Trustees increase the Trust's investment budget by £420,000 to £3.42million.

- 5.3 The minority shareholders own 10% of VEL and they have indicated their intention to continue to take up shares as offered in proportion to the original shareholding. 10% of £3.8million is £380,000. They have committed to investing £333,333 to date and can be expected to buy a further 46,667 £1 shares when required.
- 5.4 I have summarised the proposed position by 31 March 2012 in the table below:

VEL – own costs	1,600,000
VEL – 50% share of VEP costs	<u>2,000,000</u>
	3,600,000
Cash flow contingency	<u>200,000</u>
	<u>3,800,000</u>
Funded by:	
SCT – invested to Date	3,000,000
SCT – Additional investment	<u>420,000</u>
	3,420,000
Minority Shareholders 10%	<u>380,000</u>
	<u>3,800,000</u>

## 6. Conclusions

- 6.1 Trustees set an investment budget in 2007 of £3million to enable the proposed Viking Energy project to be thoroughly evaluated. Much of the data for the evaluation would be gathered for the purposes of applying for consent from the Scottish Government. That process has taken much longer than anticipated.
- 6.2 Trustees are asked to agree to increase the investment budget by £420,000 to £3.42million to allow the evaluation to continue. This budget is calculated to be sufficient for 2011/12, unless a Local Public Inquiry is required. In any case a determination of the application for consent by the Scottish Minister will result in a further report to Trustees, which may re-examine budgets.

## 7. Recommendations

- 7.1 I recommend that Trustees agree to increase the investment budget for appraisal of this project from £3million to £3.42million.
- 7.2 I recommend that Trustees note that there will be a need for a further report, once the application for consent is determined by the Scottish Minister.

Reference: JPG/em/IS4  
Date: 3 June 2011

Report Number CT1107048



## APPENDIX A

<b>Date</b>	<b>What</b>	<b>Subject</b>	<b>Who</b>
23/06/2011	Report	Investment Budget	Financial Controller
24/03/2011	Presentation	Project Finance	Richard Simon-Lewis Lloyds Banking Group
	Progress Report	General	Financial Controller Aaron Priest
04/10/2010	Briefing Note	Project Finance	Financial Controller
29/09/2010	Presentation	Addendum launched	David Thomson
	Q&A Session		Aaron Priest
24/06/2010	Update Report & Drawdown Report	Finance & Administration	Financial Controller
21/06/2010	Project Update & Q&A Session	General	Aaron Priest
11/02/2010	Presentation	Finance	Richard Simon-Lewis Lloyds Banking Group
03/11/2009	Presentation and Update report	Construction experience	Morrison Construction And Ecological QS
17/09/2009	Presentation	Project Finance SSE Experience	Philip Soden, SSE
01/09/2009	Reception	General	Ian Marchant, SSE
06/08/2009	Seminar	General	Aaron Priest
02/07/2009	Seminar	General	Aaron Priest
18/03/2009 & 19/2/2009	Drawdown report	Finance	Financial Controller
08/12/2008	Presentation	Ecology/Peat	David Thomson
	Presentation	Economics	Stephen Kerr, Avayl

## APPENDIX A

13/11/2008	Verbal Update	General	Financial Controller Aaron Priest
24/10/2008	Investment report	General	Financial Controller
11/09/2008	Presentation	General	David Thomson
	Presentation	SSE position	Simon Heyes, SSE
17/09/2007	Report	Up to £3m investment decision	Financial Controller
23/08/2007	Workshop	Finance	Brandon Rennet, SSE

# Introduction

APPENDIX B  
CT1107048

## Viking Wind Farm

In May 2009 Viking Energy submitted an application for a 150-turbine wind farm to the Scottish Government.

We have listened to many views since then and undertaken a lot of work to address concerns raised. As a result, we have removed 23 turbines and have reduced the carbon payback to less than one year.

We aim to harness Shetland's world-class wind and the wind farm could produce up to 457 megawatts of renewable electricity.

By connecting Shetland to the national electricity grid, a new industry would be introduced to the local economy, providing opportunities for future generations of islanders. A connection would also help unlock the enormous potential of Shetland's wave and tidal energy resources giving further possibilities for economic growth.

Viking Energy is a 50:50 partnership between Viking Energy Ltd and SSE Viking Ltd. Viking Energy Ltd is the company established to represent the Shetland community in large-scale wind development and is 90% owned by the Shetland Charitable Trust. The remaining 10% is held by the people who developed Burradale Wind Farm.

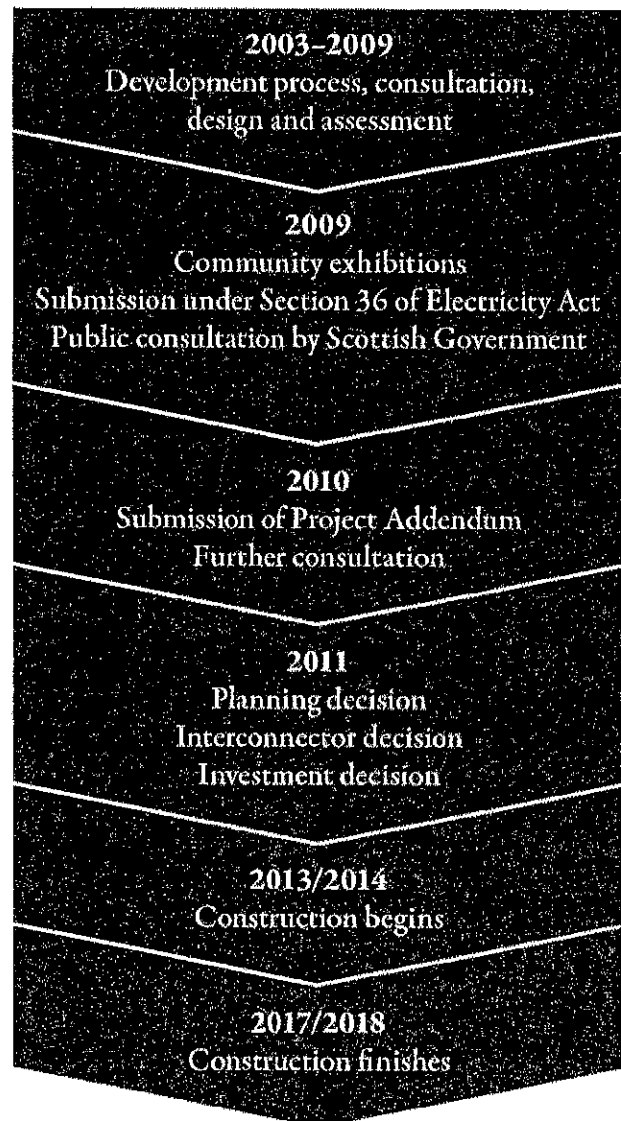
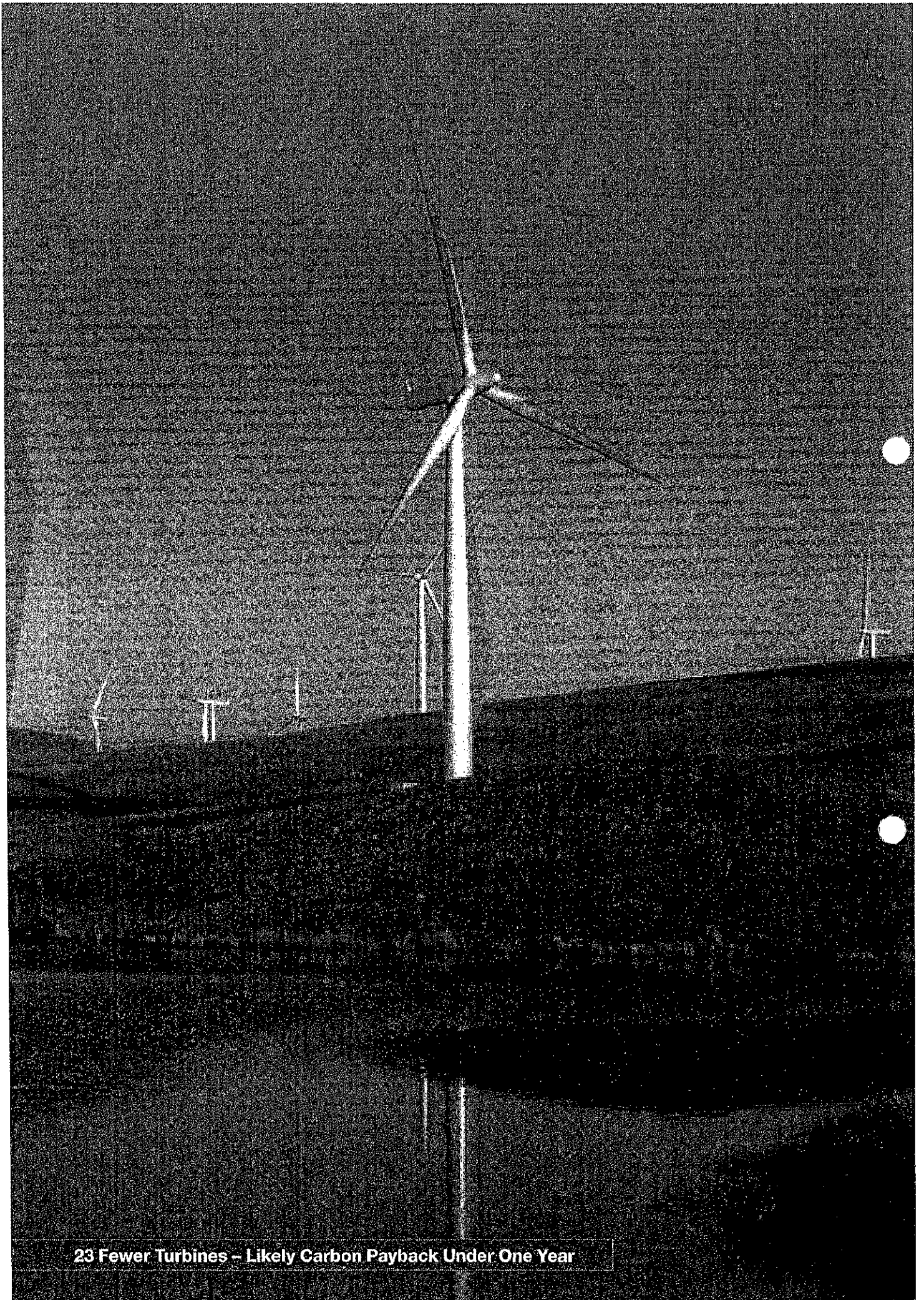


Image: Hadyard Hill Wind Farm, Ayrshire. The Viking Energy turbines will be larger than at Hadyard Hill.



**23 Fewer Turbines – Likely Carbon Payback Under One Year**

## Benefits

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- The total income for Shetland from the Viking Energy wind farm is expected to be £930 million across its lifetime.
- It is estimated the Shetland Charitable Trust will receive around £23 million, on average, each year. This income can then be used to support projects in the arts, environment, leisure and care sectors in Shetland.
- The projected income remains similar to the previous estimates despite the reduction in project size. This is mainly due to the increasing value of renewable power purchase contracts.
- Payments will be made in wages and in rents to local landlords and crofters.
- We will invest more than £1 million every year in wider, direct community benefit payments.
- Shetland-based suppliers also stand to benefit by more than an estimated £2 million of new business each year.
- A habitat management plan will invest time and resources to protect, conserve and enhance Shetland's local environment across a significantly wider area than the wind farm site.
- An archaeological heritage project will allow local communities to discover, interpret and manage their own cultural resources.

### Jobs

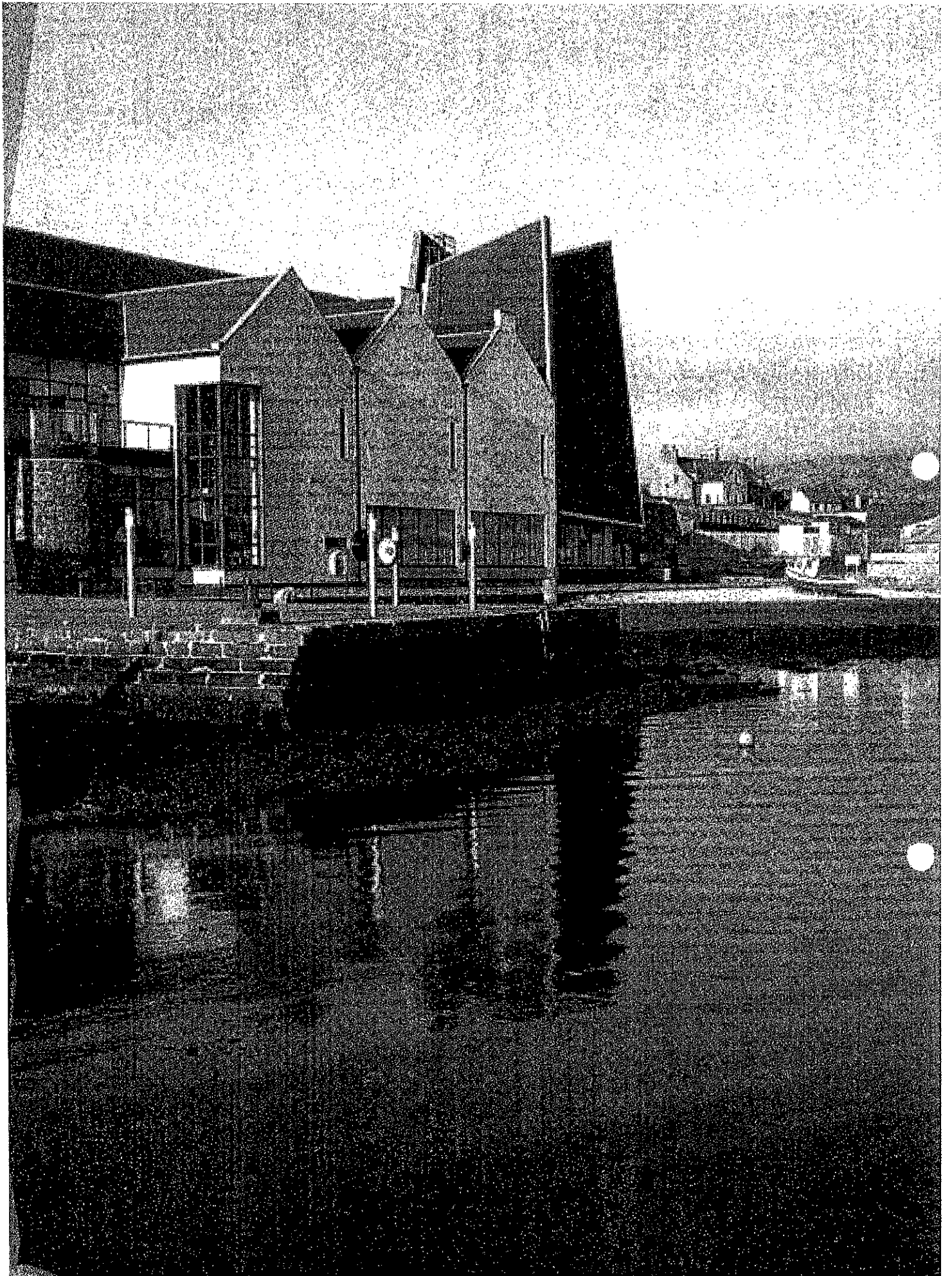
It is estimated that Viking Energy will create up to 42 direct jobs and a further 23 posts in other support services.

174 jobs would be created during the construction period.

Numerous further job opportunities could be created through the project's local economic investment.

Additional jobs could also be generated in other renewable energy sectors as a result of the capacity created on the grid by the interconnector.

All figures are averages, based on current projections, and could be subject to change.



**23 Fewer Turbines – Likely Carbon Payback Under One Year**



# The Addendum – What's Changed

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To address concerns we have made a number of changes.

These include:

- The removal of 23 turbines
- A reduction in the area covered by the wind farm of around 80 hectares
- Two fewer access junctions connecting to public roads
- 14km less of access tracks
- Changes to our habitat management plan which will improve the natural environment, or help to reduce ongoing damage
- The addition of a major heritage project

The completed wind farm will occupy 104 hectares – equivalent to 0.56% of the 18,700 hectares of the central Mainland.

## Turbines

The planning application we submitted in 2009 was based on a 150 turbine wind farm. We have removed 23 turbines to reduce the impact on residents, birds and archaeology.

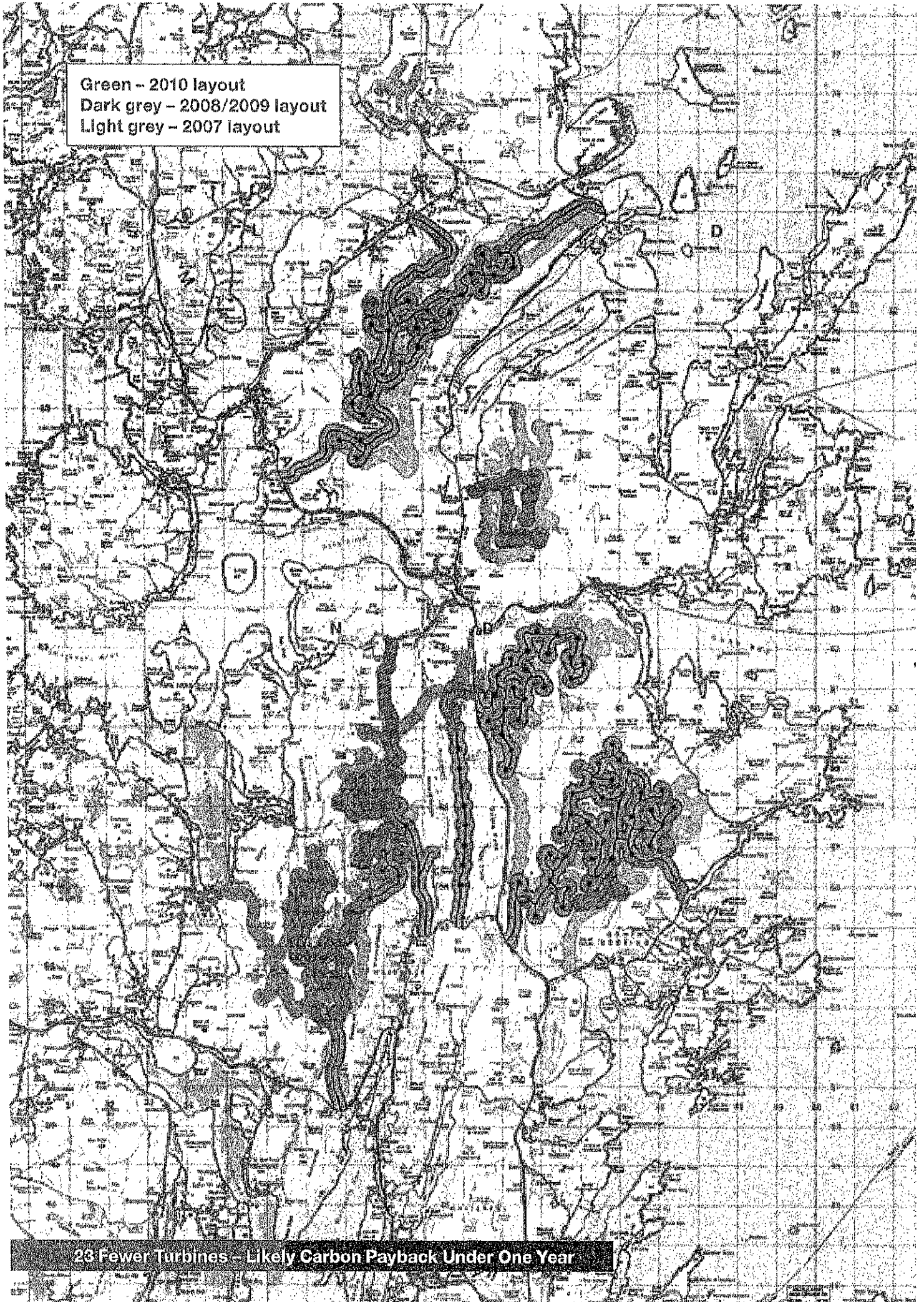
- Delting (the north-west area) had 33 turbines.  
Nine have been removed, leaving 24
- Collafirth (the north-east area) had eight turbines.  
All eight have been removed
- Kergord (the south-west area) had 47 turbines.  
One has been removed leaving 46
- Nesting (the south-east area) had 62 turbines.  
Five have been removed leaving 57

## Roads

We have removed two operational access roads to avoid possible disturbance for nearby residents. These are the routes from Newing in Nesting and the route from Setter just south west of Voe.

We have reduced the entire network of access roads by 14km, bringing the total to just over 100km.

Green - 2010 layout  
Dark grey - 2008/2009 layout  
Light grey - 2007 layout



**23 Fewer Turbines - Likely Carbon Payback Under One Year**

# Archaeology

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We are committed to safeguarding the cultural heritage in the vicinity of the wind farm.

Detailed investigation has taken place to assess the nature of existing archaeology and its condition. These results have helped us shape the development's layout.

We will safeguard the area's cultural heritage by:

- Having an Archaeological Clerk of Works working on site, supported by additional professional field staff and specialists, as required
- Conducting walkover and geo-physical surveys during construction to finalise precise adjustments on siting in sensitive areas
- Identifying, avoiding and fencing off archaeological sites
- Doing archaeological trial trenching, coring and excavation as determined by the results of earlier work
- Recording all activity and findings in official archives

We are also planning a major heritage project to research, protect and promote the Central Mainland's archaeology.

## Heritage Project

The heritage project would allow local residents and visitors alike the chance to experience, enjoy and connect with the Central Mainland's cultural heritage.

We expect this to have four elements:

- A community survey and excavation programme
- A schools programme and touring regional exhibition
- A community archive project
- Access improvements to heritage monuments

*For more information on archaeology go to [www.vikingenergy.co.uk](http://www.vikingenergy.co.uk)*



## Birds

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The risk for birds has been dramatically reduced in the revised wind farm design.

The turbines which caused the greatest problems for birds have been removed. Rigorous assessments now suggest that the overall effect of the wind farm's construction and operation is not significant for any species.

Three birds have priority status – red throated divers, merlins and whimbrels. We plan to introduce a programme to enhance their environment which, even if only partially successful, would still mean that population gains would exceed any possible effects from the wind farm.

With the revised design, we have halved any risk of displacement for merlin and red throated divers.

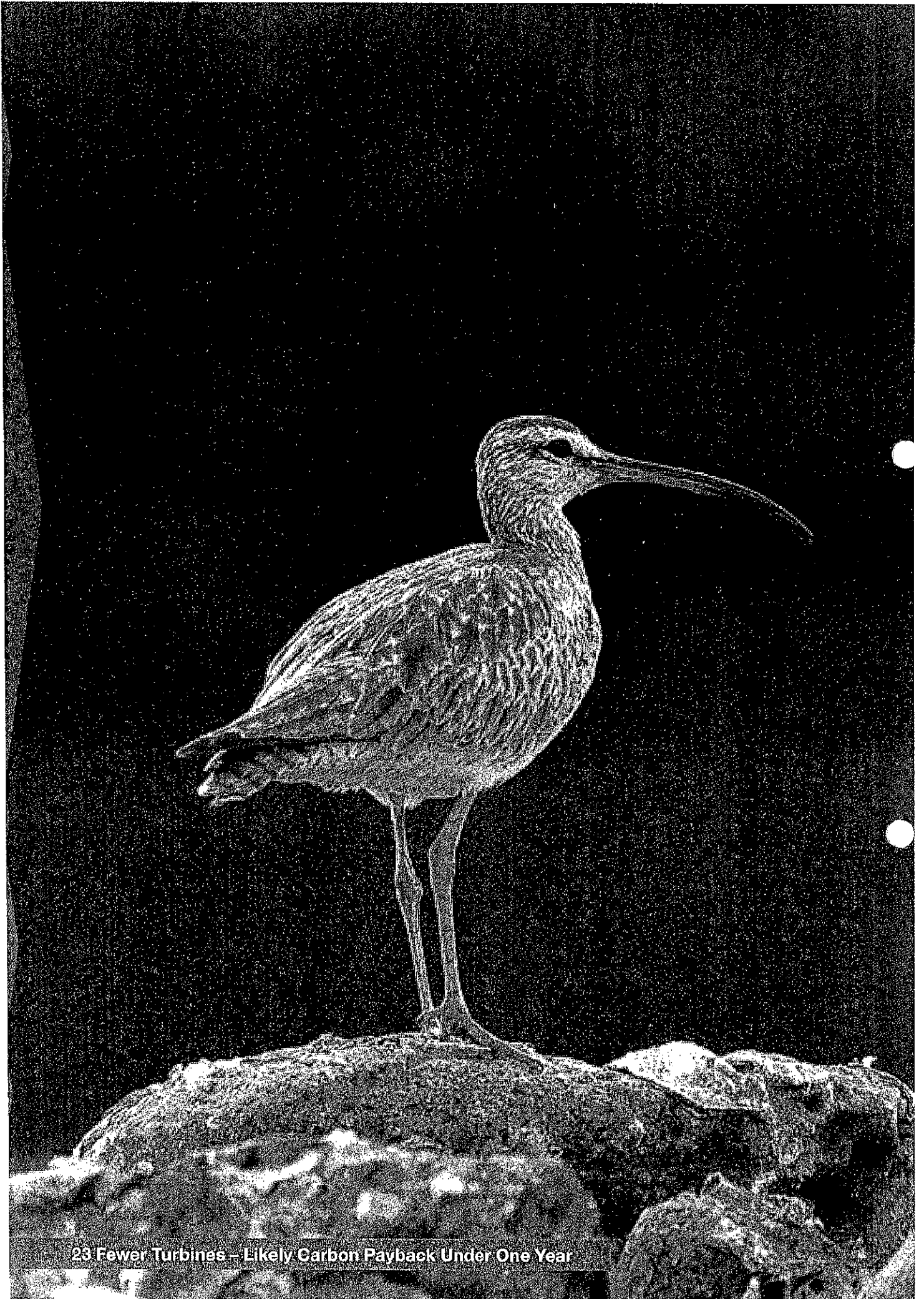
For other birds the overall effect has been reduced by:

- 56% for whimbrel
- 59% for Arctic skua
- 40% for all other species

Proposed improvements include safeguarding, restoring and enhancing lochans for red-throated divers; crow control measures to protect whimbrel and other waders; and encouraging rank heather in former merlin breeding territories.

The bird section has undergone dramatic changes since the original application was submitted.

*For more extensive information on birds go to [www.vikingenergy.co.uk](http://www.vikingenergy.co.uk)*



23 Fewer Turbines – Likely Carbon Payback Under One Year

# Carbon Payback

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## Carbon Payback

Carbon payback was an issue which generated much discussion when we published our initial application. Since then we have undertaken a lot of work to ensure the figures we produce are clear, robust and reflect the realities of the proposed site.

- The carbon payback time of the wind farm is now less than one year.

### Why have the figures changed?

We have modified the standard calculations to recognise the actual site conditions rather than theoretical assumptions. The site is already a net emitter of carbon dioxide gas.

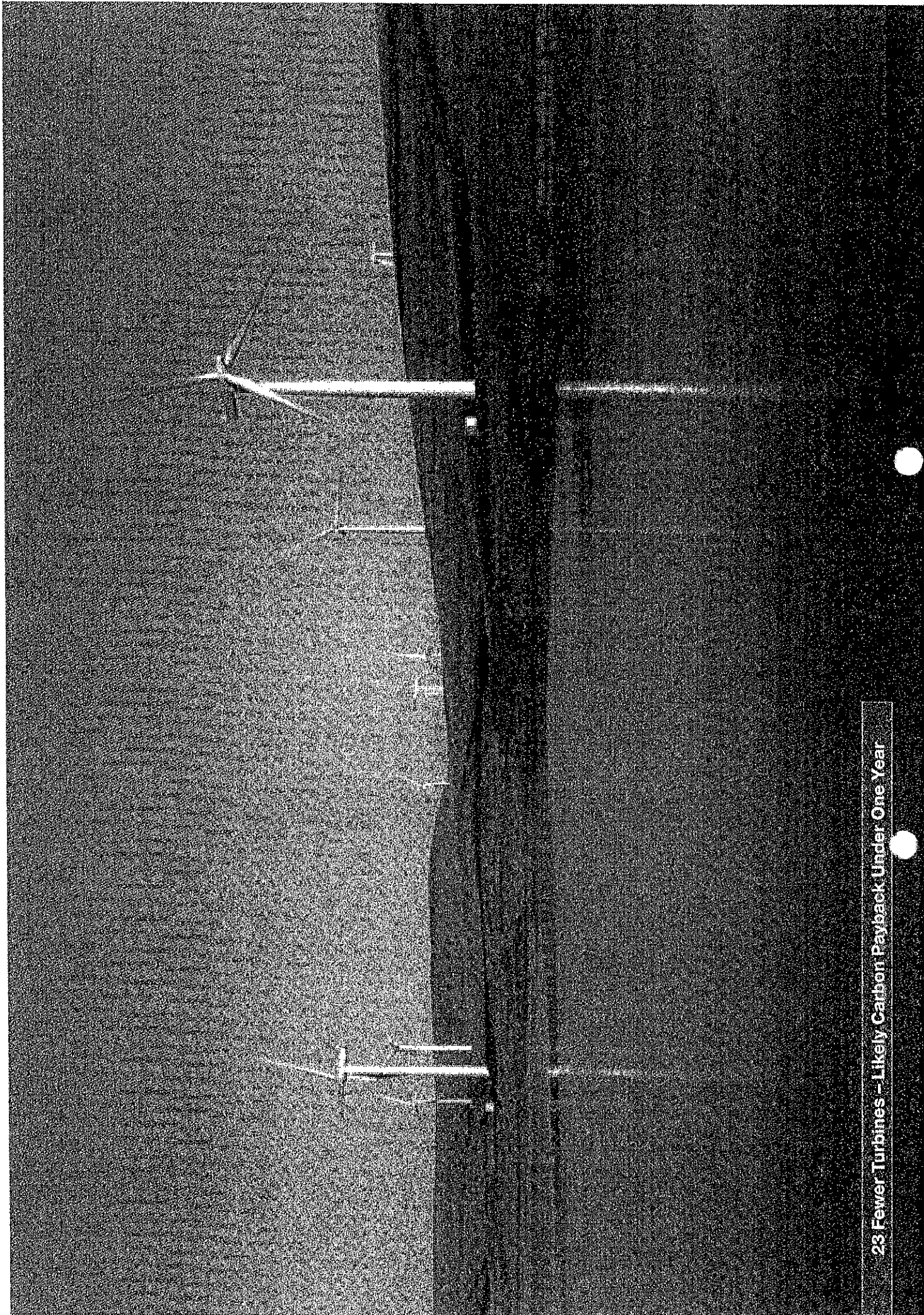
On site surveys have estimated that the majority of the peat around the site – 67.7% – is already deteriorating and releasing stored carbon.

- We will seek to stabilise and restore the peatland habitat across the site to address the ongoing erosion.

## The Macaulay Institute

The Macaulay Land Use Research Institute undertook an independent review of the basis of the carbon payback calculations on behalf of Viking Energy with the aim of improving both the robustness of these calculations, and to inform further assessments based upon them.

Our calculations now show that the Viking Energy wind farm could pay back its carbon in less than one year.



23 Fewer Turbines – Likely Carbon Payback Under One Year



## Finance

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The Shetland economy could benefit by as much as an estimated £38 million a year. Current projections indicate that an estimated £23 million a year may be paid to Shetland Charitable Trust in profits. These figures are averages – the windfarm payments will vary from year to year. To put this into context, the Trust currently spends around £1 million every month providing many services including support for elderly, infirm and vulnerable people, as well as funding for culture, sport and environmental projects.

In our addendum it is estimated that Viking Energy will spend more than £12 million on rentals to local landowners and crofting tenants, on wages, contracts for supplies, services and technical support and on community benefit and other payments.

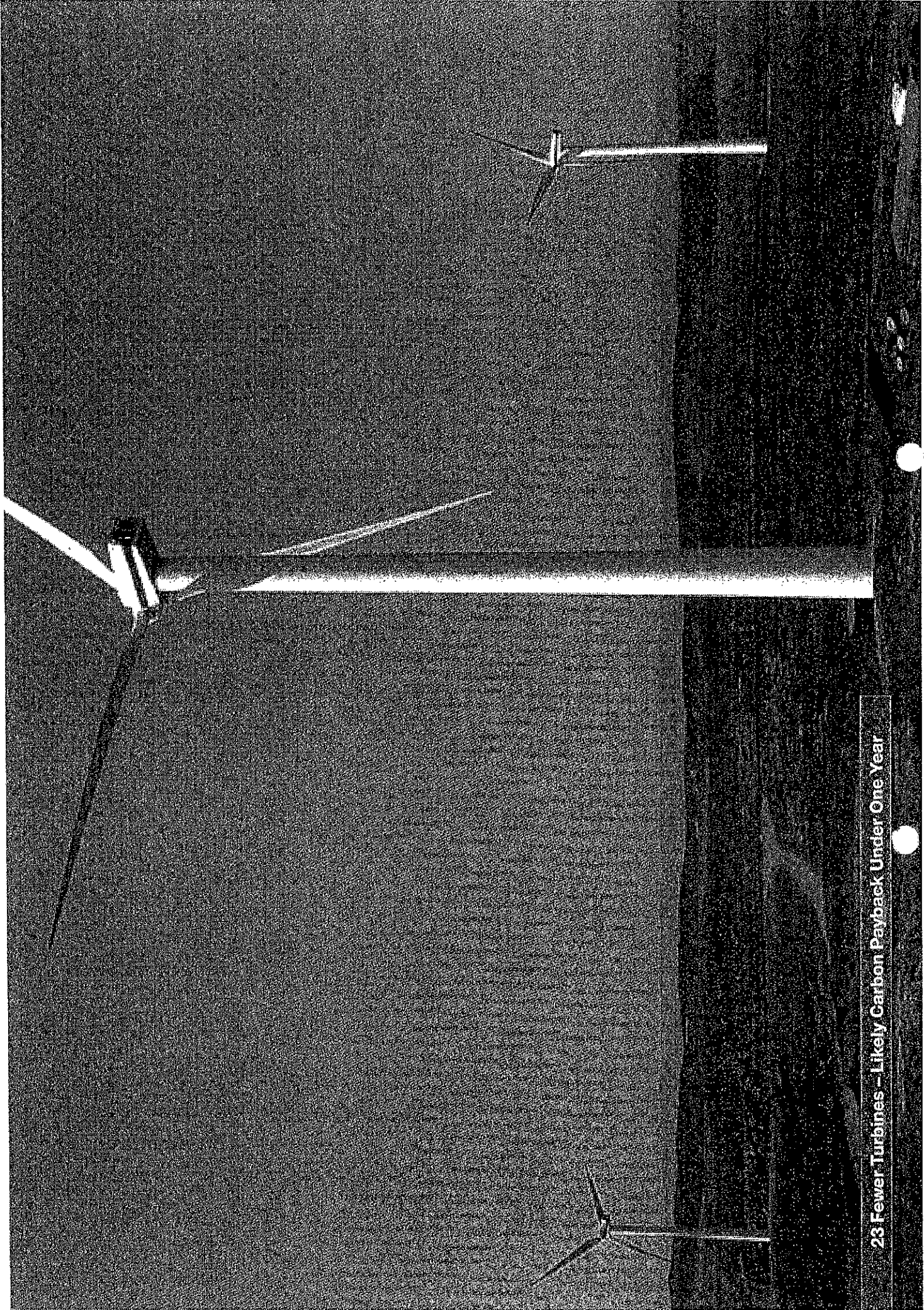
It is standard practice for local communities near a wind farm to receive an annual payment from the wind farm company, known as community benefit. It is estimated this payment could be worth around £1 million a year. The local communities usually manage community benefit themselves.

These returns are close to previous estimates despite the reduction in turbine numbers. This is mainly because of an increase in the value of long-term renewable power purchase contracts.

The project has a current estimated build cost of £685 million.

All figures are based on current projections and could be subject to change.

Image: Burradale wind farm. Shetland's existing wind farm, where the turbines are substantially smaller than those planned for Viking.



23 Fewer Turbines – Likely Carbon Payback Under One Year

## Continuing the dialogue

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### Continuing the dialogue

We have made changes to our original application and also provided additional information and detail to help address concerns raised by members of the Shetland public, as well as statutory and other consultees. This information is contained within our Addendum, which is supplementary to the original application.

The Energy Consents Unit of the Scottish Government will consider the application.

Regardless of what is decided, investment decisions will not be firmed up until the necessary interconnector has been sanctioned and the important contracts have been finalised.

If approval is given, we would hope construction will get under way in 2013/2014 and should be completed by 2017/2018. It is anticipated the wind farm will have consent for 25 years.

To officially register your comments during the Scottish Government's current consultation, you can:

### Email the Energy Consents Unit at:

[energyconsents@scotland.gsi.gov.uk](mailto:energyconsents@scotland.gsi.gov.uk)  
quoting "Developer: Viking Energy Partnership Wind Farm".

### Write to the Energy Consents Unit at:

Energy Consents Unit  
Scottish Government  
5 Atlantic Quay  
150 Broomielaw  
Glasgow  
G2 8LU

For help in registering your support, you can visit the Viking Energy website at [www.vikingenergy.co.uk](http://www.vikingenergy.co.uk)



