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2020 Annual Report to OREC Members

Summary

On September 3, 2020, the Ottawa Renewable Energy Co-operative marked its 10th year since incorporation. We are immensely proud of this accomplishment, and could not have done it without the support, patience, and collaboration of you, the OREC members.

At the 2019-20 AGM, OREC had $6,884,933 in Preference Share equity, 765 members, 19 operational projects and two net metering projects in planning. As of August 31, 2020, OREC had paid down the second round of Preference Share equity for Class A, Series 1 Preference Shareholders (remaining balance of Preference Share equity of $6,819,899), increased our membership slightly to 778, and were in the process of constructing two new net-metering projects. And over the past six months, we repaid the Series 4 member noteholders.

OREC did not do a capital raise in the past year, as all the money needed for construction had been obtained in the earlier Series 6 offering. A portion of our members were able to purchase Preference Shares from members who wanted to sell. We are pleased that an internal market provides liquidity for our members. Aaron Thornell will speak briefly about the process we have for members to buy and sell Preference Shares from one another.

Proceeding with the construction of the two net-metering school sites (Paul-Desmarais and Mer Bleue) was the high point of the year. These two projects demonstrate our ability to continue growing in a policy constrained environment. Unfortunately, COVID hit as we began spring construction, pushing the commercial operation (COD) date back into the fall of 2020. Hydro Ottawa delays pushed completion a bit further. But I am pleased to report that Mer Bleue was operational November 10th and Paul-Desmarais November 19th.

Solar performance has been quite good this year. Nate Preston will explain in more detail in his presentation. We all saw that the sun has been bright much of the spring and summer (and even into November).

A major operational focus of the year was changing our accounting systems. We hired a local accounting firm, NumberCrunch to do the daily bookkeeping and accounting. This transition has been completed and is having a positive impact. Over the year, we have resolved most of OREC's receivable issues. However, we did determine that it was time to review our relationship with the Auditor and we have recently received proposals from 3 firms. Brian Mitchell, OREC's Treasurer will speak to this in his Financial presentation.

While updating our accounting system, Brian has also done some wonderful work on our financial modeling, providing more rigour and precision. We have a much better understanding of what we can and cannot do.

We have also established a reserve fund for two key reasons:

1) to ensure that capital is in place for potential roof re-roofing & replacement (RE&RE) events on our host locations, and for the expected replacement of inverter units (expected between years 8 and 14) and
2) To provide a predictable dividend, as we repay capital to preference shareholders.
   Once this plan is fully implemented, we are hopeful that OREC should be able to pay a steady dividend of 3.5% or higher (should the solar irradiation be consistent and there be no change to our portfolio) while building the reserve fund. Brian will explain this further in his presentation.

As the reserve fund was not in place earlier, and we need to be conservative in our cash management, OREC will only pay a 2.25% dividend to all Preference Shareholders that held shares in fiscal year 2019-20. We will also be making our third Capital repayment to Preference Shareholders(Class A, series 1 and 2).

I want to thank Brian Mitchel for all the serious work he has done over the last year as our Treasurer. It has been pleasant and stimulating to work with Brian as we have evolved our accounting and financial analysis systems to have the proper precision, clarity, and consistency.

Operations

The major operations change this past year was in the accounting and financial areas as addressed above.

Operationally we are steady and reliable. There were no major equipment challenges and no major barriers in deploying new projects.

The sole staff person throughout the year was Aaron Thornell who has managed all the member communications, promotion, administration, and support for NumberCrunch as required. About a ¼ of his time was with OREC, the rest of Aaron's time was with CoEnergy Co-operative. In past years, the General Manager/Communications person would have spent considerable time on accounting work.

Technical support has been provided on a contract basis by Eric Gladu and Peter Manson, who consider OREC as their lead customers.

Legal services are provided by Iler-Campbell and auditing services by Frouin Group.

In 2018 there was an equipment incident at the Alfred project. Our contractor's insurance provides coverage for OREC, so we are not expecting any issues with the situation.

There were several board changes during the year, Aiden Foss, & Nick Lepan stepped down for personal reasons, while Graeme Cunningham, Andrea Harden, Stephen Michell, Gabby White and I are stepping down from the board or not standing for re-election. Thank you for all your help and contributions over the years. Going forward we believe it will be more efficient to have a smaller board as there will likely be fewer growth opportunities and OREC will be primarily operating in an asset management mode.

Relationship with CoEnergy

CoEnergy Co-operative was created in 2018 to provide energy services that OREC is not allowed to offer (due to co-operative laws and/or Feed-in-Tariff regulations).

- OREC can do renewable energy generation (FIT contracts or net-metering), and **nothing else**!
- As a result, CoEnergy was created to do building retrofits, embedded generation, and other value-added carbon reduction services.

CoEnergy and OREC are effectively a family of co-operatives, providing sustainable energy investment opportunities for its members and this community.

The past year has been challenging for CoEnergy. COVID has frozen decisions by customers for many projects, the dropping interest rates have made their financing more challenging. Furthermore, government support/regulations have not targeted deep retrofits, instead encouraging easy, 'low hanging fruit' projects. Over the last two years, OREC has incubated CoEnergy by lending staff and financial support. We have made allowances for CoEnergy's difficulties and made appropriate provisions in our financial statements to reflect this uncertainty.

CoEnergy's marketing outreach has uncovered some opportunities which may be more suitable for execution through OREC. CoEnergy has been working with a strong regional electric Utility that is interested in both retrofit projects and renewable generation projects: some of which fit OREC's mandate better than CoEnergy's.

Going forward, the boards and operations, of CoEnergy and OREC will become be more separate. In the coming year it is expected that only one or two members will be common. We do encourage OREC members to join CoEnergy.

Future and Growth

As both OREC and CoEnergy operate in highly politicized and regulated environments, the co-operatives have merged their lobbying efforts. All governments (municipal, provincial and federal) are mouthing 'green' friendly announcements, but we are not convinced their execution will be optimal. Board members of both OREC and CoEnergy are meeting with politicians and bureaucrats to ensure policies are directed in ways that promote:

- new capital can flow to targeted deep retrofits (federal);
- non-wired electricity solutions (provincial) and
- community investment on city infrastructure (municipal).

While advocacy is ancillary to our core business, it is important that we engage with policy makers for the future evolution of our sector. Government policy that is focused on 'cheap' financing, will primarily help easy and quick retrofits, but do little to further our mission of serious community-based climate change mitigation. Our core 'ask' to all governments is that they invest some effort and money to encourage community ownership of climate mitigation projects, thereby unleashing new capital for the fight.

In the coming year we expect that OREC will focus on the following

1) Publicize the Mer Bleue and Paul-Desmarais net-metering sites with the regulators and other clients, to identify new net-metering opportunities;
2) Optimize our operational assets and fully establish the reserve fund;
3) Issue capital repayment to Preference Share holders of Class A, Series 1,2 and 3 shares, as well as pay our dividends, while building our reserve fund;
4) If approved by our members, expand our boundary (for projects and members) to all of Ontario, and potentially execute the purchase of existing wind projects that have been presented to us by our utility partner and
5) Issue a new offering for the financing of new projects (hopefully in the first quarter), and for the first time consider outside debt, with appropriate prudence, to leverage our strong capital base.

As mentioned, we will continue to seek projects directly and through partners (developers and/or utilities). Why are they interested in us? Because we represent an organized and responsive source of community ownership and capital. We are community capital with skills. But this will likely require that we consider projects that are presently operating (as opposed to developing new generation), and consider projects and members from outside of our preferred Eastern Ontario region. Both changes will require endorsement from our members. It has become quite clear, that the acquisition of certain FIT contracts necessitates the participation of 'Ontario Community owned' co-operatives, which precludes entities like CoEnergy (which have non-Ontario membership, and 'non-generation' mandates). Ergo, OREC is the partner of choice for this class of deal. The OREC Board believes that such acquisitions strengthen our portfolio, while bringing existing renewable energy assets under community-based, co-operative control.

The operational impact of purchasing 'operating' FIT assets with a senior partner is expected to be relatively easy, with the partner is doing the operational work. Most of these projects are expected to come from larger utilities seeking our community status and fiscal strength. This allows us to continue focusing our internal resources on the asset management of our existing portfolio. For this reason, we expect that it would be more efficient to operate the board with a smaller number of members.

The future of OREC looks quite good. We have a broad, stable solar portfolio that is well capitalized, and immediate opportunities to broaden into new projects through the purchase of an operating asset with an experienced utility as a partner managing the facility. Graham Findlay will speak to the details of this in his presentation.

Over the past decade, in a difficult environment, OREC has grown into a stable, operational co-operative utility. Thank you all for your patience and support in this journey.

Co-operatively yours,

Dick Bakker
Outgoing OREC President