



## Department for Business, Energy & Industrial Strategy *'THE FUTURE FOR SMALL-SCALE LOWCARBON GENERATION: A consultation on a Smart Export Guarantee*

### Joint response by Community Energy England, Community Energy Scotland & Community Energy Wales

March 2019

#### INTRODUCTION

**This is a joint response by Community Energy England, Community Energy Scotland & Community Energy Wales** who together represent over 700 community energy groups and associated organisations across England, Scotland and Wales involved in the delivery of community-based energy projects that range from the generation of renewable electricity and heat, to the energy efficiency retrofit of buildings to helping households combat fuel poverty.

Our shared **vision** is of strong, well informed and capable communities, able to take advantage of their renewable energy resources and address their energy issues in a way that builds a more localised, democratic and sustainable energy system.

The period since 2015 has seen a significant reversal in policy support for the sector to such an extent that community energy groups, and wider stakeholders, now see the Government as actively dissuading communities from working together and exploring opportunities to develop local low carbon projects. The gap between FiT closure & the new measure coming in with no retrospective registration allowed, means that there will be a further slowdown in new small-scale renewable development coming forward, unfortunately reinforcing the negative policy signals sent from BEIS.

#### KEY POINTS

- We welcome the government's intention to provide a mechanism to ensure that small generators are paid for the production of electricity; but the Smart Export Guarantee is likely to have a marginal impact on incentivising new small-scale generation and, as currently conceived, will not lead to new community energy developments.
- We urge BEIS to now develop measures specifically designed to enable new community energy projects to meet the potential they have to drive the development of a more localised smart energy system. A more detailed rationale and recommended measures are included in our response to question 7.
- We would be pleased to assist in a specific, time limited exercise to scope how a 'Smart Community Energy Export Guarantee' could work.

## COMMENTS ON CONSULTATION

We welcome government's intention to ensure that small-scale generators are paid for their contributions to the system and that the value of community energy has been noted in the consultation.

However, as currently proposed, we do not believe that the SEG will provide a suitable and practical route to market for exported electricity and that the scale of deployment the SEG is expected to incentivise is not adequate to ensure an effective, smart energy transition.

**Our response to the consultation questions is provided below (we have no comment on questions we have not listed):**

**1. Will the SEG as described provide a suitable and practical route to market for exported electricity?**

**No.**

The proposals do not provide explicit certainty that generators will receive a fair market price for their exported electricity, with the consultation only proposing that tariffs must be greater than zero.

Contract lengths agreed by suppliers may also vary, which will make it particularly difficult for community organisations to secure affordable finance to develop a project as it will restrict their ability to establish long term power purchase contracts thereby negatively impacting their ability to develop financial models or secure finance.

For the SEG to have value, suppliers must be mandated to offer term contracts which are sufficient to secure project development finance. Without this, we suspect that most suppliers will simply offer the minimum legal requirement, knowing that it unlikely to be taken up.

**2. Will the SEG support innovation towards the 'smart' energy transition and if so how?**

**No.**

We strongly support the intention of supporting innovation towards the smart energy transition and believe that community energy has a key role to play in this process. However, the lack of any certainty on tariff values or requirement on contract lengths undermines the role the SEG could play.

An export metering market based on dynamic pricing will be complex for smaller scale players like community energy developers to participate in. See responses from individual community energy organisations, such as South East London Community Energy and Schools Energy Co-operative, for more detail.

- 3. Given the options set out above in Table 1, what type of SEG tariff would be appropriate at this point? Please provide justification for your answer.**

**No options are appropriate as currently outlined.**

Option A offers is not appropriate because it requires no price certainty other than the requirement to be more than zero. For the reasons given above this will not encourage new projects.

Options B-E would create a disproportionately complex trading environment for small projects.

In our view the appropriate approach at this point, where the intention is to encourage developments which support innovation on smart energy, would be to ensure much greater certainty on the returns that could be generated.

- 4. Do you agree that Government should not take a role in price setting, e.g. through a fixed discount against a 'wholesale price', as this would detract from the objective of the SEG, for example by reducing location and time specific price signals?**

**No.**

We would urge the government to mandate suppliers to offer a minimum price calculated on the tech-specific requirements to secure viable project finance.

- 5. Should the SEG have a fixed end date or not? Please provide justification for your answer.**

**Yes.**

For the reasons given above, it is vital that the SEG is fixed for a sufficient period to allow affordable project finance to be secured. This is likely to be a minimum of 15 years, but we would urge BEIS to carefully assess the requirements for the different eligible technologies.

- 6. Will the SEG allow the market to innovate and bring forward additional routes to market, and create a competitive market to provide generators with the best tariffs?**

In principle, **yes**; but only if there is sufficient certainty on price and contract duration. We are aware that the Energy Saving Trust has modeled viability according to tariff levels and contract periods & would refer you to their response for more detail on this.

- 7. We are aware that whilst segments of the small-scale sector (e.g. commercial rooftop PV) are able to deploy without direct support, others, particularly some of the less mature technologies and more complex community developed schemes are still often marginal at best in delivering commercial returns. Do the proposed arrangements create additional challenges for certain segments, e.g. through reducing access to finance, and how can these be effectively mitigated through the SEG?**

The proposed measures will create further challenges for community energy. Community energy differs from, and adds to, the local energy concept as it is fundamentally about strengthening communities and improving lives in a way which builds enthusiasm for more sustainable behaviour, rather than the more opaque 'local energy' which is not anchored in community wellbeing and so has less traction with normal people. Community energy schemes have in the main been developed by volunteers, who have given countless hours of time, working through complex technical, legal and regulatory aspects of designing an energy project.

Community energy groups are unique in their ability to support the development of small-scale, low-carbon generation projects, being able to identify suitable sites, provide access to local networks, and build community support around the development of new energy assets. The majority of projects also directly raise finance from the local community to develop the project, and contribute to inward investment into neighbourhoods by employing local businesses.

The value of community energy projects can be far reaching. For example, the beneficial socio-economic impacts were confirmed in work by Okkonen and Lehtonen<sup>1</sup> who are clear that the reinvestment of income from renewable energy in the local economy, particularly by community-driven social enterprise, drives a tenfold increase in local employment and income impact (and associated socioeconomic benefits) compared to commercial renewable developments. In the Outer Hebrides, there is now £2m worth of annual local investment from community energy schemes as a consequence of projects which secured significant finance on the basis of FiT and ROC schemes. This locally determined investment is tackling unemployment, community services, housing provision, fuel poverty, transport, health and wellbeing.

However, there has been a dramatic slow-down in the formation of new community energy groups and initiatives, with only one newly constituted group identified in 2017 in England & Wales<sup>2</sup>. Groups have reported difficulties throughout the project development process, as projects have become more difficult to initiate and traditional business models fail to 'stack up'. These poor project margins are reflected in the lower number of projects financed, with a 75% drop in investment in comparison to 2016.

See [our response](#) to August's call for evidence on the Future for Small-Scale Low-Carbon Generation for more details on the additional value of community-led energy projects and the challenges that the sector is facing.

Community energy faces a number of additional barriers. For instance, community energy groups have relied on the longer-term certainty provided by the FiTs and export tariff to raise money from the community to develop projects.

Also, simply by virtue of their local nature, community energy projects do not have the freedom to take a wide strategic approach to siting. Although this is a strength in that they

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<sup>1</sup> L. Okkonen, O. Lehtonen, Socio-economic impacts of community wind power projects in Northern Scotland, Renewable Energy 85 (2016) 826-833.

<sup>2</sup> State of the Sector Report, Community Energy England & Community Energy Wales, June 2018: <https://communityenergyengland.org/pages/state-of-the-sector-report-2018/>

will typically have strong local support, it is also a challenge in that projects may not be able to gain the most viable sites.

Furthermore, community projects typically have to trade off scale & the economies that come with it with local support and commitment. For this reason, facilitating groups of communities to take forward projects at scale is one way forward – although this would need to be handled carefully to ensure the full support of the recipient community.

There is also a trade off between securing local community support & the time it takes for community groups to develop a project. Support for low carbon energy projects and the role they can play in widening concomitant low carbon behavior is vital, but this typically involves a longer timescale than private projects. For this reason, capacity building and actual developmental support is vital to get projects moving.

**The SEG does little to address the challenges community energy projects face with the removal of ROCs and FiTs and tax reliefs.** It is unlikely that the SEG as currently conceived will be a viable route for community energy projects to pursue and therefore very few new projects will appear. If the SEG is the only new mechanism developed by BEIS there will continue to be a prolonged downturn in the community energy sector.

We would propose the following adjustments to the SEG to give community energy projects the certainty they need to go forward:

- Suppliers to be mandated to provide at least a minimum price to qualifying community energy projects: as defined in the FiT order; with the minimum price banded according to technology type; the minimum price guarantee would also help to overcome the uncertainty associated with dynamic half hourly tariffs;
- Suppliers mandated to provide minimum contract lengths.

There are alternative mechanisms which would be far more suitable for the community energy sector and would help to provide community-led projects with a route to market. We strongly support the recommendations laid out in the Manifesto for Community Energy, launched last week by Green Alliance and signed by 20 organisations. These recommendations are:

- Design the market with community energy in mind;
- Open new routes to market for community groups;
- Provide incentives for system operators to engage with community energy in flexibility and capacity markets;
- Stimulate experimentation at the local level;
- Help with knowledge and capacity building;
- Support clean energy ownership by communities;
- Support clean energy ownership by communities;
- Create local energy efficiency markets.

Further details on the specific asks related to the above recommendations can be found at: [https://www.green-alliance.org.uk/community\\_energy\\_manifesto.php](https://www.green-alliance.org.uk/community_energy_manifesto.php).

We also put forward the following recommendations:

- Flexibility on metering requirements where there have been delays in the smart meter roll out, or where communication requirements are inadequate, or where smets 1 or 2 meters are not sufficiently 'smart' to enable community-scale projects to proceed. For example, smets1 & smets2 pre-payment meters do not have the capability to combine pre-payment options, half-hourly settlement grade readings and near real-time two-way data exchange. This combination is necessary if we are to develop effective local demand aggregation and behind the meter storage and generation. Furthermore, reliance on the DCC (Data Collection Company) has been problematic in Scotland;
- Specific support or incentives to facilitate community project aggregators which would help establish community projects at scale – e.g. to enable bulk purchase & installation costs to be minimized;
- An appropriate measure to encourage smart energy innovation in off-grid community energy systems, which are significant in parts of Scotland (and which can be a position to effectively pilot new developments in smart grid tech);
- Re-instate the Urban Community Energy Fund.

**11. What factors would suppliers consider when setting a SEG tariff, and what additional costs do suppliers expect might be incurred as a result of providing a SEG tariff?**

As suggested above, suppliers should be mandated to take account of the legal status of the generator, specifically to enable 'community energy tariffs'.

**12. Do you agree that the annual market condition report should be published for the SEG? Please provide your reasoning.**

**Yes** – to enable participants in the market to understand and compare tariffs. But, on its own (i.e. without the additional measures outlined above), it would be of little value for community energy groups.

**13. Do you agree with our assessment of the impacts of the SEG on certain consumer groups such as those in or at risk of fuel poverty or energy intensive industries?**

We note that the SEG is not expected to impact on consumer bills but it is also clear that it will do little or nothing to address fuel poverty or incentivise disadvantaged communities and as such it risk being a lost opportunity to drive the potential of the smart energy system in alleviating fuel poverty. We would urge BEIS to consider how on-site or local generation, storage and local supply projects in disadvantaged communities can receive special support to enable them to benefit from energy system innovation.

**14. Do you agree with the proposed metering requirements for the SEG? If you disagree with the proposal, please explain why and provide reasoning.**

**No.** This is primarily because the smart meter roll-out is clearly delayed in parts of the UK but also because SMETS meters may not have the functionality which is required to enable smart local energy projects. There are also meter – DCC & broadband communication limitations, especially in the Highlands and Islands.

**17. Do you agree it is the correct approach to allow applicants eligible for further local or regional support to also be potential SEG applicants?**

Yes.

**28. Do you agree with our preferred approach to help ensure consumer protection? Is it practical and are there other factors that should be considered and why?**

We agree that that consumer protection much be ensured and that MCS quality assurance should be required. This would also help with tracking deployment, however BEIS should facilitate a more robust deployment tracking process not dependent to policy.

**33. Are there any other issues you would like to raise as part of your response to this consultation?**

Community Energy England and Community Energy Wales will be publishing the results of the latest annual State of the Sector survey in May and will happily share the results to help to shape future support mechanisms for community energy.

## CONCLUSIONS

Our conclusion is that the SEG as currently conceived does very little to meet community energy requirements: the proposals do not offer a viable way forward for community energy projects. We would be pleased to assist BEIS in developing alternative support mechanisms or a 'Community Energy SEG' to give the boost to the sector which it urgently needs.

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## **FURTHER INFORMATION:**

**Community Energy England (CEE)** was established in 2014 to provide a voice for the community energy sector, primarily in England. Membership totals over 200 organisations. The majority of the member organisations are community energy groups, but membership extends across a wide range of organisations that work with and support the community energy sector.

[www.communityenergyengland.org](http://www.communityenergyengland.org)

**Community Energy Scotland (CES)** is a Registered Scottish Charity and Company Limited by Guarantee established in 2007. Its mission is to strengthen and empower local communities by helping them to own, control and benefit from their local renewable energy resources, control and reduce their energy costs, regenerate their communities and play their part in the low carbon transition. CES has around 400 members and has worked with well over 500 community groups across Scotland. It has a 33% share in a joint venture 7.5MW windfarm 'The Fishermen Three' in Berwickshire, developed with its partner Berwickshire Housing Association to create long-term revenue for both CES' and BHA's charitable purposes.

[www.communityenergyscotland.org.uk](http://www.communityenergyscotland.org.uk)

**Community Energy Wales (CEW)** brings together a network of practitioners and a membership of over 70 organisations who work with and within the communities of Wales to develop renewable energy generation and energy efficiency schemes.

[www.communityenergywales.org.uk](http://www.communityenergywales.org.uk)