May 2024

Community Energy England response to the Second REMA Consultation

Introduction to Community Energy England

1. This is a response by Community Energy England (CEE), which represents over 300 community energy and associated organisations across England 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.

2. Our 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.

3. Community energy refers to the delivery of community led renewable energy, energy demand reduction and energy supply projects, whether wholly owned and/or controlled by communities or through partnership with commercial or public sector partners.

4. The overwhelming motivation of people and groups involved in community energy is to make a contribution to averting climate catastrophe, followed by a desire to bring community and social benefit.

5. We believe that these motivations should be shared by all working in the energy sector and on energy system transformation.

General comments:

6. We believe that the future of energy is local and that local markets, including local supply, flexibility, demand side management and energy efficiency/demand reduction, below the current wholesale markets are key to getting there. Local is key to demand side interventions in particular as it is where most energy decisions are made and most energy is used.

7. The majority of the proposals in this consultation focus on large scale generation and the transmission network. Net zero can only be achieved with a greater focus on smaller scale generation, the distribution network and the grid edge. The proposals set out in this consultation on these crucial topics are largely bespoke and piecemeal. They do not amount to a holistic strategy for accelerating smaller scale low carbon generation and developing far greater flexibility within the distribution network.

Smaller scale generation

8. The review describes Contracts for Difference (CfDs) as the "foundation" for scaling up renewable generation. However, CfDs are not available to generators below 5MW. There is relatively little in this review about delivering more smaller scale generation.

9. This is important because local, community-led, distribution network level generation delivers its own potential benefits. It enables power to be produced and consumed locally, reducing the burden on the transmission network.

10. The vast majority of community energy electricity projects are connected to the distribution grid. Community energy can help to unlock benefits by giving people a greater stake in and understanding of their local energy system. This can enable DSR and encourage retrofit projects which in turn help to better utilise existing local grid capacity by reducing peak demand among the households involved. Many of these community level projects are too small and uncommercial to be of interest to larger commercial players and therefore simply would not happen without community energy organisations.

11. If we are to realise the massive potential benefits of local, community energy generation in meeting net zero, a greater focus is needed on the distribution grid.

12. This review does not propose to extend CfDs to <5MW installations or to make changes to increase the number of <5MW projects using PPAs. It pledges to "monitor" the Smart Export Guarantee (SEG), but does not suggest any changes to it. Currently SEGs do not provide any useful long term guarantee on which an investment case can be built for community energy organisations. The review does not propose any new schemes to support small scale generation or to bring back legacy programmes such as feed-in tariffs. The lack of concrete proposals to encourage smaller scale generation is disappointing and will make meeting net zero much more challenging.

13. We believe that if the CfD scheme were extended to smaller scale generation, in its current form it would be too burdensome for community energy organisations to engage with. REMA could explore the possibility of a far simpler, less bureaucratic scheme to play a similar role as CfDs for smaller scale generators however.

14. REMA should consider the Environmental Audit Committee's recommendation[1] for a Community Smart Export Guarantee with a guaranteed floor price over a 20 year period.

15. REMA must come forward with a holistic plan for supporting smaller scale generation, flexibility, heat and demand side projects on the scale of the foundational CfD programme. There is currently a gap that will hold back the net zero transition in terms of generation potential, public support and flexibility.

[1] Correspondence (parliament.uk)

Flexibility

16. Ofgem states that it will need "a large proportion of consumers to engage in DSR"[2]. Given this, REMA must set out a more comprehensive plan to enable the distribution network to encourage flexibility initiatives at a local level.

17. This must go beyond improving smart metering and price signals. It must empower communities to implement solutions that deliver greater flexibility at a local level.

18. For example, energy markets (and DESNZ and Ofgem) currently do not allow communities of consumers to to be treated as a single entity (or cell network). A community organisation with local renewable generation capacity connected to the distribution network could set up an effective energy market where consumers benefit from consuming energy when it is abundant. They would be more sheltered from global energy price volatility and reduce their dependence on gas. This would deliver greater grid flexibility at a local level, enabling more generation/consumption on the local grid. This type of local control and coordination can be made possible.

19. We will not maximise the number of energy consumers engaging in DSR if it is treated as a purely financial and technological problem with top down solutions. Community energy can help to encourage people to engage in DSR by improving their understanding of their local energy system and giving them a stake in it.

20. IPPR[3] found that "social relations", such as "who you know, who you know well, which communities you belong to, when and where you interact with them" played a large role in persuading people to retrofit their homes and that a programme aiming to encourage large scale retrofit that focused purely on overcoming the financial barriers without reference to social relations was likely to fail. The same is true of DSR and local flexibility. Community energy organisations can play a vital role here as trusted intermediaries embedded in their local area with a deep understanding of its needs and constraints. This review's approach to challenge three in particular (Transitioning away from an unabated gas-based system to a flexible, resilient, decarbonised electricity system) does not engage sufficiently with social relations and the local.

Question 13. What role do you think CPPA and PPA markets, and REMA reforms more broadly, will play in helping drive small-scale renewable deployment in the near-, mid- and far-term?

It would be beneficial to move away from a volatile and unpredictable market based on locational marginal pricing and develop a stable environment where long term contracts can be let at fair prices much nearer the lower marginal cost that renewables, and especially local renewables, can offer.

A key way of doing this would be for the government to enable Power Purchase Agreements including sleeved PPAs. This is an established model but not extensively used. Developing

[2] Engaging domestic consumers in energy flexibility | Ofgem

[3] More than money: Moving towards a relational approach to retrofitting | IPPR

standardised contracts for sleeved or virtual PPAs would increase take-up, transparency and trust. This would be quick to implement, would enable smaller <5MW projects which can't access CfDs as they currently stand, and would help decouple electricity supply from gas prices at no additional risk to government.

Question 20. Do you agree that an Optimised CM and the work set out in Appendix 3 will sufficiently incentivise the deployment and utilisation of distributed low carbon flexibility? If not, please set out what further measures would be needed.

No.

The proposals set out do not give sufficient weight to how people will interact with the energy system in order to deliver flexibility at a local level. As set out in our general comments (see points 16-20), a plan to empower community energy to act as trusted intermediaries with deep local knowledge is vital in realising the benefits of DSR.

REMA should consider how to enable communities to be treated as a single entity in order to facilitate local markets.

Question 21. Do you agree that our combined proposed package of reforms (bespoke mechanisms for certain low carbon flexible technologies, sharper operational signals, and an Optimised Capacity Market) is sufficient to incentivise flexibility in the long-term? Please set out any other necessary measures.

No. See response to question 20.

Signed by:

Emma Bridge, Chief Executive, Community Energy England

Contacts:

Duncan Law, Head of Policy & Advocacy, Community Energy England

Email: d.law@communityenergyengland.org

Phone: 07958 635181

Josh Barnes, Policy & Advocacy Officer, Community Energy England

Email: j.barnes@communityenergyengland.org

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 300 organisations. Many 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