



Consultation on the Feed in Tariffs Scheme

Response by Community Energy England and Community Energy Wales September 2018

This is a joint response from [Community Energy England](#) (CEE), and [Community Energy Wales](#) (CEW).

CEE and CEW were established to provide a voice for and to bring together and support the growing number of community groups developing clean energy projects in their local areas. These projects are predominantly based around the introduction of renewable generation assets (solar PV, wind farms, hydro, biomass heat, small scale anaerobic digestion), but are also involved in the installation of energy efficiency retrofit solutions, and fuel poverty alleviation guidance. The majority of members are directly involved in developing projects, but membership also extends across a network of organisations that work with and support the sector. CEE and CEW represent 273 groups and associated organisations in total.

Summary

- The FITs policy has been instrumental in supporting the development of a dynamic UK community energy sector, which has been an active player in developing innovative small-scale low carbon generation capacity, typically sited in challenging locations which commercial developers ignore.
- We strongly disagree with the government's proposal to end the export tariff.
- We strongly disagree with the removal of the generation tariff for community energy projects.
- We believe that closure of the FIT export tariff will make small to medium-sized community energy schemes unviable.
- We call on government to retain the Feed in Tariff (FIT) generation and export tariffs for community energy projects – or introduce a modified 'Community Feed in Tariff'.
- Community energy projects involved in promoting energy efficiency and fuel poverty alleviation programmes have already taken a hit with the reduction in ECO support and failure of the Green Deal.
- The government's proposal to end the export tariff is a clear example of what has been called the '*chopping and changing of policy*' by the Committee on Climate Change, which "*has led to uncertainty, [and] carries a real cost*".
- There is clear evidence that policy changes since 2016 have led to a reduction in the development of community energy projects. The government's proposal to end export tariffs will further limit new activity in the community energy sector over the next few years.
- We believe that the proposal to end the export tariff will set back the growth of local generation projects, which are a cornerstone of the government's goal to a transition to a smarter energy system.
- We are particularly concerned that whilst government states its support for new policy mechanisms to support the uptake of small-scale generation, no recommendations have been put forward in the consultation.

1. The Success of FITs

The consultation paper highlights that the FIT *“scheme was intended to give the wider public a stake in the transition to a low-carbon economy and in turn foster behavioural change that would support the development of local supply chains and reductions in energy costs.”* [para 3]

This intention was made clear at the outset of the policy design for the FITs, with the 2009 Renewable Energy Strategy stating that the *“Feed-In Tariffs (FITs) currently being developed for introduction in April 2010 will incentivise greater deployment of a range of small-scale technologies. ...We hope that bringing renewable electricity generation into communities around the country will foster engagement and encourage behavioural change. It is a policy instrument that has been used widely throughout Europe with much success.”*

In this respect, the FITs policy has succeeded. The community energy sector has grown from a low level a decade ago, to becoming an active player in developing small-scale low carbon generation capacity. Many projects have been highly innovative and are often sited in challenging locations – from church roofs and school buildings to inner London tower blocks to remote Welsh villages. Importantly, these locations are ones that commercial developers typically ignore, but will be necessary to involve in the transition to a lower carbon economy.

These projects have involved countless hours of volunteer-time to develop, over many years in some cases, have raised tens of millions of pounds in investment, and generated hundreds of thousands of GWh of renewable energy, as well as building real social value amongst communities. Importantly in terms of UK decarbonisation targets, many community energy projects are sited in areas where generation activities provide the stimulus and means for secondary or subsidiary activities, such as energy efficiency improvements or low carbon transport.

CEE and CEW’s annual State of the Sector 2018 survey highlighted that:

- Since 2010, following the introduction of the FITs, the community energy sector has grown rapidly, with 228 organisations now actively working across England, Wales and Northern Ireland
- Between them, these groups have helped to develop largely small-scale renewable generating capacity in excess of 170 MW
- Work by these groups has involved the input of over 48,000 members and 1,800 volunteers
- In 2017, 67 energy efficiency projects were undertaken, where 84,000 community members were engaged and over 1,000 energy efficiency upgrades installed
- Community energy continues to have a high level of public support and the sector is seen as a trusted intermediary

- In 2017 alone, community energy groups leveraged in over £14 million of investment with just £299,000 of early stage funding, which demonstrates the economic effectiveness of community energy organisations in delivering projects with only modest support
- Community energy organisations allocated £1.1 million last year in community benefit for a variety of fuel poverty and environmental projects.

Community energy works and its popularity with the public is increasing. A recent survey by ClientEarth reported that *“almost three quarters of consumers would be interested in joining a community energy scheme if the government made it easier (71%), and individuals keen to install their own solar panels (62%) and home energy storage (60%).”*¹

Looking forward, there is widespread acceptance that small-scale, decentralised generation systems will play an increasingly important role in the transition to a smarter energy system, particularly in helping to meet the growing demand at the local distribution level for new electric heating and EV energy consumption needs.²³

Research published by government has highlighted that: *“Many more people have a direct stake in the transition to a low-carbon economy through participation in, and shared ownership of, school and community energy projects. ...Community energy projects can be more effective than other actors (such as national government, energy suppliers and private sector organisations) in engaging and motivating local communities, although they should be viewed as complementary to business and government, rather than a substitute for them.”*⁴

We believe that community energy will play a significant role in supporting this transition to a smarter energy system. In fact, we believe that community energy *must* play a significant role to help ensure this transition is successful as a result of the complex and fundamental changes that energy users will experience.

2. The Impact of Recent Policy Changes on Community Energy

The State of the Sector study also reported that, following a period of major growth, the past few years have seen significant contraction in the community energy sector, with a reduction in investment in the number of projects going forward. The survey found:

- 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

¹ *British public supports urgent action and litigation on climate change – poll reveals*, Client Earth, 20 August 2018

² <http://www.iwa.wales/wp-content/uploads/2018/04/Regen-SBCR-A-Renewable-Future-FINAL.pdf>

³ <http://fes.nationalgrid.com/media/1253/final-fes-2017-updated-interactive-pdf-44-amended.pdf>

⁴ *Performance and Impact of the Feed in Tariff Scheme: Review of Evidence*, A Report by Dr Colin Nolden, Science Policy Research Unit, Sussex University, DECC, 2015

- Groups 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.

The adverse environment for project development is a consequence of policy changes introduced by government over the last three years. These include:

- Rapid changes and deep reductions to Feed in Tariff (FITs)
- Closure of the Renewables Obligation and the complex and irregular nature of its replacement policy, Contracts for Difference (CfD), which are too challenging for community groups to apply to
- The introduction of planning restrictions on the development of new onshore wind projects in England
- The abandonment of the government's 2014 Community Energy Strategy, and outputs from the Strategy's working groups
- Closure of both BEIS's Community Energy Team and the advisory Community Energy Contact Group (CECG)
- Reduction in funds to the Energy Company Obligation (ECO), which supported community group energy efficiency activities
- Failure of the Government's flagship environmental programme, the Green Deal, and its disastrous knock on effect to the energy efficiency sector
- Removal of tax relief measures for investors in community energy projects
- Implementation of higher business rates on sites hosting solar PV and Hydro. In Wales this has led to the Welsh Government offering 100% rate relief to community hydro
- Early closure of the Urban Community Energy Fund (UCEF).

A PQ from 2017 highlights the fall in the number of community energy and school small scale generation projects as a result of the government's policy changes:

Asked by Dr Alan Whitehead (Southampton, Test) - 24 November 2017

*To ask the Secretary of State for Business, Energy and Industrial Strategy, how many school and **community energy** solar PV installations were commissioned between (a) 1 October 2015 and 30 September 2016 and (b) 1 October 2016 and 30 September 2017, and what the total installed capacity was in each period.*

Answered by: Richard Harrington 04 December 2017

The Department for Business, Energy and Industrial Strategy (BEIS) holds data (only) for the number of community solar PV installations (including schools) supported by the GB Feed in Tariff. The table below shows the quantity of these installed during the two periods. BEIS cannot separate out all school installations from these figures.

	<i>Number of installations</i>	<i>Capacity (MW)</i>
<i>1 October 2015 – 30 September 2016</i>	<i>328</i>	<i>209.7</i>
<i>1 October 2016 – 30 September 2017</i>	<i>36</i>	<i>1.4</i>

Source: Feed in Tariff installations report, 30 September, BEIS

More recent data is as not yet available – however BEIS produces quarterly reports⁵ on *“the number of community and school installations that have been granted a specific benefit (for example, a Tariff Guarantee or Energy Efficiency Relaxation) under Feed in Tariffs. These installations represent some, but not all, community and school schemes accredited/pre-accredited on FITs”* which clearly indicate a significant fall in the number of schemes coming forward to BEIS.

In Wales the situation is similar, with the number of hydropower abstraction licenses dropping from 87 in 2014 to just 3 in 2018⁶. The Energy Saving Trust indicates that in Wales alone there are 46MW of community projects and 14MW of local authority projects that currently have no route to market (and the development of which is largely on hold). This is a result of the current FIT rate and export tariff and does not take into account the impact of the proposed removal of FIT and export Tariff.

The government is now seen by the sector, and more widely, as actively dissuading communities from exploring opportunities to develop local low carbon projects.

3. The Impact of the closure of FITs on Community Energy

Studying the ‘Impact Assessment’ (IA) accompanying the consultation document, we note that:

- The *“marginal impact of FITs on end user's bill”* of continuing the FIT, in terms of UK households, is extremely low – an average of £1 on an electricity bill above current levels of support. Considering BEIS’s Public Attitudes Tracker⁷ has long shown consistent high levels of support for renewables – in excess of 80% - government should weigh issues of additional cost to energy users against public desire to see the UK shift to an economy driven by higher levels of renewable energy. We agree with the government’s view, as set out in the consultation paper, that *“as costs continue to fall and deployment without direct subsidy becomes increasingly possible, it is right that government acts to ensure continued value for money for bill payers over the longer term.”* However, the FIT has attracted the smallest element support under the Levy

⁵ Community and school Feed-in Tariff statistics, BEIS, 26 April 2018
<https://www.gov.uk/government/statistics/community-and-school-feed-in-tariff-statistics>

⁶ Source: Natural Resources Wales

⁷ Public Attitudes Tracker: Wave 26, BEIS, 16 August 2018

Control Framework/Low Carbon Levies, with funding to larger scale schemes far outstripping that going to <5MWe small scale generation

- Across all sectors modelled by BEIS (households, businesses (small and medium), and energy intensive) the percentage of total electricity bill associated with maintaining the FITs is small - less than 0.5%
- No impact on community energy projects (or even reference to community energy) is made in the IA at all
- It is not satisfactory that with such a short time frame to the proposed removal of the FIT, government's sole plan is *"to work with the sector to consider proposals that are sustainable in the longer term and fit for purpose in a smarter, more flexible and evolving policy context."* [para 11 IA]
- It is disappointing that the impact of jobs has not been estimated, with the IA stating that *"given the inherent uncertainty in relation to the number of jobs supported in small-scale low-carbon sector and the extent to which a reduction in deployment would lead to rises or falls in employment in related sectors, employment impacts have not been quantified in this assessment. If feasible, information provided through the consultation will be used to provide an updated assessment of jobs impact in the IA to accompany the government response."* [para 39] Two recent surveys have given stark warnings that there will be significant cuts to jobs in the renewable sector as a consequence of the change to FITs. Solar Power Portal's survey stated that *"installers are expecting a considerable slump in deployment should the government curtail the export tariff with no replacement framework in place after 1 April 2019, with such a downturn resulting in business closures and redundancies... As a result, more than half (57%) of respondents said they would be forced into either downsizing their business or closing it altogether."*⁸

The Renewable Energy Consumer Code's survey found that *"Over 40% of UK solar installers are considering leaving the industry entirely, while 78% of installers are considering reducing staff levels due to recent government proposals relating to closing the Feed-in Tariff and removing the Export Tariff"*. These industry warnings are similar to those given by the insulation industry ahead of the introduction of the government's flagship retrofit programme, the Green Deal. As predicted by the sector, reductions in support to insulation programmes, and failure of the Green Deal, led to thousands of job losses in the sector⁹.

Community energy organisations typically work with local SMEs. A survey conducted for CEE on community energy activity in 2015 found that 45% of spend went to local contractors¹⁰.

⁸ *Majority of UK solar installers facing hardship if export tariff is culled, SPP survey finds*, 30 August 2018, Solar Power Portal

⁹ *Thousands of insulation industry jobs lost in new year, figures show*, The Guardian, 16 January 2013

¹⁰ *Community Energy: Generating More than Renewable Energy*, Quantum Strategy & Technology, October 2015

The government's proposal to end the export tariff is a clear example of what has been called by the Committee on Climate as the '*chopping and changing of policy*', which "*has led to uncertainty, which carries a real cost. A consistent policy environment keeps investor risk low, reduces the cost of capital, provides clear signals to the consumer and gives businesses the confidence to build UK-based supply chains.*"¹¹

We are particularly concerned that, whilst the threat of the removal of the export tariff is being proposed by the end of Q1 2019, no timescales have been provided by government in relation to any new positive policy measures that may be introduced to support small generation in the community energy sector – be that through new fiscal instruments or the removal of existing barriers to the introduction of decentralised energy systems on the distribution network. In addition, the accompanying 'Small Scale Low Carbon Generation' consultation states that, in terms of any new measures to support such projects, any "*government action involving changes to legislation will be subject to Parliamentary processes*"¹². It is widely acknowledged that legislation across government is currently 'log jammed' as a consequence of BREXIT and this situation will only further delay government decision-making in the coming months, ensuring any new policy measures are unlikely to be introduced swiftly.

Closure of FITs may impact on community energy groups for the following reasons:

- **The reduction in FITs has already had a significant adverse impact on the delivery of community energy projects (see below)**
- **The closure of the generation tariff will make it increasingly difficult for groups to develop projects**
- **The closure of both the generation and export tariffs will be hugely negative for the majority of community energy generation projects, leading to a reduction in new capacity, a reduction in investment directed to renewables, and a reduction in carbon savings**
- **Community energy groups need a fair payment for surplus electricity exported to the grid**
- **FITs have worked as a result of their simple nature of operation. The Green Deal has already shown how policies made overly complex lose the consumer and fail. Government is now proposing to close down a simple, effective policy that is well understood by smaller generators, with an offer that community energy groups should instead navigate a complex regulatory system to secure a viable price for their exported electricity through power purchase agreements, at a time with Ofgem is currently reviewing this system, with indications that this will not be fully resolved until 2023.**

¹¹ Reducing UK emissions, 2018 Progress Report to Parliament, Committee on Climate Change, June 2018

¹² *Future for small-scale low-carbon generation: Call for evidence*, BEIS, July 2018

The outcomes of the consultation proposals, if adopted are that:

- Only larger sites with significant and reliable long-term onsite consumption will provide potential opportunities for community groups to explore
- There will be further reductions in the range and number of small to medium-size community sites that communities will be able to develop in the future
- Groups will have to size installations based on onsite consumption, rather than on the optimum potential area and generation capacity of the roofs, unless they can deal with businesses which can capture value from exports, which is difficult to arrange in advance.

Consequently, groups have reported that almost all pre-arranged pipeline projects are now at severe risk.

We are particularly dissatisfied that there is a proposal to move away from export tariffs. The electricity market benefits from generation exports. It makes sense to recognise this benefit and the current wholesale price for such exports seems fair. As mentioned above, systems will be sized based on on-site consumption when optimal sizing of potential systems should give appropriate economic consideration to the value of exports to the system.

Government forecasts now indicate that the only renewable source projecting any significant growth is offshore wind (with some limited increase in large scale biomass generation¹³), with virtually every other technology remain constant. This is over a period when the majority of coal and nuclear powers plants are to be retired.

There will be a need to diversify the electricity generation landscape, not only in terms of security of supply but also to ensure the successful transition to a smarter, more flexible energy system. This will be particularly needed in towns and cities with active distribution networks, connected to local generation and energy storage, and with prosumers. This is something that remote, transmission connected, large-scale generation plants will not be able to do.

Recent figures show that clean energy investment has fallen dramatically since 2015. In cash terms it fell by 10% in 2016 and by a further 56% in 2017. Annual clean energy investment in the UK is now the lowest it has been since 2008 and the rate at which the UK is installing new renewable capacity is slowing.¹⁴

¹³ Table 1.B Control for Low Carbon Levies, November 2017 HM Treasury and Updated Energy and Emissions Projections 2017, January 2018, BEIS

¹⁴ Greening Finance: embedding sustainability in financial decision making, 23 May 2018, Environment Audit Committee

4. Conclusion

Hundreds of community energy projects now in operation across the country have demonstrated the positive benefits they bring to enhance the social value of their areas, through improving local community assets and providing a source of civic pride.

- If the proposed changes outlined in the consultation document are enacted, there will be a major contraction in the number of projects that community energy groups will be able to deliver in the future
- If no transition programme is put in place, we will see significant (additional) job losses in the solar sector, as we have seen in the energy efficiency sector
- The government's suggested route to how community energy generators can secure a fair market price for export is overly complex and set within a framework which is currently undergoing a significant overhaul through Ofgem's network charging review
- The government's proposal envisages that community energy generators should effectively be giving away clean electricity, generated locally, to suppliers for free
- **CEE and CEW strongly believe that a simple system needs to be in place to achieve the full potential that local community generation can deliver**
- **Therefore, we recommend that the Feed in Tariff (FIT) generation and export tariffs be retained for community energy projects or a modified 'Community Feed in Tariff' be introduced.**

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