



URN 15D/435: Consultation on a review of the Feed-In Tariff scheme

Response from Community Energy England

Date: 23 October 2015

COMMUNITY ENERGY ENGLAND

Community Energy England (CEE) was established in May 2014 to provide a voice for the community energy sector primarily in England. Membership already totals over 190 organisations. The majority of the member organisations are from the community energy sector but the membership extends across a wide range of organisations which works with and supports the community energy sector. Further details can be found on the CEE website at www.communityenergyengland.org

General Comments and Overview of Consultation

Need for early Government statement

There is an urgent need for immediate government action in the form of a statement or announcement to provide certainty to the renewables sector, particularly the solar sector, to restore business and commercial certainty and confidence. Government must intervene in an attempt to stop the failure of businesses across the sector and the ever mounting job losses which it is largely responsible for.

A number of our members are seriously affected by recent failures in the solar sector, such as Mark Group, Climate Energy and most recently Southern Solar. A particular concern of CEE is that these business failures are rendering what were valid warranties on many schemes completed in the last few years unenforceable.

General comments on Feed in Tariff Scheme

The FIT had five original objectives:

- Encourage deployment of small scale (up to 5MW), low-carbon electricity generation
- Empower people and give them a direct stake in the transition to a low carbon economy
- Assist the public take-up of carbon reduction measures
- Foster behavioural change in energy use
- Help develop local supply chains and drive down energy costs.

We note that the Government's own independent review of the evidence assess the FIT as generally having performed well against these objectives (see the Introduction and Conclusion to the Sussex

University Review of Evidence). Indeed, in the light of the recent report published by Good Energy¹ it appears that the Review of Evidence might have actually underestimated the benefits of renewable deployment and their impact on household electricity costs.

However, we disagree with a number of statements in the Review of Evidence including one suggesting that FITs is a regressive form of taxation². In the case of domestic solar, it is apparent that a substantial number of solar panels have been already been installed on social and local authority housing and we are aware that a number of local authorities were in the process of rolling out schemes to install panels on a large number of local authority owned houses. One such local authority is Oxford City Council, which is a CEE member where the proposed changes are halting a programme to install PV on 1000+ homes across the council's social housing stock as a fuel poverty alleviation measure.

Overall CEE regards the current FIT as a good scheme, now performing well against objectives and should be kept and budget increased and budget targeted if necessary.

Community energy and the Feed in Tariff

If the Government decides to focus the budget then the community energy sector clearly stands out as offering outstanding value for money. Our response below provides detail on the additional benefits that community energy provides as well as setting out its challenges and need for ongoing support whilst it matures as a sector, in order to ensure that these benefits are not lost. We are keen to work with government on solutions and are aware of the Energy Saving Trust and Co-operative Energy modelling of the amount of community energy that could be delivered and the level of FIT that would be required. Early indications of this work suggest that 3GW of community owned deployment (as set out in DECC's Community Energy Strategy) could be achieved through a refined FIT scheme that would cost bill payers as little as 25p per year. This modelling is still ongoing and we would be keen to explore these findings further with DECC. Crucially, we also set out an argument for the re-instatement of pre-accreditation for community energy schemes in order for us to reignite investor confidence (which has been damaged through these proposals) and to enable us to work to robust business models and explore new innovative solutions.

Responses to consultation questions

1. Do you agree or disagree with the proposed generation tariff rates set out above? Please provide reasons to support your answer.

We strongly disagree with the proposed generation tariffs and advocate a more gradual reduction in support. Whilst we support moving towards a subsidy free renewable energy sector, the drop is too steep for social enterprises to absorb and the rates proposed too low across all technologies and are based on flawed assumptions. Community renewables in particular needs support and adds value for the reasons outlined in Q15. The report of a detailed survey of our membership conducted by Quantum Strategy and Technology Limited in September and October 2015 received 80 detailed responses. 90% of respondents reported that their projects are completely or partially at risk due to the FITs review. Please refer to this report which we have attached to this response and specifically to Section 6 which deals with the future plans. Our membership is telling us very loudly and clearly

¹ Good Energy report: "Wind and solar reducing consumer bills An investigation into the Merit Order Effect" October 2015

² Page 7

that the FITs rates proposed after 1 January 2016 are simply too low for community projects to be viable.

2. Do you agree or disagree that the updated assumptions produced by Parsons Brinckerhoff are reflective of the current costs of deployment for UK projects in your sector? If you disagree, please set out how they differ and provide documented evidence, such as invoices and/or contractual agreements to support this evidence. Please also mark this evidence as commercially sensitive where appropriate.

We disagree.

We believe that the evidence base the Government has relied on as the justification for these sudden and drastic reductions is wholly inadequate across all technologies.

The Poyry report, commissioned by the British Hydropower Association, demonstrates that Parsons Brinckerhoff underestimated the cost of building 100kW hydro schemes leading to their suggested tariff rate not being fit for purpose. In addition to build costs, hydro schemes are required to carry all costs associated with the Water Framework Directive (fish/eel passes) rather than these costs being socialised. Construction around the river environment also requires specialist equipment and knowledge. Each project must consider and respect environmental considerations and timed limitations, such as periods of fish migration.

Our commercial members in the solar sector tell us that they support and agree with the analysis by the Solar Trade Association, which rejects the approach and assumptions made by Parsons Brinckerhoff in reaching the proposed rates.

Furthermore the Parsons Brinckerhoff report contains no evidence at all specifically relating to the community energy sector. The report contains a summary of the 'Stakeholder engagement'. In fact there was no stakeholder engagement with the community energy sector and neither Community Energy England nor any community groups (as far as we can ascertain) received the questionnaire referred to in paragraphs 1.2.1.1 to 1.2.1.3. This is despite CEE being well known to DECC as a representative organisation and one which was previously invited by the FITs team to a stakeholder event to discuss the FITs consultation in August 2014.

Specifically, no information was sought or gathered in relation to the community solar PV sector by Parsons Brinckerhoff although it is a very important sector for our membership.

Consequently in their report Parsons Brinckerhoff provide neither evidence from nor assumptions which are relevant to the community energy sector with which we can either agree or disagree.

There are some very specific features of community energy sector:

- Return on share interest – this varies from technology to technology according to level of risk. Generally even for solar for any share offer over (say) £150,000 many groups would take the view that interest currently needs to be a minimum of 5% in first full financial year of operation and offers less than this rate are unlikely to raise the necessary capital
- The social enterprise which receives the FIT is generally not using the electricity generated but either giving it or selling it discounted, sometimes very heavily in the case of a school, to the occupier of the building.

We do not hold data on installation costs and assumptions but we have encouraged members to provide their own data directly to DECC particularly as this is commercially sensitive. As previously mentioned, the detailed survey of our membership has left us in no doubt that that the rates proposed from 1 January 2015 will render projects they are currently working on unviable.

We attach the full report prepared for Community Energy England based on a detailed consultation completed by over 80 organisations in September and October 2016. We would urge DECC and consider it and give weight to the contents as part of this consultation response. The questions put to members are listed in Appendix 2 and should DECC find it helpful to receive more detail on responses to individual questions we would be happy to forward further information.

3. Do you consider the proposed default degression pathways fairly reflect future cost and bill savings assumptions in your sector? Please provide your reasoning, supported by appropriate evidence where possible.

CEE is not in a position to predict future capex costs. However, specifically in the case of solar we think the assumptions fail to recognise the current variation in the cost of rooftop solar installation which currently ranges from £1,000 to £1,700* depending on the age, construction and ease of access (amongst other things).

Issues related to degression of hydro include:

- Hydro has a long lead time (4years) guaranteeing that multiple degressions would affect a project during its progression
- Costs of access to the waterways will rise not fall. The EU Water Framework Directive has become more not less onerous over the years. For example eels are now required to be screened which increased costs significantly.
- Sites have been cherry picked, so the most favourable and lowest cost to build have already been developed, leaving the more complex and therefore more expensive to build.

Re operating costs, these are always relatively low within the community energy sector with its high dependence on volunteers and we see no obvious means to reduce them further. Economies of scale have already been introduced as a result of reductions in FITs rates since 2010 particularly in the form of larger groupings of projects to reduce overhead costs – see Quantum report.

*Reflects cost of installation on the typical type of roof offered for community schemes.

4. Do you consider it appropriate to harmonise the triggers for contingent degression across all technologies, and do you consider the proposed triggers will ensure tariffs reflect falling deployment costs? Please provide your reasoning, supported by appropriate evidence where possible.

We think that harmonisation across technologies will be very difficult in practice. For instance, the bulk of deployment costs for hydro (ignoring the non-socialised costs of access to waterways and the grid) are for civil works. This is a mature sector and therefore costs will not fall as the question presumes. For low head (<100kW) hydro, the rest of the costs are bespoke and also will not fall as presumed in the question.

Above all there is an urgent need to reintroduce pre-accreditation for the community energy sector and we are unpersuaded by the Government's assertions of legal obstacles to this in the form of state aid issues.

5. Which of the options for changing the export tariff outlined above would best incentivise renewable electricity deployment while controlling costs and enabling the development of the PPA market? How should we account for the additional and avoided costs to suppliers associated with exports in setting the export tariff? Please provide reasons to support your answer.

We think that there has been inadequate research to understand the impacts of the changes outlined in the three options. Export tariffs should be considered following changes to the Feed-in Tariff.

6. Do you agree or disagree with the proposed changes to the indexation link under the FITs scheme? Please provide reasons to support your answer.

We believe that RPI is better suited for community/individual investors.

7. Do you agree or disagree with the proposal not to include any additional technologies in the FITs scheme? Please provide reasons for your response.

We agree. Innovation in clean energy should be encouraged but this should be supported through other mechanisms.

8. Do you agree or disagree with the proposal to introduce deployment caps under the FITs scheme? Please provide your reasoning.

We disagree with this proposal as generally deployment caps do not aid business or enterprise as they introduce uncertainty. Caps will reintroduce boom and bust cycles, which will be severely damaging to the industry. Specifically we do not agree with the proposal in the consultation as we think it will increase uncertainty as to the project income of social enterprises.

9. Do you agree or disagree with the proposed design of the system of caps (i.e. quarterly deployment caps broken down by technology and degression band)? If you disagree, are there any alternative approaches? Please provide your reasoning, making clear if your answer is different for different technologies or sectors.

As stated in our answer to 8, **we disagree with this proposal** as generally we believe that deployment caps do not aid business or enterprise as it introduces uncertainty and we do not agree with the proposal in the consultation as we think. In particular, it will continue to bring uncertainty as to the project income of social enterprises. The Government must devise a better system.

10. Do you agree or disagree with the proposed approach to implementing caps? If you disagree, are there any alternative approaches that you'd suggest? Please provide your reasoning, making clear if your answer is different for different technologies or sectors and provide any views on what should happen to applications for FITs for installations which miss out on a cap.

We disagree.

11. If it is not possible to sufficiently control costs of the scheme at a level that Government considers affordable and sustainable, what would be the impact of ending the provision of a generation tariff for new entrants to the scheme from January 2016, ahead of the 2018-19 timeframe or, alternatively, further reducing the size of the scheme's remaining budget available for the cap? Please consider the immediate and broader economic impacts and provide your reasoning.

The impact on the community energy sector of recent government proposals has already been profound and it has experienced its most difficult and stressful period since the fast track review of 2011. The Government's own Review of Evidence for this consultation states the community energy sector relies heavily on FITs (page 6 "60MW of community and shared ownership is supported almost entirely by the FIT"). While the community energy sector would prefer not to be reliant on support it is clear from results of the survey conducted by Quantum that for sector to continue as a source of new social enterprise schemes, we will still need some level of support across all technologies for the foreseeable future:

- 90% of respondents said their developing projects are completely (67%) or partially (23%) at risk due to the FITs review (this % is likely to be even higher amongst community hydro schemes due to longer lead in times and financial uncertainty)
- This represents a capital investment of £127 million that is now not likely to happen
- 91% stated that their future ambitions are at risk from the FITs review. This is a further £242 million capital investment that will not now happen
- 98% thought their community activities would now be wholly (80%) or partially (18%) at risk as well
- 92% thought these changes would adversely affect their volunteers' motivation to continue to work in community energy
- 43% thought it would affect the motivation of their volunteers to volunteer in other community activities.

There are the wider benefits of community energy which would at risk too (see Q15).

The FIT is (or at least should be) the more comprehensible and less complex scheme than both the RO and the CfDs. FIT is therefore the most suitable scheme for community energy and has been well supported by the sector.

Without suitable investment in low carbon infrastructure we are locking the UK into much more serious issues. Lord Stern's most recent paper highlights that spending money now on climate change mitigation, is considerably more cost effective than leaving this issue for the next generation.

12. What would be the impact of pausing applications to FITs for new generators for a short specified period to allow the full implementation of the cost control mechanisms? Please consider the immediate and broader economic impacts and provide your reasoning.

It appears that as a result of early termination of pre-registration and pre-accreditations there is a pipeline of community energy projects for first part of 2016. This surge reflected the widespread view in the community energy sector that proposed rates made community projects financially unviable after 1 January 2016. Closure of FITs followed by an indefinite period without support would severely damage the CE sector and result in the loss of some highly skilled and dedicated individuals who would be forced to look for alternative employment as well as seriously demotivating the larger volunteer sector which is already under severe stress as a result of government policy changes since the 2015 GE. A short pause of, say, 3-4 months to allow the Government to produce revised proposals and consult further would probably have some merits. It would certainly be preferable to closure of the whole scheme.

13. What would be the impact if FITs continued as an export-only tariff for new generators on reaching the cap of £75-100m additional expenditure? Please provide your reasoning.

Export tariff alone is insufficient to maintain the community energy sector. FIT on generation ensures community projects can be rewarded in a comparable manner to commercial projects benefitting from access to the retail electricity market.

14. Do you have any views on the use of competition to prioritise applications within a system of caps? What do you think are the advantages and disadvantages of this approach? What forms of competition may be appropriate and is this different for different sorts of installations? Please provide your reasoning.

We are opposed to this, it is particularly inappropriate for the community energy sector. A much better understanding of load factors, life of scheme, value added and other community wealth and amenity benefits would need to be assessed. We have not seen any evidence of this in the consultations documents and therefore must assume it is not understood.

15. Should FITs be focussed on either particular technologies or particular groups (e.g. householders)? Please provide your reasoning.

There should be a focus on supporting community energy (including those which form part of shared ownership schemes) within the FITs.

FITs were originally introduced to:

1. Encourage deployment of small scale (up to and including 5 MW) low-carbon electricity generation
2. Empower people and give them a direct stake in the transition to a low-carbon economy
3. Assist the public take-up of carbon reduction measures
4. Foster behavioural change
5. Help develop local supply chains and drive down energy costs.

The scheme has performed particularly well against the first objective, however success has not perhaps been as high in the remaining four. Continuing to support community renewable energy through FITs would secure this.

Community energy groups draw in a wide range of professional expertise, generally on a voluntary basis, and are generous in sharing expertise with other groups and within their local community. This community involvement is far more cost-effective than any national campaign to promote sustainable living or carbon reduction, and coming from a trusted and known source it is far more likely to produce results.

Community energy delivers a broad range of benefits. In September and October 2015 CEE conducted a survey of 80 community organisations, representing 110,000 members to assess the associated benefits of community energy as well as the impact of the proposed changes to FITs (see <http://communityenergyengland.org/wp-content/uploads/2015/10/CEE-Survey-2015.pdf> for the full report along with references in previous questions). Some key findings include:

- £7.4 million of FITs leveraged £5m worth of professional skills and 88 person-years of voluntary time
- This public spending investment of £7.4 million enabled over £50 million of private investment and generated revenue to the economies local to the projects of an estimated £45.4 million (through local installation contracts, community benefit funds, ongoing contracts and member returns)

- Community benefit funds generated by the schemes are used to support a wide range of local initiatives such as energy advice for people in fuel poverty, improvements to community buildings, providing computers for low income schools, improving wildlife areas and providing local healthcare services and educational material. These are often activities that have now dropped off the Local Authority agenda due to resource cuts, but which make a huge difference to local people
- 20 schemes provide annual energy savings totalling £172,500 to schools, parish halls, churches, sports centres and other community buildings, farms and homes. This enables them to use funding for other valuable local activities, or means that they can survive without worrying how to pay the energy bills for their facilities.

There has been a consistently positive message from research conducted into the impacts of the successful development of community owned renewable energy projects:

- The Government's own Community Energy Strategy states that community energy helps to build *'stronger communities, skills, education, work experience and financial benefits for locals'*
- In 2014 a report by Qualitative Research Limited, commissioned by 10:10, found that "there was strong evidence that the Solar Schools project has made some people think more positively about renewable energy, and had already encouraged them to think about their own energy usage"
- In 2014, analysis of a detailed survey organised by CEE of 10 community shares revealed that for every £1 of tax relief potentially claimed these groups returned an average of £1.37p in benefit to their local community in the form of reduced energy costs or other benefits. This is on top of the many other social and economic benefits achieved by the projects, such as jobs created and saved, the indirect benefits of projects and activities funded through the energy savings for community buildings, dividends repaid to local social investors who can re-invest those funds into more social enterprise projects and the creation of social enterprises, enriching the local economy
- A recent National Trust report stated that *'community renewables schemes can deliver a range of social and economic benefits to local communities including increased autonomy, empowerment and resilience by providing a long term income and local control over finances, often in areas where there are few options for generating wealth. Other benefits include opportunities for education, a strengthened sense of place and an increase in visitors to the area'*.

These benefits should be factored into any cost-benefit analysis.

However, the drastic cuts to FiTs proposed by the Government will, if implemented, also disproportionately impact community energy groups (see Q11).

Community project differ from commercial projects and face additional challenges. These include:

- Longer development or lead-in times due to this participative approach in decision-making, funding and delivery (as acknowledged in the Government response to the consultation in support for community energy projects under the Feed-In Tariffs scheme)
- Community projects mainly depend on volunteers who are time constrained and often don't have the level of expertise that commercial operations have (expertise and skills are being addressed through mentoring, apprenticeships schemes and shared ownership opportunities)

- Most community projects have little or no funding available at the development stage and are unlikely to have a portfolio of projects to spread the risk between

We therefore consider that alongside support for community energy through FITs, pre-accreditation should also be re-instated for community energy schemes.

16. Do you agree or disagree with the proposal to remove the ability of new installations to extend their capacity under the FITs scheme? Please provide your reasoning

We disagree with your proposal to remove the FIT from extensions.

The effect will not be to encourage developers to deploy entire capacity at one go – the effect will be to prevent suitable sites being used, and will increase costs. The assertions relating to overcompensation, less efficient deployment and triggering depressions have no evidential base and are factually inaccurate.

On the contrary the evidence base is that there is no overcompensation since there is no financial incentive to trickle out extensions; and the proposal to prevent extensions will result in less efficient deployment, wasted infrastructure spend and will prevent utilisation of good sites for renewable electricity generation.

Developers do not trickle developments through for a marginally higher FIT, as in your solar example – the increased costs of doing these, and requiring each system to be standalone, more than outweigh the additional FIT.

There are frequently good reasons for expanding a system – and our members report only good and valid reasons for extension. In addition to the items listed in your proposal, they include planning constraints (many extensions require additional planning consent which was not forthcoming initially; instead, once the site is developed and demonstrated to have limited impact, it can be possible to obtain an extension through planning). Another reason is a change to grid capacity constraints.

It should be appreciated that many “sites” for roof top solar comprise multiple buildings. This is particularly the case with schools, universities, hospitals etc.

On roof top solar, experience from members suggests that systems are extended when:

1. A new building is constructed or extended and the aim is to include solar on it
2. Roofs are repaired so they can now take solar (many schools with flat roofs have a rolling programme of roof repair and replacement) or are reconfigured, removing protuberances;
3. Buildings are strengthened or improved – for instance asbestos may have been removed or high alumina cement dealt with
4. Additional grid capacity becomes available.

Therefore we take the view that removal of the ability to extend systems will actually lead to greater inefficiencies.

17. Given our intention to move to fully metered exports for all generators, do you agree with the proposal that new and existing generators should be obliged to accept the offer of a smart meter (or advanced meter) when it is made by their supplier? Please provide reasoning for your response.

We agree.

18. Do you agree or disagree with the alternative proposal that new applicants must have a smart meter (or advanced meter) installed before applying to the FITs scheme, with existing generators being obliged to accept the offer of a smart meter (or advanced meter) when it is made by their supplier? Please provide reasoning for your response.

This should be part of a more thorough review of the export tariff, which should be fully considered after this review when proper data is available.

19. Do you have any views on possible approaches to introducing remote reading for generation meters? Please provide reasoning for your response.

This may be of benefit providing that there is no extra cost to new or existing projects and that there are checks and balances in place to ensure fair treatment of consumers, FIT generators and prosumers.

20. Do you agree or disagree that recipients of FITs should be required to notify the relevant DNO of new installations as a condition of the scheme?

We agree provided that the burden of notification falls upon installers (e.g. under MCS) and not on the FIT recipients themselves and that there is a corresponding improvement in OFGEM's assessment of the capability of the grid to accommodate the addition of new systems.

21. Do you agree or disagree the FITs scheme should be amended to include requirements that help mitigate and limit the impact on grids such as requiring generation to be collocated with demand or storage?

We disagree. This would introduce a major (often insuperable) hurdle. Government should be addressing grid problems pro-actively, not using FITs recipients as a proxy to do it for them.

22. Do you agree or disagree that the FITs scheme or wider networks regime should be amended to ensure generators pick-up the costs they impose on the network?

We disagree. The network is a critical piece of infrastructure which is no longer fit for purpose. It is vital that money is spent but this burden cannot be placed solely on generators and certainly not on the community energy sector.

23. Do you agree or disagree that payments to newly accredited AD installations, at all scales, are conditional on meeting the proposed sustainability criteria? Please provide your reasoning.

No comment.

24. Do you agree or disagree that the proposed criteria and GHG trajectories set out above would set the necessary bar to meet our objective to incentivise the multiple benefits from waste-fed AD? Can you suggest alternative criteria which would help to achieve this goal? Please provide reasoning and evidence for your answer.

No comment.

25. Do you agree or disagree with the proposed reporting system to underpin sustainability criteria? Please provide your reasoning

No comment.

26. Do you agree or disagree that only imported renewable electricity produced by generators in other EU Member States that are under 5MW and commission on or after 1 April 2010 should be used to offset levelisation costs? Please provide your reasoning.

We agree.

27. Do you agree or disagree that we should introduce a cap on the amount of overseas generated renewable electricity that can be exempt from the costs of the scheme? Do you agree that the cap for 2016/17 should be calculated based on the number of GoOs recognised in 2013/14, increased by 10% twice to match the cap under the CFD Supplier Obligation?

We support a cap, ideally zero. CEE wants renewables and a decentralised energy generation system, not multi-national suppliers gaming between renewable generators in different countries.

28. Do you agree or disagree with the proposed change to the FITs legislation to refer to specific versions of relevant MCS standards? Please provide your reasoning?

We disagree with this proposal because technology always changes and improves faster than regulations can keep up.

Hydro is currently EXEMPT from MCS requirements because most installations are bespoke and in order to continue with any deployment of schemes <50kW, this needs to remain the case.

29. Do you agree or disagree with the Government's proposal to use interest accrued on the FITs Levelisation Fund to part-fund administrative changes to the scheme which would otherwise be borne through public funding? Please provide your reasoning.

No, the interest should be used to increase the size of the LCF. A period of stability in legislation would help to reduce the costs, including the costs of bureaucracy.

30. Do you agree or disagree with the revision being considered to increase the energy efficiency threshold to EPC band C for anyone with an installation to which the criteria apply? Please provide your reasoning.

We disagree. EPC requirements should be removed altogether. It was always an anomaly to use a measure primarily related to heat energy as a criterion for electricity supply. Of course Government should press for improved energy efficiency but do so directly, not through this imperfect proxy mechanism.

31. Do you agree or disagree with the revision being considered to remove FITs eligibility from anyone with an installation to which the criteria apply who does not have at least an EPC band C? Please provide your reasoning.

Please refer to our answer to Question 30 above.

32. Do you agree or disagree with the exceptions for community groups, schools and fuel poor households to the revision to the energy efficiency criteria being considered? Please provide your reasoning.

We do not support the retention of EPC banding but if it is retained then we agree with continuing the exceptions for community groups and schools because in general neither has the finance and resources to pay for energy efficiency in these buildings.

We would be pleased to talk to DECC further about ways of obtaining more evidence and data on the issues raised above. Please direct enquiries to:

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