The Rt Hon Jacob Rees-Mogg
Secretary of State for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

18 October 2022,

Energy Prices Bill – avoiding adverse impact on community energy projects

Dear Secretary of State,

On Wednesday 12th October the Government announced a new Energy Prices Bill, scheduled to receive its second and third readings in the Commons on 17 October. This Bill includes a "Cost-Plus Revenue Limit".

Community Energy England (CEE) represents community energy projects across the country. These communities generate electricity from wind turbines, solar panels and hydro projects. In 2021 there were 495 community projects across both rural and urban areas in the UK. Community energy projects exist in 287 constituencies in England alone.

CEE welcomes the statement that generators will continue to receive existing revenue support payments. We welcome that FiT projects are excluded from this scheme.

We urge that community-led and owned projects should be exempted from the scheme on the grounds that the profits do not go to shareholders as a windfall but are dedicated to more community renewable energy or community benefit.

CEE and our members support a revenue cap in principle in the interests of energy justice and helping pay for the government support to bill payers. We understand the urgency of putting in place legislation to underpin the Energy Price Guarantee and the Energy Bill Relief Scheme, which measures we support.

However, **we warn that an ill-designed scheme, hastily imposed** as part of emergency legislation, without consultation, in a complex market, **may have extremely negative consequences** on renewable energy projects and future investment in a cheaper, cleaner energy system.

We are also **deeply concerned by the open-ended powers given to the Secretary of State by the legislation**, which are also not time-limited. We propose **any caps should have a definite sunset clause built into legislation**, probably initially 12 months or less, with a review, given the reduced term of the Energy Price Guarantee.

Members have already warned us that at proposed levels of revenue cap (£50-60) some of their non-FiT projects - which have sold electricity forward at, say, £70 p MWh and then planned projects and investment on the back of that deal - would simply go bust.

The cap must be set at a level that will not damage investment in, and the growth of, the renewable and community energy sector.

The revenue limit must be set at a level that is no worse than that imposed on the oil and gas industry (total 65% with a 90% relief for re-investment). Otherwise investment will flow into oil and gas rather than growing the renewables sector which offers long-term cheap clean energy and reduced costs to consumers. **The revenue limit must also be no lower than offered in the EU**, currently about €180/MWh, or investment will flow towards Europe rather than the UK.

The 'revenue limit' must be accompanied by a long term, guaranteed price floor set at a level that will provide certainty and encourage investment to grow the renewable energy sector.

We **support the move towards a voluntary CfD 'Pot Zero'. However, this must enable community energy** by including sub-5MW projects , providing a simplified contract and recognition of the additional cost of smaller projects and social businesses by providing a 'carve out' of a proportion of the funding allocation to community-led projects at an enhanced strike price. This proposal should be consulted on soon and carefully.

Most UK renewable investment is focussed on large projects and funds have largely come from international institutional investors.[1]

In contrast, community energy projects are typically financed by ordinary, local people who are using savings to do something practical about climate change. For example, 82% of the 2,077 members in the Westmill Wind Cooperative had invested less than £2,500.

As smaller, more marginal projects, overlooked by commercial investors, returns on community energy projects have historically been at around 5% or below. Members normally do not benefit from any capital appreciation on their shareholdings and any additional surpluses usually go to local projects, from fuel poverty, education and work to deliver more renewable projects.

Westmill Solar and Wind Cooperatives have provided £700,000 of funding for better energy efficiency, school education packs and supporting nearby social enterprises.

Many community projects were built some years ago. Their then higher construction costs were partly offset by Renewable Obligation Certificates (ROCs). The government has already retrospectively shortened the life of ROCs by 18 months – reducing income to community groups channelled via Community Benefit Funds.

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[1] https://www.great.gov.uk/international/content/investment/sectors/offshore-wind/

Community energy electricity sales are typically agreed a year or more in advance, so cooperatives currently receive an income of about £50/MWh to £70/MWh. Whilst these amounts may rise in 2023, these community projects are also entering middle age, and face higher running costs as they renew equipment. Projects have also been hit by below average wind speeds over the last 18 months. For example Westmill Wind expects to pay its members a dividend of 4% for the 2022 year to December.

In conclusion, community projects are typically smaller, more marginal projects, returns are typically capped and are the minimum necessary to secure investment, capital appreciation is negligible and shares are mostly not easily saleable. Recent retrospective changes to subsidy payments have also risked undermining the viability of such citizen-owned projects.

In the longer-term the Government should recognise the unique position and value of community projects as recommended by the Environmental Audit Committee in 2021. Other countries provide a legal right for 'citizen energy communities' to generate, trade and supply their own energy and an obligation on governments and authorities to enable this. Such schemes build the essential public support for the energy transition.

This principle should be enshrined in UK law and be a guiding principle for government.

We would like to **meet with you** to discuss how this government can support and enable the growth and spread of community energy.

Yours sincerely

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cc
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Lord Callanan
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