HOUSE OF COMMONS

Energy Security and Net Zero Committee

Oral evidence:
Unlocking community energy at scale, HC 394.

Wednesday 12 March 2025

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Watch the meeting

Members present: Bill Esterson (Chair); Ms Polly Billington; Torcuil Crichton; Wera Hobhouse; Luke Murphy; Mike Reader; Claire Young.

Questions 1 - 57

Witnesses

I: Zoë Holliday, Chief Executive Officer, Community Energy Scotland; Jake Burnyeat, Managing Director, Communities for Renewables; Marna McMillin, Chief Executive, Energy4All; and Louise Marix Evans, Strategic Director, Net Zero Terrace Streets, Rossendale Valley Energy.

II: Helen Martin, Chief Executive Officer, Bristol Energy Cooperative; Hugh Goulbourne, Director, CO2Sense; and Matthew Clayton, Managing Director, Thrive Renewables.

Written evidence from witnesses:

- Community Energy Scotland
- Communities for Renewables
- Energy4All
- Rossendale Valley Energy
- Bristol Energy Cooperative
- CO2Sense

Examination of witnesses

Witnesses: Zoë Holliday, Jake Burnyeat, Marna McMillin and Louise Marix Evans.

Q1 **Chair:** Welcome to the Energy Security and Net Zero Select Committee. Today it is our first session in the inquiry on unlocking community energy at scale. We will be considering topics including the Government's local power plan to be delivered by Great British Energy, shared ownership of local energy projects, and ways to attract more private investment into the community energy sector. We have our first panel here already and I will ask you to introduce yourselves. We will start on this side and work our way along, please.

Marna McMillin: My name is Marna McMillin. I am the CEO of Energy4All and have been since 2006.

Louise Marix Evans: My name is Louise Marix Evans, Strategic Director for Net Zero Terrace Streets for Rossendale Valley Energy, which is in Lancashire.

Zoë Holliday: My name is Zoë Holliday. I am the CEO for Community Energy Scotland. We are the membership organisation working with and on behalf of more than 400 community energy groups in Scotland.

Jake Burnyeat: Good afternoon. Jake Burnyeat from Communities for Renewables, or CFR. We are a not-for-profit company that helps communities to generate their own energy, and we look after 50 MW of community-owned solar across seven different local energy enterprises.

Q2 **Chair:** Thank you all very much. With a panel of four people, there is the potential for us to have quite a lot of comment, so I encourage you, where you can, to keep your contributions short. Equally, if somebody has already said something, do not feel obliged to comment or answer each question. I will start with this question, though: in no more than a few sentences, can you tell us what community energy is? Who would like to go first?

Jake Burnyeat: I am happy to answer that one. This is the principle rather than a legal definition, but community energy is about not-for-profit enterprises that are locally owned, locally governed and are set up to serve their local communities by generating energy from locally owned renewables, ideally supplying that energy at a low and stable cost to local consumers and reinvesting the surplus profits into supporting the hard-to-do stuff, which requires local knowledge and trusts the local capacity, tackling fuel poverty, retrofitting our housing stock and positively engaging people in the low carbon transition.

Q3 **Chair:** Thank you very much. Does anybody have a variation on that definition?

Zoë Holliday: Just very slight, I suppose. From the Community Energy Scotland perspective, it would be wider than just generation, but again with the same focus on people coming together to create locally controlled decentralised solutions that meet local needs. Those might cut across heat, transport and so on as well, although I recognise today that

we may focus more on generation. It is important that those organisations are prioritising the wider good of the communities and preventing disproportionate personal gain.

Louise Marix Evans: I can add on top of it, I suppose, that it is very much here to stay within a community, but also adding into how it contributes to the future energy system in terms of flexibility and storage, and how we can roll our building stock into this as well, so that we are bringing everyone—particularly people who are left out of the energy transition—in with us. That is what we are trying to do in our Net Zero Terrace Streets project.

Marna McMillin: I would suggest that, as well as the community of place, there is also a community of interest, and if you need to raise finance to do projects in deprived areas you may need to look outside of that locality in order to find the money.

Q4 **Chair:** Thank you very much. Louise Marix Evans, you used the phrase "left out of the energy transition". I will ask you all this question, but how can developing community energy help to build support for the energy transition?

Louise Marix Evans: It is important, isn't it, because we have hostility to this sometimes, in the sense that, "It's going to cost us a lot of money to get to net zero. What's it doing for me apart from pushing my bills up?" That is the narrative that we hear.

In the communities that we serve in Rossendale, where 40% of the houses are terraces, where you are not going to get an air source heat pump in, you are probably not going to be able to afford to put solar in or insulate your home because of the deprived nature of it and the high number of private rentals as well. We are a mixed tenure.

You have people there who cannot afford to join, say, having PV, a battery and an electric vehicle, who are then charging things for 12p a unit, so they are left out. They are also potentially at risk of being put on to an electric boiler, which is cheap for a landlord to install—it is already happening—but very expensive for them to run in a leaky, cold house.

Those people could be brought in across an area and can work together and then form more of an energy club and be served by that community energy organisation, raising finance in the way that perhaps my colleagues here raise finance, perhaps through bigger investors or patient capital, and then those customers can pay that back over time through a service charge that is kept to a low price. Their flexibility can be brought together, and then they can get that money back to keep their charges low.

That is the model that we are trying to develop, which is much more than generation and it sits at that grid edge. It is a difficult innovation project we are working on—funded by Innovate UK, luckily. They can join in that and see those benefits and be part of a future energy system. It is doing the harder stuff, but they would also be supported by the larger-scale

generation. We are putting in nearly 500 kW on a factory roof, for example, in the same area we are working in.

Q5 **Chair:** How would the rest of you see the role that community energy has in building support for the energy transition? Perhaps when you are answering you could say something about how encouraged you are by the Government's plans for Great British Energy and the role that community energy plays within them.

Zoë Holliday: In short, the answer is about ownership. I think that when communities stop being seen as passive recipients of a system and start being seen as having an active role and a significant stake in the future of our energy generation, storage and supply, addressing environmental concerns, sharing the benefits across their communities and engaging local people, that increases the engagement they have with the projects and in turn the local resilience.

Recent polling by Commonwealth showed that a significantly higher percentage of people would support community energy projects, 62% of people compared to 40%, if it was a private development. It is even more stark—it is almost double—in the devolved nations of Wales and Scotland.

In brief, in terms of my response to Great British Energy and the local power plan, I would like to see a lot more detail. It is quite hard to comment because there is still not a huge amount of detail released, but it has been encouraging from our perspective to see how often communities are mentioned within the documents. We have become very accustomed to opening policy and legislative documents that do not have a mention of communities, or, again, only mention them as passive recipients, so I hope that the role and the priority that they are given will feed through into action.

Marna McMillin: We are in the business of offering the general public—the man on the bus, the woman in the supermarket—something tangible they can do about climate change. They can come together and invest in a project, make that project happen and work with others to pass that word out to other people in their locality, and then move on from the first project and start doing other projects. It is that engagement. As Zoë said, it is the ownership. It is the engagement. It is the feeling that you are doing something about climate change.

Q6 **Chair:** In written evidence, we have been told there needs to be a clearer definition of community energy. We had a very precise definition in many ways from you, Jake Burnyeat, at the start, but how should the Government find a precise definition that reflects the full range of projects in the sector, from hyper local to large scale? Perhaps, Marna McMillin, you can go first and then I will come back to Jake Burnyeat.

Marna McMillin: I think it is quite difficult. The most important thing about community energy is that it is not set up to enrich a small group of people, but that the benefits are spread widely across the whole of society. I think that is the fundamental point about community energy.

Jake Burnyeat: I think you need a combination of broad objectives: what is community energy trying to achieve? Then you need some technical definitions that tie things down when it comes to preferential policies.

We have discussed the broad objectives and, when it comes to tying the legal definition down so that preferential policies achieve what they are intended to do and are not games, we can put forward some suggestions on tighter legal definitions than have been used in the past. It will be a set of legal entities that are eligible, but more than that.

Q7 **Chair:** I will move on to the local power plan and its funding for community energy. We have heard in written evidence that the maximum grants available under the current funding schemes may not be large enough for large-scale projects and that the scope of the funding should be widened. Perhaps you can give us a sense of how many projects are held back by this problem.

Zoë Holliday: I can provide actual numbers following this, but I could not give you numbers offhand. In terms of projects, it is very difficult right now to build a business case for community energy because of the lack of long-term support for community energy. We saw a massive uptake at the time of the feed-in tariff and then it dropped off after that. Now there is no specific mechanism that gives long-term security of income for projects. That makes it quite hard to build the project, which then means that there is even more reliance on the initial funding.

In Scotland we obviously have a slightly different context because we have the CARES programme rather than the CEF. With CARES, slightly higher amounts have been made available and there is a lot of learning that can be gained from CARES. One of the greatest positives is it has been running since 2010 and there is a general commitment from the Scottish Government towards community energy. However, the actual individual strands of funding are still within each year, and that can make it quite difficult for communities that want to plan for projects that take a number of years to develop.

There are still some gaps in that support, but certainly a lot of positives, like the predevelopment stage funding, funding for feasibility, and those phases where it is quite difficult to get funding. In the most recent generation funding, there was funding up to £250,000 for generation, which I believe is higher. I think it was about £150,000 that was available in the Community Energy Fund.

Yes, there is definitely the need for that but, alongside that, there is a real need for capacity building. I know we will probably come to that later, but I emphasise that without that capacity building element, the funding—

Chair: Sure. Jake Burnyeat?

Jake Burnyeat: The question was specifically about the amounts of feasibility funding required, but I would definitely endorse what Zoë said: there is no point in putting more and more feasibility money into a sector

where we are struggling to make the business model work, so we have to fix the business model.

Coming back to that question, the Community Energy Fund and CARES equivalent I think are well structured for the initial work. The £40,000 feasibility grant is a good amount. The £100,000, if well used, gets you a good way through the development process, but for a medium to large-scale community energy project—for example, a 15 MW solar farm—the actual risk investment through to financial close of the construction finance is probably £400,000. Once the project has largely being derisked at the earlier stage, the follow-on investment need not be a grant. It could be a contingent loan. So, successful projects could pay back that money.

Q8 **Chair:** Thank you. Now, Zoë Holliday and Louise Marix Evans, you have both suggested that to avoid a stop-start funding cycle the local power plan should dovetail with existing schemes. Can you tell us how this might be achieved in terms of sequencing?

Louise Marix Evans: I think there is something about having stop-start schemes in retrofit and grants. We have the warm homes grant announced today. That is doing houses with a grant that just goes out the door and does a number of houses, which I fully support. It is important. On the other hand, we are doing stuff around the energy system, which the houses are connected to, so could we dovetail that? Could there be a proportion of the warm homes grant that has to be used linking into the energy system, for example with our project? Also, could there be some form of continuity brought through as well?

We are always being asked to innovate and told that we should draw in funding and push the envelope a bit further so that we can put in generation, but how does it link to the grid and how does it do more? I think we can work it much harder. Ideally, we would like to see a proportion of that money for Lancashire or Greater Manchester put into the innovation space, use that funding and then pull in that private investment money to do the harder-to-do bits, but perhaps wrap it in one investment wrapper and then do something over the long term. Rather than "fit and forget" and then go away, we should just make it go much further. That is what we are trying to do.

To that I would also add access to bridge funding, small groups that are paid in arrears. In the past—not for Rossendale Valley Energy—I have put money on my own credit card only to have to claim it back three months later because we were a small organisation that I was working with then. That access to more pooled money that we could repay would be important as well.

Zoë Holliday: It is all about aligning and making sure that we are not duplicating what already exists but actually looking at where the gaps are at the minute. One big area—which again I think we will come on to—is about the financing options for shared ownership, which has not really been cracked and is not currently covered.

That is something that we need to be looking at: areas like project management support, post-installation support and this longer-term transparency around when funding will take place, knowing three years ahead, for example, what funding rounds there will be and what for, so that communities can work towards those.

I suppose that is also a justice issue, because the problem with these stop-start programmes is, in general, what happens is that the communities that are already in the process of developing projects are then able to jump on to those funding rounds and access them and the communities that do not have the capacity, do not have development officers in post and have not got to the stage of having a fully fleshed-out project miss out on that round time and again, because they do not have the resource to put into it in the hopes of something coming up that matches with it.

I would echo the point about taking a whole-systems approach as well and looking at how those match in with other things like heating, flexibility and so on.

Q9 **Chair:** Great. Thanks very much. Louise Marix Evans, in your view, why would extending local power plan funding to community heat networks better reflect the Government's ambition for community energy in its Clean Power 2030 Action Plan?

Louise Marix Evans: Because we have to decarbonise the grid, yes, and we are going to have much more demand on the grid—we know that, so we need flexibility and more generation, but as we decarbonise heat, we need to come up with ways to do that that work in dense urban areas with smaller homes. That could be a small heat network, like boreholes—*[Interruption.]* Sorry, I am miming; that is not very good for whoever is writing something down, is it? Boreholes connected with shared ambient loops connected into the houses, so that decarbonises the heat, plus the PV on the roofs so that you form a little mini energy system down streets. It is much easier to deploy than a great big heat network.

Currently, the heat networks are not serving domestic, unless they are existing heat networks, and under heat networks zoning that does not come in, so I think there is a chance that we have tunnel vision about clean power. We are not thinking about how it touches ordinary people in houses who it does not mean much to. However, if your house is improved and your heating is changed, and it is done on a community scale by nice local people and they are there to stay, I think you bring people with you. That contributes to the clean power piece because you are delivering. If you did the 6 million terraced houses that we could potentially do, you are delivering 12 GW of flexibility to the clean power mission people, so it all ties together, but it is complex, so hard to explain.

Chair: That is very helpful. Thank you. We will move on to the some of the current co-ordination challenges and Torcuil Crichton has some questions.

Q10 **Torcuil Crichton:** Welcome all. Forgive my voice—it is in my boots.

I was going to ask questions about the role of local authorities, but before I do, Marna McMillin, you mentioned about communities of interest as well as communities of place. I think you will recognise a community when you see one, but this idea of community of interest could, of course, mean that municipalities and councils could be a community.

Marna McMillin: We work with local councils. We have projects with local councils. We work with developers, with councils, with Londoners, obviously with communities, because our aim is to make projects happen. How do you make projects happen? I think this is a very easy business to burn through a lot of money and not get anywhere. My biggest file on my laptop is aborted projects.

When it is the taxpayers' money, we need to be quite careful about where it goes. At the moment we are doing projects where we put solar panels on roofs of buildings, and we sell effectively to the host building, so they get their electricity cheaper. For members, they will get a return on their investment; everybody is happy.

However, if we have to sell to the grid, the financial model does not work. There is a case for saying that if you want those projects that do not work in that way, there has to be some underpinning of the price. However, I think it is a question about where we get the most bang for the taxpayers' buck and being quite selective about the things that taxpayers' money supports.

Q11 **Torcuil Crichton:** Okay. Speaking of money, Zoë and Louise, you have both proposed that GB Energy attaches conditions to funding grants that require local authorities to work with community energy groups. Why did you raise your concerns?

Zoë Holliday: First, if I can just respond quickly to the previous point about local authorities and different groups doing energy, while I recognise that for the energy transition we are going to have all kinds of scales and types of projects, I do think that—coming back to the definition issue—we need to have separate definitions for what municipal energy is, what local energy is and what community energy is. We need to see them as different and recognise that the impacts of those are very different in terms of the actual impacts that community-led projects have on their local area and the amount of income and impact on the economy that those have.

It is important that we do not conflate them, because that is what has happened in Scotland. We have a local and community energy target and, right now, community energy is only 10% of what is currently counted towards that target. The vast majority of the target is currently farms, estates and local businesses, which do not have the same impact locally. I wanted to make that clear before I answered your question.

In terms of requiring local authorities to work with community groups, there is a real emphasis on GB Energy and the local power plan looking at local authorities. Again, it is important that the money does not just go

directly to local authorities and fill black holes in their funding, but that the money is going to communities as well.

We have seen good examples. If we look back two decades, Orkney Council decided to fund development officers on every island in Orkney—well, not every island, sorry, but nine development officers. Of those nine development officers, seven ended up taking projects forward with community energy—six on their own and one shared ownership project.

The impact that that has had on those communities is profound. They have their own income streams. They now fund their own development officers and have done for a number of years, and they recently turned down funding to have further officers because they could fund them themselves, so it is taking that opportunity to work with community groups and build up their own capacities.

We would like to see a community energy officer in every council to act as the contact point for communities and co-ordinating with other relevant departments in the council, but also to be leading the way, offering a shared ownership with their own projects, offering their roofs and land up for community energy projects, because why not lead? That is their role.

Q12 **Torcuil Crichton:** Do you see an appetite for that Orkney example elsewhere in Scotland or elsewhere across the UK? Do you see other people wanting to do that?

Jake Burnyeat: I think some of the best examples of community energy enterprises operating at scale across the UK are collaborations between local energy enterprises and local authorities, and I can name a few. Bath and West Community Energy has had a collaboration agreement with its local authority from the beginning. I am a volunteer trustee of Plymouth Energy Community, which was set up as a stand-alone body following a manifesto commitment from a councillor.

Its success has been very much to do with an ongoing close relationship with the council, and that is what has enabled it to set up an energy advice service that is helping 2,000 households a year. It employs 30 people. It has a turnover of over £3 million from generation and energy advice services.

I am coming to the challenge now: for four years we have been working on a 13 MW solar farm, Chelson Meadow. It is being developed as a 50:50 joint venture between Plymouth Energy Community and Plymouth City Council. It should be the perfect example of a council-community collaboration. It is a former landfill site owned by the council. The project has been developed as a 50:50 joint venture. The council received the land rent. The council wants to purchase the power. The council is willing to put in finance, backed by public sector works board borrowing. It is very difficult to get it to work and, nearly five years in, we are still not sure whether it is going to get built. So definitely in principle, but there needs to be some business models fixed to help more of those projects to get over the line.

Q13 **Torcuil Crichton:** Thank you. Louise, you have quite a lot of experience in this with Net Zero Terrace Streets. What are the top tips? What can we learn from that experience?

Louise Marix Evans: I think that councils generally tend to have quite a minor role in the energy system. There is not much: a bit of permitting, some work around heat zoning and then the regional energy system planner will be a role, probably at combined authority level.

Many of them talk about local energy markets and have not yet set them up or been able to set them up. There is a lot of ambition, but then community energy has quite a strong role where it can come in, as Jake has illustrated. I would add to that the Oxford Low Carbon Hub, where you have the delivery and then the innovation. However, many councils lack capacity. Rossendale would not be doing this without Rossendale Valley Energy. By working together, we have given the council more capacity and it has given us a home and some houses to practice on, as it were, to demonstrate the scheme on.

It is just stronger doing things in a partnership. You have the different skills that come together, the agility of the community energy sector to go, "Right, this a problem. How do we solve it?" and staying in that area rather than just going where the market will go. There has been a lot of innovation that we have done over the last three years with the council, a lot of learning, and we have loads of other local authorities and community energy groups lined up to learn from us.

To that I would add: how do we help people to understand where we are going in the energy system? We have community energy groups developing community-led energy planning that docks up into local area energy plans, which are rather top level and lack detail. We have that in Oldham with Carbon Co-op, and we have that in Essex County Council as well. We have what the energy transition means from the ground up, which community energy often has the ability to explain and engage on, and then that can speak to the people at the local authority or combined authority level and start to develop some exciting projects as well.

Chair: We will move on to incentivising shared ownership.

Q14 **Torcuil Crichton:** Yes—I am conscious of the time as well, Chair.

Net zero will not happen without the muscle of private companies and the backing of Government but, importantly, with the consent of communities. The quickest way to get community buy-in is shared ownership. I want to ask the panel what incentives commercial developers should offer—say shared ownership for energy projects for communities, with a 20% buy-in? Would that get through planning quicker? Would contracts for difference qualifications get through quicker if they offered community ownership?

Marna McMillin: I would say the biggest thing that would incentivise the developers is probably priority on the grid, because everybody wants the grid and people cannot get it. There is a massive queue of projects, so if

you were to say, "If you do this for the community, you are bumped up the queue for the grid", that might actually make a difference.

Q15 **Torcuil Crichton:** Do you think there should be a derogation, then, for schemes that have a community element or even a 100% community element?

Marna McMillin: I do not know how you do it, but I think that principle is a good principle if we can find a way to make it work. If you do not have the developers buying into the idea of community ownership, there will be backsliding and gaming, as has happened in the past. People use what is available to advance their own interests. It has to be very well designed and thought through.

Torcuil Crichton: I am going to go to Zoë first to ask what her experience was in Scotland and then I will come to you, Jake.

Zoë Holliday: The number one thing I would say is that guidance isn't enough. In Scotland, we have had guidance for a number of years and it has not had the impact that it should have done. Currently, only 0.2% of Scotland's wind power is owned by communities. We have seen positive statements from both the Scottish Government and the UK Government going back more than a decade, but we have not seen the impact that that should have had.

For us, shared ownership offers should be mandatory. However, as you say, there can be other incentives, like priority in the grid. We have been calling for a criterion for designating community-owned energy and storage projects, as well as derogations where relevant. We could be looking at that also depending on the percentage of shared ownership.

Likewise, in planning—obviously, we have to recognise this is devolved, so it would need to go through multiple planning systems—the ownership should be a material consideration; again, on a hierarchy that gives most credit to fully owned community projects and then less depending on the percentage of shared ownership.

Shared ownership should also be a condition for Government support for things like CfDs and projects that are taking place on Government-owned land; in Scotland, for example, Forestry and Land Commission land. There are an awful lot of projects.

Q16 **Torcuil Crichton:** Basically, you are saying the guidelines approach has not worked—

Zoë Holliday: No.

Torcuil Crichton: —and that there should be a mandatory approach. If GB Energy is going to be investing in lots of these schemes, should there be a minimum obligation for community share in schemes that GB Energy finances?

Zoë Holliday: Yes. We think 20% should be offered to communities. We need to be thinking about the fact that this is not just about new projects that are coming on, this is about projects that are already going through

the system. The reality is that if the 2030 target is to be achieved, we are talking about projects that are already going through various planning and consent processes. This needs to be considered and done quite quickly.

Q17 **Torcuil Crichton:** A 20% offer to get GB Energy money and grid connections more quickly as a community element. Jake, what is your view?

Jake Burnyeat: I think we are saying 20% in all projects. That would be the underlying thing.

I agree with Zoë that guidance has not worked, but there was a brief period in 2015-16 when there was a policy with teeth, under the split feed-in tariff policy, and suddenly an awful lot of shared ownership happened. It ended with the end of the feed-in tariff. That proves that where there was a policy that, in that case, provided a positive incentive for developers and communities to engage in shared ownership, underpinned by what in that case was a Hobson's choice—if they did not turn half their project into a community scheme, it would not be built—then an awful lot happened. I think 100 MW came out of that policy over a space of two years.

To work, it needs to be underpinned by some sort of right to buy that could be implemented through the Infrastructure Act 2015, but then there needs to be a positive platform where both communities and developers want to do this. The rest of the panel have set out some suggestions that might make it work for both sides. There have to be some carrots and ongoing benefit for the developers: maybe points in the grid queue or points in the CfD queue, perhaps business rates. There has to be some upside for them.

For the community, they need to be sure that they are going to come out of it with a project that is financially profitable, because that is the whole point of it. There needs to be some price-setting mechanism where both parties have certainty over the price of the deal, so that, if the community can raise the money, they know it is going to work financially and they know they can see the transaction through.

I think it is the best opportunity for GB Energy to deploy capital at scale and generate a profit, some of which could be used to subsidise more marginal community-developed projects.

Q18 **Torcuil Crichton:** Thanks. Jake, just very quickly, you talked about the community right to buy in that Infrastructure Act 2015.

Jake Burnyeat: The Infrastructure Act 2015 gave the Secretary of State powers to create a right to buy mechanism. The powers are there in the 2015 Act and they can now be implemented by the Secretary of State.

Torcuil Crichton: They have never been used?

Jake Burnyeat: Never been used, no. I think the logic at the time was, "Let's see how guidance goes". Guidance has not gone anywhere. Therefore, let's implement those powers.

Zoë Holliday: I can give you a response. The UK gave a response to the Shared Ownership Taskforce saying, "We expect that by 2015 it will be the norm for communities to be offered...some level of ownership of new, commercially developed onshore renewables projects. We will review progress in 2015 and if this is limited, we will consider requiring all developers to offer the opportunity of a shared ownership element to communities." We are about 10 years overdue on that.

Torcuil Crichton: Okay, thank you.

Chair: We are on to the next section of questions.

Q19 **Ms Polly Billington:** Yes. I was just going to follow up slightly on a couple of those points. First, I am interested in understanding, if we were to incentivise shared ownership, how that would accelerate the deployment of clean energy generation at a scale for us to hit the 2030 target. How much would this particular set of recommendations that you are putting forward help us achieve that target?

Jake Burnyeat: If it is shared ownership of projects that are already in the pipeline, it is not going to produce additional large-scale megawatts—but what it will do is put a percentage of those large-scale megawatts into community energy, where the surplus profits are being reinvested in doing the hard-to-do stuff. It is providing communities with a profitable anchor asset that is the foundation for a viable local energy enterprise that can do all the hard-to-do stuff, which is what the Government have wanted from community energy for a long time, and which is very difficult unless they have a means of income and, ideally, power to do it.

Q20 **Ms Polly Billington:** Can I follow up on that? I have always been interested in the idea of shared ownership because of my scepticism that developers are nice guys—funnily enough, I just don't think that is necessarily the case. Why should a community be confident in going into shared ownership with a developer that has big, fat lawyers, loads of money and a very good ability to be able to write lots of small print when, frankly, community energy groups tend to be spending their spare time doing this and are not necessarily experts?

Zoë Holliday: This is where we need to have protections. We also need things like standardised templates for agreements so that there is good practice. We do need to have protections: for example, it is quite common for private developments to change hands. We need to make sure that communities have the right to keep their stake in a project at the point that it changes hands. Otherwise, there is a risk that a few years down the line the developer decides to sell up and the community loses their stake, which has happened, for example, in Scotland.

Q21 **Ms Polly Billington:** Can I have one more question before I move on to the financing issue? I am particularly interested in the equitable nature of community energy, especially since we have talked about the difference between municipal energy and community energy, and especially when we talk about raising money and stakes in it and so forth.

I need to declare an interest: I have worked with Louise before and I commissioned her to do research in my previous job. It is worthwhile making sure that is on the record before I go any further.

I am interested to know from you, Louise, how you might see the conditions that we could put around community energy to ensure that there is an equitable approach, so that it is not just the communities with money that get to have these benefits, but that we use it to tackle some of the built-in inequalities that we have in our energy system.

Louise Marix Evans: That is what we are trying to do here: to say that we could set up a scheme where we have private investment going into the infrastructure, we are somehow wrapping around the hard-to-do retrofit part, and we put some profit or gain share cap on it so that it is not their scheme; it is the community's scheme, which they are investing in. It is flipped the other way around. Rather than the wind farm letting the community own a bit, this is saying, "We will let you invest in this, and we will give you enough return to attract your investment, but we will be asset locked and, if you sell or refinance, we will put a gain share on it".

We are at an early stage, so we may not get investors. We may get social impact investors who want to make a difference in these areas. This is all up for grabs, and it is part of the ongoing, place-based investment conundrum that everyone is trying to solve. We are trying to look at how we would do that and we are looking for models of how you would do that.

We are also looking at that in Oldham with what you can do around community. Can communities become like a co-op? As a co-op buyer, you become a member. There are examples, though, of more deprived areas that do have successful community energy organisations. I am thinking of Repowering London, for example, which brings in a younger generation as well—so it is not just leafy, middle-class loveliness, run just by volunteers. I have some numbers somewhere. There are something like 800 employees but 3,500 community energy volunteers. That is the way.

Marna McMillin: I spoke to my colleagues in the Netherlands, where they are already doing compulsory shared ownership. The way they do it is the community comes in right at the beginning and they pay their share of the funding as the project is developed, because if you leave it and buy it once the project is developed, at market value, most community financial models do not work. There is not enough cash in the model in the early years to make it work. They are getting funding to do that early stage. Then, when it gets to the operational point, they go and refinance with a public offer so that ordinary members of the public can participate. That early-stage funding and insisting that you are buying at cost, because you are paying as you go, is fundamental to their model.

Q22 **Ms Polly Billington:** Great. That comes on to my point about financing shared ownership. How should the Government and Great British Energy help communities to access finance to participate in shared ownership?

Should, for example, Great British Energy be doing that early-stage development work that you are talking about?

Marna McMillin: Well, in a system where it is compulsory for the developers to do that, if we make that assumption, then yes.

Ms Polly Billington: If it was not compulsory?

Marna McMillin: If it was not compulsory, which projects is it going to finance? You would need to look at the projects that it is going to finance.

Q23 **Ms Polly Billington:** What conditions would you think it would be worthwhile putting on, to make sure that the British taxpayers' money in GB Energy is being used for good purpose on good outcomes?

Marna McMillin: Well, "Who are you lending to?" would be step one. Who are you lending to? Is it a bona fide community organisation? What are its principles? Who is involved? Then I think you make it pay it back into the pot at whatever is a reasonable rate, and you put conditions on what it spends any profit on.

Q24 **Ms Polly Billington:** I am going to be a bit rude here, but I cannot imagine Whitehall being particularly good at making those judgments. What do you think?

Marna McMillin: Possibly.

Ms Polly Billington: You are almost as polite as I am.

Q25 **Chair:** There is also a question that you have touched on here in this exchange: how do you ensure that you have people with the right intentions over an extended period of time? How do you build that into the model?

Marna McMillin: That is really difficult. Essentially, in our organisations, we set up co-operatives and societies for the benefit of the community and we trust the members. The members must be active and ensure that the society is acting in accordance with what it was set up to do. One member, one vote. It is democratic. They need to be active, take part and ensure that happens. If they do not then yes, it is a problem.

Ms Polly Billington: Zoë, go on.

Zoë Holliday: I feel like I have just jumped ahead of you. Sorry, Jake.

I was going to say, in terms of this conversation, that it is important to delineate between investor clubs and share offers because those are very different things and we are not promoting investor clubs as community energy. Again, we are not trying to just line the pockets of people who are rich. The benefits of a community energy project need to benefit everyone. There are ways of setting up co-ops or using other models like the development trust model that has been used mostly in Scotland, whereby everyone in the community has a say in what happens but also has the opportunity to benefit from the project.

We had proposed in our response—and I know that a number of other organisations have had similar ideas—that we think there is a real space for GB Energy to come up with innovative financial models to fill the gaps. One of the ideas is that at the earliest stage—again, before we are talking about commercial market rates—GB Energy takes, for example, a 20% stake in every private development, with the idea that it passes it on later and transforms it into loan agreements for the communities later, at the point that communities have had the chance to build up their capacity and interest.

Q26 **Ms Polly Billington:** Is that a bit like your idea, Jake, that Great British Energy should temporarily act as a buyer of last resort? Can you explain that a bit more?

Jake Burnyeat: Yes. This is a huge opportunity for GB Energy, and it plays to the equality point. Shared ownership projects can happen wherever there is a viable project. If there is not an established local energy organisation in that locality able to step forward and take the stake, if GB Energy takes that stake on behalf of the community, for either the short term or potentially the long term, the protection comes from that stake being taken by a not-for-profit company that has a local benefit purpose built into its objects. It is set up to generate surplus income to serve the local community, and the GB Energy finance is the means to the end of that happening.

Q27 **Ms Polly Billington:** Zoë and Marna, I wonder if you can talk a little bit about what features of the Scottish Government's CARES scheme—which, Zoë, I know you mentioned earlier—have made it more successful at supporting shared ownership than equivalent schemes in England.

Zoë Holliday: In Scotland they have had a couple of full-time officers working to support communities with shared ownership for certainly the last four years of the programme, and having that support to reach out to relevant communities when opportunities come up for shared ownership and to speak through them has been a real opportunity. However, I think even those officers themselves would say it has been a big struggle, partly just because it takes a long time for these projects to come through.

There are now a number of offers on the table but there are still not huge numbers. Most of the examples that we have are with smaller, more motivated landowners, for example, who decided that they wanted to benefit the local community when they were taking forward projects. There are not many projects that have big developer names that are offering shared ownership at a meaningful stake until now.

I think even those teams would acknowledge the need to have more carrots and more sticks to get developers involved because—I spoke to them yesterday—currently, genuinely community-owned shared ownership stakes are sitting at just under 20 MW in Scotland. It is a reasonable amount but it is nowhere near what it could be if we were talking about significant stakes in projects. There have been unfortunate examples where huge stakes have fallen through because of various

reasons, including the Viking project in Shetland, which is a big loss to shared ownership opportunities.

Marna McMillin: We have had a very good experience with CARES. We tend to be their policy of last resort. They come to us if they cannot get a project away in other ways. That is our impression.

The amount of funding is excellent for smaller schemes. However, for larger schemes, the cap on the funding means that you spend all that money, and then what? You come to a halt. How do you then advance that project, if there is no money to pay the next round of whatever it is you need to pay?

Q28 **Ms Polly Billington:** You talked about 20 MW of shared ownership in Scotland, is that right?

Zoë Holliday: Yes.

Q29 **Ms Polly Billington:** Going to your point that what community ownership can do that other people cannot is the difficult bits—which are very important for us in terms of the warm homes plan, demand management and all those things—has there been any modelling of those community projects? For example, say they are generating 20 MW but they are saving X number of megawatts as well, they are reducing demand by whatever, or they are making the energy use in a particular community smarter. Is that modelling being done? Is that a way of making it more compelling to either the developers or the state to support those projects?

Zoë Holliday: There has been some research. We have also, as part of the Energy Learning Network, tried to look at the social impact of community energy and we have done a recent report on that. Quite a lot of the communities hold information, but it has not all been aggregated. That is something we are looking at right now.

I should say that the 20 MW is very specifically the shared ownership stakes. We are not talking about community-owned projects in general. When you look at the impact of community projects, it is just the sheer amount of money that is being levered back into communities through things like fuel poverty grants, energy efficiency support, transport programmes, opening up existing assets like cafés, and creating new hubs for communities. There is an oft-cited report that 34 times as much community benefit goes back into the community on average from a community-owned project versus a privately owned project, but in some cases it is even more stark.

Going back to the Viking project in Shetland, the Viking project is over 450 MW, and there is a project that is one-hundredth its size in North Yell, the Garth Wind Farm. It provides, in a good year, the same amount of community benefit as the project that is 100 times larger than them. They are hugely impactful on communities. Mr Crichton can, I am sure, speak to the impact that Point and Sandwick, Galson and various other community-owned wind farms have had in his constituency.

Q30 **Ms Polly Billington:** I would just point out, however, that when we are

talking about measuring impacts and so forth, if we have a clean energy superpower target of 2030, many of the things that you are talking about that are community benefit are not a metric that is measured in that mission. Community energy's other benefits—the community benefit, the community of place and so forth—will need to be produced and presented to Government on metrics that will meet their other missions.

Chair: We need to move on. Can you make it a short response to that question?

Marna McMillin: I was going to say that there are other ways of looking at it, not just that whole, all-encompassing thing. For example, we have a project in Scunthorpe where the council has used the towns fund grant, we have matched it with a public share offer, and that has put solar on the roofs of schools and other public buildings in Scunthorpe. I think we raised £500,000 from the towns grant and in less than a year it has saved the council £290,000 on the electricity bill. That is a measurable benefit that is going back into the council's coffers to be spent on whatever the council thinks needs to be done in that local area. That is outside these enclosed community schemes, but it is a very clear benefit coming from community energy.

Chair: A short question from Wera Hobhouse and then we are going to move on to Mike Reader.

Q31 **Wera Hobhouse:** I have been dying to ask this question about the hard-to-do things. Louise, you mentioned the high proportion of private rented sector. With shared ownership, yes, you own the energy that is being produced or whatever and you get a share in the profit, but the main thing is, of course, that you should benefit in lower energy bills. How can you make that possible in a building that is not owned by you? How can you force a private landlord to be part of a community energy scheme if they do not want to? How can that work?

Louise Marix Evans: You would not force them. You produce a good reason for them to join it. They are going to have to have EPCC. They want people to rent their house. They do not want their house to go mouldy and damp. If there is a scheme going in down the street, as a landlord—and we have tested this—they will be like, "Yes, bring it on because I don't have to invest a lot of money up front; I can pay a standing charge and then join that community scheme".

The Net Zero Terrace Streets scheme is designed to be multi-tenure and it will be the same offer for landlords and owner-occupiers. The building owner will be able to join the scheme and the residents will be paying a standing charge unless it is wrapped up with your rent, in which case the landlord would cover it. It is doing an area-based scheme where different houses are not treated as different. They get access to the same service.

Wera Hobhouse: The incentives are big enough for the landlords to come in?

Louise Marix Evans: That is what we are trying to work on, yes. That is where I am coming from.

Q32 **Mike Reader:** I have a very short period now so we will try to keep ourselves to time. The final question that we are going to focus on is on capacity building within the community energy sector. That is a very broad term, I know, but just help me on that as we go. I am interested to understand from your perspectives what practical and financial support is needed to build capacity in the community energy sector and help to professionalise it.

Marna McMillin: There is a problem in deprived areas that are unlikely to have the skills that you need to build a renewable energy project—the engineers, the lawyers, the accountants. Therefore, you need agencies to help them to do the project. The capacity building is working with those communities to enable them to own and manage that project and make the most of it in their locality. If you had a young person coming along who sees it and thinks, "I want to be an engineer", that is fantastic, but it is quite hard to manage that.

Louise Marix Evans: You can look at the Community Energy England map—and Scotland, sorry, Zoë—and see where there are existing community energy organisations. Some already have a lot of capacity and then those in the sector help each other.

There is that need for core funding, rather than just getting funding for feasibility studies that may not go anywhere. There is a need for continuity funding so that you do not drop off the end of innovation projects, as we do in November, and bridge funding, which I mentioned before, too. We have nine and a half people in our organisation, but our contracts all end in November and we do not yet have the ongoing generation that I think Bristol Community Energy, sitting behind me somewhere, will be able to talk to you about because they are more established.

There is something about nurturing new organisations, building them up and providing the centralised expertise you can draw down, whether that is legal, engineering or whatever; but also peer-to-peer support to each other, putting people in touch with people who have done it before, not just consultants. I have done endless feasibility studies and some have gone somewhere and some have not, but you can get reliant on consultants. You need to grow that in the grassroots, I would say, particularly in deprived areas. There is an apprenticeship in Oldham you can do.

Q33 **Mike Reader:** Yes. I will come back to deprived areas, just to cut you off there for time. Zoë, if you could focus on professionalising, is there anything more we could do to professionalise the sector?

Zoë Holliday: The reality is that the sector is probably already a lot more professional than people realise. There are a lot of ambitious projects going ahead. We have community projects that are now looking

at taking ahead 50 MW projects, rather than just the smaller ones. We are not just talking about small projects.

What we need to be doing, though, is taking a two-pronged approach where we are supporting those that already have the capacity to accelerate and hit those 2030 targets—and, as we talked about, maximise shared ownership in what is already happening as well as supporting the community ownership that is already going through—but also spending these next four or five years looking at building up the capacity of other communities that do not currently have the capacity or the experience, building a pipeline of projects to be coming through in that period. There is a need for mapping to look at where community energy projects already are, and for doing targeted interventions to fill the gaps.

Q34 **Mike Reader:** Jake, just quickly, we have heard about financial support and professionalising, but is there anything else practical that needs to happen?

Jake Burnyeat: I agree with Zoë, the sector has been professionalised where there is a viable business model. We need to fix the business model. It is not just about generation; it is about retrofit and energy advice. Where there is a viable business model, the sector has been professionalised. I will quote a figure that Bath and West gave me just before the meeting: if we had a Bath and West Community Energy or a Plymouth Energy Community in every UK local authority area, we would have created 5,000 jobs and met the 8 GW target.

Q35 **Mike Reader:** Louise, I cut you off only because it was a specific question I had down, just so that we capture it in order. Do you have some thoughts on the specific support needed to help people in more deprived parts of the country to participate in community energy, please.

Louise Marix Evans: I feel like we might be patronising deprived parts of the country. Ambition Lawrence Weston springs to mind. We have examples of poorer areas that roll their sleeves up and get a lot of brilliant stuff done. Repowering London was born in Brixton, and it is doing work in Newham as well. It is taking an asset-based approach to deprived areas, but saying, "Okay, we will make some jobs. We cannot expect everyone to be volunteers, but as volunteers, we put the blood, sweat and tears in at the weekend." I am here in a paid role, but I have also been a community energy director for two different ones and I do a lot of voluntary work.

There is a balance there between harnessing volunteers' passion for places they believe in and really care about to come up with a solution that works with local people, not parachuting experts in, and also saying, "If you need access to expensive lawyers, here is a panel of community energy lawyers. You have this much to spend on them. Go away and fill your boots." It is the same with maybe engineers and so on. We need to build those skills from the ground up, I think.

Q36 **Mike Reader:** Just one more from me then. In our evidence, we received

proposals for a hub-and-spoke model to facilitate knowledge exchange. You have all talked about sharing information and mapping as a critical thing here. Is there a risk, though, that a hub-and-spoke model could duplicate the existing work of mayoral authorities, net zero hubs and the Energy Learning Network?

Louise Marix Evans: The Energy Learning Network is part of that hub and spoke, I would suggest. The net zero hubs could align with them, but they are not always community energy experts, though they may have technical expertise that they can share out. It would need to sit alongside and not be a new thing that is plonked on top, because there is already that support available—there just needs to be more of it.

Mike Reader: Does anybody else want to comment on that?

Zoë Holliday: I would agree it is about linking these things in together, looking at organisations that already exist to be those hubs and then doing things like funding, knowledge sharing and mentoring. That is happening on a small scale at the minute through the Energy Learning Network, looking at making sure that there are development officers or officers in hubs or anchor organisations or whatever it might be throughout the country, who are then able to pass on knowledge and support other groups.

If I might just quickly answer the previous question in terms of supporting different areas, I would like to pick up on the word "volunteers". I think that is one of the biggest challenges in areas that may be more deprived: people may not be able to offer their time up for free, even if they have skills. Something we need to look at is making sure that there is the opportunity to fund.

I would agree about being patronising towards deprived areas. If you look at fuel poverty, probably some of the highest levels of fuel poverty are in the areas that have the most community energy in Scotland. Again, we need to look at mapping different models that match different areas, like in inner city areas. That is where potentially things like shared ownership and offering out shared ownership to wider communities could have a role to play.

Chair: The final question to this panel is from Torcuil Crichton.

Q37 **Torcuil Crichton:** Jake and Zoë, you talked about the depth of professional knowledge there already is in the community sector. Is there not an argument for taking that knowledge and turning it into a community energy unit within GB Energy that helps other communities that do not have that capacity?

Jake Burnyeat: If GB Energy is there to provide finance to new projects including shared ownership, that knowledge will be put to work.

Torcuil Crichton: Zoë, do you agree?

Zoë Holliday: I would agree. We need to maximise all the knowledge that we have already and be looking at where the gaps are and filling those ASAP.

Chair: Thank you very much to our first panel, Zoë Holiday, Jake Burnyeat, Marna McMillin and Louise Marix Evans. Thank you all for your evidence. The session is suspended.

Examination of witnesses

Witnesses: Helen Martin, Hugh Goulbourne and Matthew Clayton.

Q38 **Chair:** Welcome back to the Energy Security and Net Zero Select Committee. We have our second panel of the afternoon on our inquiry into community energy and, as with our first panel, could you introduce yourselves, please? We will start the questioning shortly.

Matthew Clayton: Hello, my name is Matthew Clayton. I am CEO of Thrive Renewables. We are a renewable energy investment company. We have been operating for 30 years in the UK. We have built or funded 44 renewable energy projects, 400 MW, and unite a community of over 6,000 investors—the smallest of which is £5, the largest of which is £6.5 million—into building new renewable energy projects that put people at their heart.

Hugh Goulbourne: Good afternoon. My name is Hugh Goulbourne. I am a director of CO2Sense community interest company. We are a small fund that invests in renewable energy projects, mainly focused on decarbonisation, but also an impact-first funder. We were set up in the great county of Yorkshire with funding from a former UK Government about 15 years ago, although we now have a UK remit.

Helen Martin: Hi, I am Helen Martin. I am CEO of Bristol Energy Cooperative. We are one of those larger community energy organisations that were mentioned at the end of the last panel there, based, as you might expect, in Bristol. We have a portfolio of around 12 MW, consisting of 22 clean energy projects, mostly solar.

Chair: You are all very welcome. We look forward to your evidence, and the questions will start with Luke Murphy.

Q39 **Luke Murphy:** Welcome to the panel. Could you just tell the Committee in a few sentences what you think is the biggest challenge facing community energy?

Helen Martin: Of course. From the perspective of a community energy organisation, the biggest challenge was hinted at on the previous panel, and that is putting together a viable project. We may come back to some aspects of this, but in that the biggest challenge is the lack of a pricing mechanism that reflects the value of what we do. That is building local generation in and around where people live, putting a reduced strain on the grid, providing opportunities for local balancing and getting resources back into the system to do the hard stuff, as we have talked about, as well as the less tangible benefits of bringing people along with the energy transition.

We are building tiny assets, but when we try to bring those assets on to the grid we have to compete on a more or less like-for-like basis with massive offshore wind projects, and it is hard to make that add up. I think that is the biggest challenge we have.

It is also not like for like, because whereas larger renewable energy generators are able to participate, for example, in the contracts for difference mechanism to be able to get some price stability over the lifetime of the project, that starts from 5 MW and that is out of the range of most community energy projects. That creates a big issue for us in trying to raise finance, being able to achieve price stability over the lifetime of the projects.

You could ask why we do not scale up. There are limitations on that in terms of our ability to access grid connections at a reasonable scale on a reasonable timeframe, given that we want to be involved in the project right from the beginning through to the end. Until recently—we hope this may be changing—for our own projects that we are developing, that has basically meant that we have been constrained to a size of less than 1 MW, which is the scale at which we were able to access a grid connection without going through the queue process that we have already talked to.

Then, of course, there are the challenges of funding and resourcing project development. At Bristol Energy Cooperative we are lucky enough to have a small staff team and to have assets off the back of which we are able to invest in project development, but for larger projects and for smaller community energy organisations that remains a huge barrier, which we have talked about in the previous panel.

Luke Murphy: Thanks very much. Just to be clear, you think pricing is the—

Helen Martin: I think this came up in the last panel as well. The pricing and the business model.

Luke Murphy: Hugh?

Hugh Goulbourne: We come at this from the angle of finance. With community energy projects, most of the ones we see are quite small, probably sub-1 MW and less than £500,000-worth of investment. From a financial perspective, the costs of investing in a small project like that, for an investor, are just the same as they are for a large project like some of the projects we were talking about in the first session, looking at £40 million, £50 million or £60 million. It is the same amount of due diligence and other work you have to do to invest in that as you have to in a £500,000 project. Also, it is important to remember that the return on investment on this is not double-digit figures.

For investors, going into community energy at small scale is difficult and probably not very attractive. That is the problem that we are trying to solve. That is why we—as I think we put in our submission—are trying to pull together some investors to put together a new fund that would invest in small-scale community energy and would therefore help Bristol Energy

Cooperative and others to install more projects and for more community energy projects to come forward.

This would also help to solve a problem on the investor side. When we talk to high net worth individuals, to family offices and to foundations, the mandate that they have means that they lack the time to look at these smaller community energy projects, to look at the community shares that are put out through Ethex, Abundance and other platforms, and bond offers.

Our fund is in part also to address that problem, the investor-side problem, which is a lack of time and a lack of resource to look at these smaller projects. That is leaving aside the fact that if you are a high net worth individual, if you take on bonds and shares and other things, you then have to go through all the pain of doing all your tax returns and everything for each individual project, which is quite unattractive to an investor.

Because there is not that pool of investors because they are put off and disincentivised, this also then creates significant delays for the community energy projects themselves to raise finance. If you are doing a crowd platform share it might take six months or 12 months typically—sometimes less, but that is a long time if you are trying to raise finance for an oven-ready project where you have planning and other things and you want to get to construction in the next two or three months. It is just hard to have a pipeline of projects coming through. Raising the finance, in effect, is then the problem because investors are not ready to put that funding in. Our new fund aims to solve that problem. We want to pull investments from, as I say, high net worths, family offices and foundations, and remove the administrative burden by aggregating lots and lots of small projects into one investment vehicle.

Chair: You have anticipated some of our questions on finance—inevitably, I think—but carry on.

Matthew Clayton: I guess the challenges for community energy cannot be isolated from the challenges for all renewable energy projects in the UK at the moment. There is an issue around the revenue levels, the cost of capital and where the capex is. The business model has become a very thin one for any project, but that is exacerbated at two levels for a community energy group.

Principally, it is because of scale. If you are looking at sub-5 MW, you cannot use a CfD. If you cannot use a CfD, then effectively you are projecting a 21% lower revenue curve for the next 25 years relative to allocation round 6. In addition to that, your access to debt is more expensive and the amount of gearing you can put into a project is reduced because you do not have the revenue certainty. I would calculate that by the time you stack all that up, effectively a renewable energy project being developed without the CfD—because you are already accepting a 21% lower revenue curve and then your cost of debt is putting an extra 1% or 2% burden on the project, and each 1% or 2% effectively translates to about a £7 requirement on the electricity price—

is probably looking at about two thirds of the value of a commercially developed project, which is tough to work with.

Q40 **Luke Murphy:** I suspect I am probably approaching time, but is the answer a bespoke pricing mechanism?

Helen Martin: There are obviously different ways you could go about addressing this. We started off with the feed-in tariff and most of our assets, like many community energy organisations, were built under that regime, which offered us both a subsidy and a floor price for the electricity that we exported from those projects to the grid. That is one option.

We have been managing to build projects recently. We have built about 1.5 MW of new rooftop solar in the last 18 months with basically small grants, provided in our case by the West of England Combined Authority, which has been supportive of community energy. Because with a rooftop solar installation you have the potential to sell onsite without going into the grid, it generates a much higher price, but typically you need to shape the size of the asset to meet the onsite demand. However, a little bit of grant funding allows us to max out the size of the asset while we are up there, if you like, future-proofing against growth in demand in the future and exporting to the grid despite lower-than-normal prices. That has been hugely valuable.

Fundamentally, what we would like to see is pricing that is built into and part of a right to local supply. First, there needs to be a right to do that. That would require the participation of licensed suppliers to allow us to sell our power to local customers at a price that both improves the return for us and allows us to offer discounted power to people who are using electricity at the same time we are generating it.

At the moment we have very limited capacity to deliver the matched local supply and demand where we think we would like to be, as well as offer that benefit. That is a whole other different way that we could connect with consumers. That is what people always ask us. "Oh, you are building a community energy asset on the rooftop next door. Does that mean I can get a discount on my bills?" and we would love to be able to say, "Yes".

That is where we would like to see things go, and that could be achieved. There are some mechanisms that are in the works that would get towards that, reducing some of the non-commodity charges that get loaded on to energy bills in the case of matched supply and demand, particularly where that is local. I can go into more detail if you like, but that is what we would like to unlock. I imagine you do not have time for that. We can share afterwards perhaps, if that is helpful.

Chair: Please write to us in more detail, absolutely.

Helen Martin: We will definitely do that.

Chair: Mike Reader has a question that may well be quite well timed on the back of what you just said.

Q41 **Mike Reader:** I am going to ask, more generally, whether there are any other Government incentives or mechanisms that are in consultation that would help to bring forward more community energy schemes. To add to that, is there any learning we should do from outside the UK on incentives or mechanisms that have helped to drive community energy in other countries?

Helen Martin: I guess that does immediately follow what I was saying, which is that there are a couple of adaptations to the Grid Code that are either about to be implemented or under consideration that would go a large way towards what I am saying.

One of those is P442, which allows small-scale generators to be exempt from certain levies when they can demonstrate that their supply is matching the offtake for a particular user. That does have limitations because it is only available for up to 5 MW for any given entity, and for a larger community energy organisation like Bristol Energy Coop we would already be surpassing that. It has limitations. It is also not linked to geography.

There is another modification in the works, P441, which is trying to introduce a further mechanism that would link that to proximity—under a given substation, balancing supply and demand and reducing certain levies accordingly. The key thing for us is that those things are clear and reliable, so that we know that we can make a 25, 30 or 40-year investment on the basis of that tariff mechanism remaining in place over the long term.

Q42 **Mike Reader:** When you say "reliable", you mean the Government will not change that at a later stage?

Helen Martin: Correct, yes.

Q43 **Claire Young:** Some of the questions I was going to ask about guaranteed minimum prices for electricity have probably already been covered to some extent. It is certainly something that has come up in my patch when I talked to Marshfield Community Energy. Specifically in terms of achieving 8 GW by 2030, do you think that price certainty alone would be enough to unlock that, or would other things you have been talking about also be necessary for that specific goal?

Matthew Clayton: If we look back over the last 25 years, we can see the periods where the most capacity has been built have been when there has been price certainty. Under the feed-in tariff—particularly for the community energy space—and the renewables obligation scheme, you can see the deployment curve completely tracks the certainty or otherwise that was given around revenues on that.

In today's context, renewables are becoming mainstream energy, so I do not think the sector should be looking for any more revenue support. The community energy sector should not necessarily need more revenue support, but it needs access to the existing revenue support.

If you look at a renewable energy project, you have roughly three sources of value or dynamics of value: the revenue side, the capital cost

side and your cost of capital side. They are effectively your three limbs. For revenue support, a premium for CfD or just access to the CfD would be a very helpful step.

On the capex side, I do not propose that we change the pricing of turbines and panels for community energy. However, given the very material element that the grid makes up of the capex requirement, perhaps GB Energy could routinely own the grid infrastructure for community energy. Community energy can then amortise the cost of that over three or four lifecycles of a project, over 60 or 70 years instead of 25 years, because that is a real albatross around the projects' necks.

On the cost of capital, anything that can be done with GB Energy to provide either a lower-cost slice of capital or some kind of softer capital slice to complement the commercial money coming in, just to take the edge off into viability, would be very welcome. It does not have to be revenue. It could be any one of those legs of the stool, or a combination of all three.

Claire Young: You have mentioned Great British Energy here—you have an amazing ability to answer my questions before I ask them, which I have to say is astonishing.

Chair: It shows that they are good questions.

Q44 **Claire Young:** GB Energy has £1 billion of funding for the Local Power Plan. You have mentioned a number of ways that it could use that. How would it use it most strategically to help to reduce development and capital expenditure?

Hugh Goulbourne: I am happy to go first. Building on Matthew's points, one element would be to reduce the cost of capital through some form of soft loans, quasi-equity or something of that kind, particularly at the riskier end of projects. The private sector investor is going to invest in the near stage of a project, and by that I mean pretty much planning, post-planning and onwards. It is too risky before that, so somebody is going to have to come in and take a lot of the pain out for community energy groups before that.

Also, the cost of capital to community energy groups before then, if they go out to market, will be a lot more than it will be once you are into planning. I think the only person who can intervene in a meaningful way in that is the state, and there are examples over many years showing that that is where the state's money would be best spent. I would have thought GB Energy would be well-placed to invest at that stage.

Building on that, Helen has touched upon local energy markets and local access, and I think that is quite an important area in which to intervene as well. I suppose I would say: if GB Energy is not doing that, what is it doing as an institution? It is not an energy supplier and it is not going to be building out lots and lots of big generation because that is what commercial developers do. You have to question what it is doing if it is not intervening in that space.

The final point from our perspective—and I am sure you will come on to more questions on that—is that GB Energy can also help to de-risk some private investment and help to crowd more private investment into the space. Again, private investors will tend to want to know that if some of these projects do not quite succeed, they are not going to have to be the people who take all the risk on that.

Helen Martin: The only place where I would add something is on that early stage development. I think it came up in the previous panel that there is something of a gap at the moment. There has been—we hope that there will continue to be—funding for early-stage feasibility testing and project development work under the Community Energy Fund and that has been instrumental in our ability to start investing again in developing ground-mount projects, but the total funding available under that at the moment is £140,000. That does not come anywhere close to the funding required to develop a project even of 4 MW or 5 MW, which is, as I think Jake mentioned before, closer to £300,000 or £400,000.

There is a gap there. As Hugh says, we cannot borrow for that; it is too high risk. That abandons us, at the moment, typically somewhere in the middle of planning. There are some other grant sources out there that we are aiming to tap.

However, if the fundamental business model, the pricing and the price stability is fixed, then that cost ultimately—literally, in our accounts—is built into the capital cost of the project. That cost could be repaid once the project successfully reaches financial close. That is a big-impact investment that could be made by the likes of GB Energy, having some revolving fund for project development that could take risk but that could be repayable when a project is successfully financed.

Q45 **Claire Young:** To come back to you, Helen, you referred tangentially earlier to local energy clubs. If there was a simpler way to set up local energy clubs so that more communities could benefit from local renewables, how could that help community energy groups to raise finance for new projects? Is that something Great British Energy should be involved in in any way?

Helen Martin: Local energy clubs were more or less what I was getting at with respect to having a mechanism or a right for local supply. As I said, there are developments in the works—and we could probably do better if we were starting from scratch to design the ideal approach to this—that could create the basis for essentially a price advantage. That price advantage is the key thing. It will remove certain levies from electricity that is sold by a generator to a member of a local club who is immediately adjacent or in the local area. As soon as you have that price advantage, that offers us the possibility of increased revenue from that project, which helps to make that project financially viable and bankable by allowing us to offer incentives to customers to participate. That is key.

The key things that we need for that are, first of all, movement on those pricing mechanisms and the levies—that is a regulatory issue—and some requirement for suppliers to participate. The one active local supply club

organiser, Energy Local—there are several existing clubs, but at the moment there is only one supplier that will offer that service, and that supplier is a very green supplier that happens to already have relatively higher tariffs than the market norms.

That means that, while you can get a discount from their normal tariffs by participating in the club, those tariffs are probably higher than the big suppliers. While some of the bigger suppliers have supported those clubs in the past, they are not actively supporting them now. That is the other thing. I think most of what would be needed to enable local power clubs and local supply to happen is regulatory, rather than GB Energy's investment support being needed.

Chair: We will move on to Mike Reader to ask about locational pricing.

Q46 **Mike Reader:** Yes. Sorry, a slightly different tack—we were just talking about how we got this into this session.

We have been talking about locational pricing, a more macro issue that is currently under review. Every morning when I listened to "London Playbook" from "Politico", the advert was, "Locational pricing will stall clean energy. It is the wrong thing to do". I heard that for a good week while I was listening to the "Playbook" every morning, but I would be interested to hear your views on how locational pricing could help or hinder community energy projects and if you have a view on that.

Helen Martin: I can answer this as Bristol Energy Cooperative. We are located in a highly populated and high-demand area, so obviously locational pricing based on the level of demand in a particular geography would help us. That is from our perspective on the system; I do not have a more global view.

Hugh Goulbourne: If locational pricing comes into the general changes in regulation that enable local energy markets, our view is that that would almost break our model, because the scale of the community energy sector would go off the graph. We are very supportive of the idea of local generation having a local market and a local set of pricing.

Matthew Clayton: This might be an unhelpful response, but I think that the prevailing uncertainty is the issue, rather than the eventual destination. The way that any change in the system in terms of locational pricing is applied—whether that is applied retrospectively or not, whether there is grandfathering or not—is a very material concern at the moment. I think the prevailing uncertainty is materially compromising the appetite of developers, commercial or community, in the UK at the moment, so resolving that uncertainty would be—

Mike Reader: I should say for the record it is an advert from SSE, rather than "Politico" saying that.

Q47 **Wera Hobhouse:** Before I move on to my section about the community energy sector being more attractive to investors and going a bit more into the detail, I want to go back to what you said, Helen, about the regulatory changes. One of the known barriers to community energy is

the high connection cost to the transmission network, when community energy does not go beyond the local distribution network. That is a known barrier and feeds into what you have been talking about: you cannot sell directly locally, or that community energy works best when you just have it on the rooftop and you sell it back to the school, and then beyond, you cannot.

What would be a way around the fact that you have to buy into the high costs of the transmission network rather than just using the local network, which would be much cheaper? What would be a more proportional way of allocating these costs for a local energy provider or a local community provider?

Helen Martin: There are probably two parts to that question. One is around how we connect into the grid. We do have projects connecting at different voltage levels and, historically, at transmission and distribution level. The cost of our connection to the grid is produced by some magic that is woven at our distribution operator. We do not necessarily have visibility of how our cost of connecting a project to the grid is determined.

I will say that the nature of the grid connection is currently another constraint, which I should have mentioned, on the local supply model. That is currently only available to projects that are connected at the lowest voltage to the distribution network, and that does mean for us that there are certain projects where the available connection happens to be at a different voltage. That means at the moment, under the current regulatory system, local supply would not be possible.

In terms of the broader costs of the system, obviously one of the benefits of local supply clubs—and where a local supply club approach to fixing the price problem is more targeted than regional-based pricing—is that it allows us to reward customers for balancing their demand with our generation. That goes beyond just the benefit of having the customer and the generator in the same place to a point where we can co-ordinate: if you turn your washing machine on when the sun is shining, you will get a lower rate of electricity.

There was a question earlier about analysis. I am afraid I do not have great analysis—I have not yet seen any, but I hope it is out there—of what would actually be the savings to the transmission, the cost of strengthening the transmission grid, of having more power connected at that level. Obviously, there is a transmission cost built in. One of the levies that gets loaded on to bills is around supporting the cost of building, maintaining and strengthening the transmission grid. There certainly could be an argument that that would be one of the levies that arguably locally balanced supply and demand under a local power club should be exempt from.

Wera Hobhouse: Yes, but it should still be a proportional cost, if you are a community energy provider.

Chair: Wera, you will need to move on to your main question.

Helen Martin: I am happy to discuss this afterwards, Wera.

Q48 **Wera Hobhouse:** It is a very technical problem. You talked about the regulatory changes, and I would be interested in that because that regulatory change seems to be at the bottom of a lot of the costs that make community energy very high, when it could be quite low—but I understand we are coming maybe to this at a different point.

Can I come to the question set again around making community energy more attractive to investors? We have already heard some of the answers in your earlier questions but, to improve the liquidity of investment in community energy, what do you think of the idea of a credit facility provided to projects by the net zero hubs to buy withdrawn shares temporarily?

Matthew Clayton: Could you repeat the question?

Wera Hobhouse: To improve the liquidity of investment in community energy, what do you think of the idea of a credit facility provided to projects by the net zero hubs to buy withdrawn shares temporarily?

Matthew Clayton: That to me sounds a little bit like what we are doing, in that what we are providing the community energy sector with is what we call a community energy funding bridge. That is to facilitate both the capital cost of building the project and the expertise that goes with that, but also complementing the shared ownership models as well, where effectively we are coming in with capital to get projects built with the full expectation and hope that we will be crowded out by community investment in the long term. The ownership of those projects from day one can be community owned and then we can come in and help to get them built, get them de-risked and then effectively we are crowded out of those investments.

Yes, I agree it would be a good thing to do, and it seems to be working very well, but there is not the scale at the moment because the projects are not available because the viability is so slim.

Q49 **Wera Hobhouse:** Okay, there seems to be agreement with the panel so I will move on.

To encourage investment and increase public awareness of community energy, should the Government consider an information campaign combined with a guarantee scheme for investment of up to £10,000?

Helen Martin: I think that would be enormously valuable.

Matthew Clayton: Is that at a residential level, effectively, for deploying renewable technology, household renewable technology? Yes.

Helen Martin: If I understand what you are suggesting, Wera, for individual prospective investors, for us member shareholders in community energy schemes, I think that would be hugely valuable. We know we need to reach more people and bring a wider base of people into community energy, and there is only so much we can do at our scale. We are starting to work together more to raise the profile of the

sector, with the help of the likes of Community Energy England or Community Energy Scotland, but what you just described would be fantastic. It is a hard yes from me.

Hugh Goulbourne: I would agree as well. Our fund is not aimed at the retail investor; it is aimed at the sophisticated investor. Certainly, we support platforms like Ethex, Abundance and others and a Government programme could only help.

Wera Hobhouse: The Chair is keen to move on, so a big yes to both questions.

Q50 **Chair:** Thank you very much. That was very helpful. Matthew Clayton, you are here to represent a commercial developer. What are the biggest challenges that you face in seeking to enter into shared ownership with local communities?

Matthew Clayton: To be called a commercial developer is quite flattering. I think we straddle, quite proudly, the divide between a very social investor, an impactful investor and a commercial investor I guess the problem that we see and we seek to fix through the community energy funding bridges and collaborative investment is that you will have a commercial developer that is investing millions of pounds at very high risk, at very high uncertainty into getting a project built, and wants the most seamless, frictionless process they possibly can. You have a local authority that has to make a planning decision and would love to involve the community but does not actually have the remit or the toolkit to be able to encourage shared ownership in the project. You also have a community energy group that is bubbling with excellent ideas, expertise and enthusiasm but probably does not trust the commercial developer terribly and does not necessarily have the faith in the local project. What we are aiming to do is provide models of how this can work and how it does work. For that, I think there needs to be a shared view of the value in doing it in the first instance. That is important, but I think bringing those groups together can be done.

What the developer needs is speed and certainty, and the way that manifests itself is a number of the projects, which were probably referred to earlier on the shared ownership side, where written into the planning consent there will be an invitation for a 20% stake in an enormous wind farm on the west coast of Scotland. The way that manifests itself in practice, it is great: it is in the planning, it is factored into the planning process, but when it comes down to it, the developers put £2 million or £3 million into developing that project and then they have to get to financial close as quickly as they can, get the turbines ordered, get the grid secured and everything, and they need to invite the community to invest.

How are they going to do that? It is giving them a one-month window, if you are talking about a scheme that is tens of megawatts. A multi-million-pound investment for a community energy group to muster overnight is quite a challenging thing to do.

What we are doing is providing the bridging facility and the expertise to make sure the communities can respond to those calls and be able to do the due diligence on the projects to make sure that the developer is not leaking value into their own coffers as opposed to the community coffers, so that there is genuine shared ownership, all parties are at the table in the governance and decision making, and hopefully the repowering opportunity beyond that.

Q51 **Chair:** To all three of you, what are your views on the potential effectiveness of offering incentives to developers, and are there unintended consequences of doing that? Perhaps Hugh Goulbourne will go first on this one.

Hugh Goulbourne: Just to make sure I have understood the question correctly, is that a follow on from the previous question in relation to shared ownership schemes?

Chair: We were talking about this in the first panel as well. How effective can it be offering incentives to developers to make community partnerships work?

Hugh Goulbourne: Effectively, to encourage shared ownership. It is useful to continue from where Matthew finished because both our funds—we have not launched ours yet; I know you launched yours yesterday, Matthew—are looking to do something similar in terms of helping community groups to bridge both where they are developing themselves but where they can be afforded opportunities like this and they could take 10% to 20% out of a much bigger development, to have the finance available to do that in the timescale that a developer needs them to do that.

On the incentive to encourage a developer to do it, I think the point raised by one of your members that Matthew alluded to is probably the right one. Our view is that a developer should want to have this extra capital, because they are trying to raise hundreds of millions of pounds to do lots of developments, both in the UK and internationally.

From our perspective as people who work with investors, we would be a bit confused why a developer would not want a 20% share taken out. It should be quite attractive if, as Matthew said, it is structured in the right way. I am not convinced as to why they should need to have additional incentives. The incentive should be there from having a wider capital mix into those projects.

Matthew Clayton: Reflecting on the first session, Jake mentioned the 5 MW plus 5 MW scheme, which effectively gave the developer access to more value by involving a community energy group and was really productive and worked. There needs to be that alignment of value. It would not take much in the current climate with the prevailing conditions: the community coming in with a CfD plus a very small margin would make a difference to it and encourage something that placed a different planning time horizon with high levels of community engagement. The grid queue is being completely re-evaluated at the moment. If the

community aid component of that was built into the grid queue process, then you would have developers advertising for communities to get involved.

Q52 **Chair:** Interesting. Helen Martin, while you are following up on your colleagues' comments, what are your views on the ideas of giving communities a right to purchase a stake in local energy projects or requiring developers to make minimum shared ownership offers?

Helen Martin: We have been actively looking at this. We have been essentially cold-calling developers who we know are looking at or some way through developing projects in our local area, and the answers at the moment vary from no response, which is the majority of cases, to one or two cases where you have a forward-thinking developer who sees the value—

Q53 **Chair:** Sorry to interrupt. How do you know who to cold-call?

Helen Martin: We are tracking planning applications and these kinds of things—early pre-pre-apps. Arguably we are getting in too late, but basically the onus is on us and we are calling people. At best, we are in the process of, we hope, moving towards structuring this kind of scheme. I think you are right, Hugh, that where developers understand where community energy is coming from, and in the light of the public discussion around local power plant, the idea that community energy organisations may well be able to come with finance is a part of the equation. Forward-thinking developers see the broader value of having community ownership.

However, that is one out of 20 calls that we make. If there were incentives, and certainly if there were a mandate, then I would assume that those developers would instead be calling us. That would completely change the game.

Q54 **Torcuil Crichton:** You have anticipated my question, Matthew and Helen, by talking about these incentives and CfD plus, by which I assume you mean that, if there is a community element to your application for CfD, you will be bumped up that queue, and if there was a grid connection application that had a community element, say 25% or 20%, it would get bumped up the queue as well. Is there a case for a CfD for communities—I think I just made it—a different price structure for community connections?

Chair: Sometimes Committee members give evidence as well as asking questions.

Matthew Clayton: It is great that we all shared notes. A marginal premium on the CfD for community-owned projects and/or the shared ownership would make a very material difference. It would not represent a huge cost. If you look at the stack of concerns for project developers at the moment, No. 1, No. 2 and No. 3 is grid, so anything we can do about the grid. GB Energy investing that very large figure into grid and alleviating the grid problem sooner or later is probably the most powerful thing it can do in achieving the 2030 target.

I must confess I am not a fan of mandating community ownership, which might make me quite unpopular. I am a fan of creating an incentive framework, which can be marginal, but just enough so that then the spirit of the organisations, both the developer and the community, are coming together in a positive way. My concern is that, if it is mandated, it becomes a commodity, a product, which is not really what community energy is about. It is bringing together these developers who are minded to with the communities that would love to that I think is where the sweet spot is. Mandating does not work for me—well, it would work, but I do not think it would achieve the spirit of community energy.

Hugh Goulbourne: On the CfDs, one thing we would say is that our fund would like to invest across technologies, but most of the technology plays we see at the moment would be solar and a bit of wind coming forward more, particularly with planning changes. There are some very interesting technologies that we used to invest in 10 or 15 years ago as CO2Sense, like small-scale hydro, run-of-the-river hydro. CfDs there, certainly below 5 MW, would help with that technology because some of those are quite uninvestable at the moment or a challenge to invest in.

Helen Martin: Specifically on the CfD idea, I do not have direct experience of the CfD because we cannot access it at the moment. I understand it is a very complex process with very lengthy contracts. I just wanted to flag that I think we would need to look at making sure that any community-specific CfD windows were relatively simple to access and document.

Q55 **Claire Young:** In the past we had tax relief on investment in community energy. What difference did that make and how would reinstating it compare with other ways to help to finance community energy in terms of impact and importance?

Helen Martin: On our specific experience, it is quite hard to unpick what difference it made because it went along with most other things: the feed-in tariff and the five-plus-five scheme for shared ownership development. It is hard to unpick specifically what difference the tax incentives made.

From our engagement with our own investor members, it seems to have an oddly disproportionate impact. Where we have surveyed our members, and it is a small sample size—we have 2,000 members, of whom maybe 10% to 20% are responding, or even fewer—a large proportion of people who respond say that tax relief would make a big difference. It is the No. 1 factor that people say would make a difference in their decision to invest or the amount that they are investing.

On the other hand, people say that the level of interest that they are being offered is not the primary reason why they are investing. From what people tell us—we have not been able to test this—on a pound-for-pound trade-off, it does seem that there is a signalling around tax relief that attracts people's attention or draws people towards making a particular investment.

I think that the relatively strong performance of bond issues by community organisations also points to this. Again, there are differences, because the risk profile of a bond versus a member share is different, but we have seen routinely that those tend to go much faster and attract much more attention. That is partly, we believe, because those are eligible, for example, innovative finance ISAs, whereas member share issues by community energy organisations are not. It is a bit anecdotal, but we have reason to believe that it is oddly and disproportionately valuable to attracting people's attention to this as an investment opportunity.

Matthew Clayton: Again, if we look at the flows of capital, particularly retail capital rather than institutional capital, the peaks we have probably seen over the last 20 years have been when there was VCT eligibility, then followed in a very material way by the EIS boom, as I would call it, where effectively the EIS was running at the same time as the ROCs and the introduction of the feed-in tariffs, so there was a big inflow.

This comes back to the three stalls of value that the project needs. Effectively, that is lowering the cost of capital to the project because it is turning a 5% return or 4% return into a 6%, 7% or 8% return for the investor, so that helps. However, I would caution this. The VCT and the IS schemes got pulled specifically for renewables because there was a risk that people were double dipping; they were getting a tax break and benefiting from subsidy indirectly through the investment.

The other thing that I would amend, if I was to review or implement something like that, is the time horizon. Particularly with EIS, I think there was a five-year time horizon. If we are looking for wide ownership, long-term, patient investment does not really work with the renewable energy project. Effectively, we saw a lot of projects get built with the EIS capital and all those assets were then flipped into institutional money and international money over the five-year horizon of the EIS eligibility.

If we were doing that with a view to delivering more renewables, I think alignment between the incentive and the underlying asset would be appropriate.

Q56 **Claire Young:** You are concerned that reinstating it could still risk a double subsidy. Do you have any suggestions for overcoming that problem?

Matthew Clayton: I would argue that there is not a subsidy any more because the CfD provides price stability. It is not a subsidy. I think that was overcome very successfully with the removal of the ROC in the feed-in tariff.

Helen Martin: These things add up. There are different levers. You could add grant funding, particularly at the early stages of the project. You can intervene to add a little bit of value on to the price that community organisations can access—the level of the price, which is different, as Matthew said, from the stability. All these things contribute to being able to have a project and lower-cost finance, of course—GB Energy being

another one—or credit backing of the kind of fund that Hugh is trying to set up. All these things contribute. It is not as though we are at risk of making excessive returns at the moment.

I do think there is potentially a particular value of signalling around an incentive mechanism that could be specific—I think that is the suggestion—to community energy. That is obviously different from what was the case before, when this was a renewable-wide EIS incentive, and seems to have a value that maybe punches a little above its weight in terms of bringing more investors in.

Hugh Goulbourne: I am not going to talk against the idea of having EIS relief. I think if it was offered to us by the Treasury we would take it, so everything I say now should be caveated with that.

To build on your point, Helen, in our pooled funds idea—something that Matthew said—already our modelling shows pretty narrow returns on investment. The high net worths or foundations and institutional investors that are investing are not doing so for the high return. These are asset-backed investments, so relatively low risk in that sense.

The other element, though, is safety, as I said in my introductory remarks. There will be defaults. There will be projects that do not go forward for one reason or another, even in the community energy space. Another way of doing it, if you want to be very specific to the project and the investor, is for GB Energy, Treasury or whatever, to use its backstop in guaranteeing some of those funds—both Matthew's and ours. That also, to Helen's point, gives the investor the confidence. When you are sitting in an investor meeting, there is nothing that adds confidence more than saying that Government have some skin in this game. To say that you have a Treasury-guaranteed or backed scheme will always help to raise investment.

Matthew Clayton: We have been doing this for 30 years, and the other element of tax relief that we have seen is that, until about 15 years ago, on the smaller projects we did not pay business rates in Scotland on our hydro schemes that we had there. That exemption was dropped about 15 years ago. Those elements can make a big difference to the operational model and begin to make up the scale challenge for community energy.

Q57 **Claire Young:** You do not, between you, seem to be expressing a preference one way or the other. You are saying that all these things could contribute, but do you have any sense for which is the most important thing for Government to do?

Matthew Clayton: I think in terms of mobilising capital, a tax break on the investment itself would create a lot of momentum for investment in the space. The last EIS wave, if you like, had the benefit not only that it was a tax break and a tax incentive, but that there was effectively a 20-year business model with an inflation-linked revenue stream attached to it. We no longer have that revenue certainty, but the tax break changing the investment case from a 4%, 5% or 6% to a 6%, 7% or 8% return for investors would materially change the picture.

Hugh Goulbourne: Yes, I agree with that. My comments are only made in an environment where we understand that Treasury is fiscally constrained.

Helen Martin: In terms of getting renewable energy projects done, I think that—relating back to my initial comment—the most important thing is to get a revenue and address the price structure. From our perspective, the most effective way of doing that, because it would also allow us to encourage local balancing, would be creating upside from a right to local supply and levy exemptions or other pricing mechanism that rewards local supply clubs. Along with price stability mechanisms, that could go a long way to creating a viable business model. Once you have a viable business model, you can generally get it financed.

Chair: Thank you all very much. Helen Martin, Hugh Goulbourne and Matthew Clayton, thank you for your evidence. That is the end of our session.