

Energy Security and Net Zero Committee

Oral evidence: [Unlocking community energy at scale](#), HC 394

Wednesday 2 April 2025

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Members present: Bill Esterson (Chair); Ms Polly Billington; Sir Christopher Chope; Torcuil Crichton; Wera Hobhouse; Anneliese Midgley; Luke Murphy; Melanie Onn; Mike Reader; Claire Young.

Questions 58 - 120

Witnesses

I: Pete Capener MBE, Interim Chair, Community Energy England; Alistair Macpherson, Chief Executive Officer, Plymouth Energy Community; Afsheen Kabir Rashid MBE, Chief Executive Officer and Co-founder, Repowering London.

II: Steve Shaw, Director, Power for People; Dr Mary Gillie, Founder and Director, Energy Local; Benedict Ferguson, Co-executive Director, Community Energy Wales/Ynni Cymunedol Cymru; Stephen Harris, VP of Energy Markets and Optimisation, OVO Energy.

Written evidence from witnesses:

- [Community Energy England](#)
- [Plymouth Energy Community](#)
- [Repowering London](#)
- [Power for People](#)
- [Energy Local](#)
- [Community Energy Wales/Ynni Cymunedol Cymru](#)
- [OVO Energy](#)



Examination of witnesses

Witnesses: Pete Capener, Alistair Macpherson and Afsheen Kabir Rashid.

Q58 Chair: Welcome to today's session of the Energy Security and Net Zero Select Committee. Today's session is the second in our inquiry into unlocking community energy at scale. We will focus on two of the most important challenges facing the community energy sector today: the lack of a price mechanism for local renewables that reflects the value of community energy and allows projects to be financially viable; and how to allow community energy organisations to sell renewable electricity to local customers without complex regulatory workarounds. Panel 1 will focus more on the financial viability and panel 2 on local supply. Panel 1, you are very welcome and I will ask you to briefly introduce yourselves before we start asking questions. Who are you?

Afsheen Kabir Rashid: Hello. I am Afsheen Rashid, the CEO and co-founder of Repowering London.

Alistair Macpherson: Good afternoon. I am Alistair Macpherson, chief executive for Plymouth Energy Community.

Pete Capener: Good afternoon. I am Peter Capener, interim chair at Community Energy England. I am also co-chair of the ministerial advisory group on community energy and managing director of Bath and West Community Energy.

Q59 Chair: You are all extremely welcome. We look forward to hearing your evidence. I will start with the first few questions before inviting my colleagues to take over. We heard that, at present, many community energy organisations rely on power purchase agreements with local authorities, public bodies or local businesses. Because of the difficulties of selling to the grid, this is one of the very few ways to make community energy projects financially viable. Do you agree with that?

Alistair Macpherson: Absolutely, I would agree with that. We are going to talk about the viability of projects. I would also like to make sure that we remember that those projects underpin entities, community energy businesses, that are, in our view, absolutely crucial to the transition in one form or another. You will be hearing from three organisations that use their hyperlocal knowledge and their setting to mobilise and bring together communities on all parts of the transition. We are going to be talking about generation and that part of the transition. We all use those anchor community energy generation assets as a springboard for a suite of services in our locality that trade on that hyperlocal position. I do not want to forget that context.

Specifically with relation to power purchase agreements, in the post-subsidy world, since the FIT disappeared in 2016, we have been dependent on power purchase agreements as a vehicle to provide us with two things. First is price security and revenue security. For us to be able



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to raise community capital and debt capital to finance those generation assets, we need some long-term security over the revenue. Debt providers and our community shareholders do not want to put into that at risk, so that is absolutely key. When we had the feed-in tariff, that was there and it is what stimulated the massive growth in community renewables during those times.

From the other side of things, PPAs have provided the ability, in a world where local supply is not enabled, for us to have conversations, collaborations and partnerships between us, as local generators, and other local consumers. On the consumer side, the PPAs, if done in the right way, allow those consumers, particularly large public consumers who have a long-term need and a position to say, "I want to buy my power in this way", to genuinely add value with that purchasing decision. Buying that power in a certain way genuinely generates more renewable capacity within the network, rather than just buying a tariff that is widely available and resolves in the reselling of REGOs. Those are the key points I would start with.

Pete Capener: Not all PPAs are the same. We have the traditional PPA arrangement. One-year PPAs that you purchase on the wholesale market do not give you the long-term security that Alistair is referring to. If you are putting your solar systems, for example, behind the meter and selling electricity to the building owner, typically you might have a 20 to 25-year PPA on terms that give you that price security. We need to try to create a similar situation with the larger-scale grid-connected projects below 5 MW that are not able to access contract for difference and the national auctions.

What Alistair and Plymouth are doing, and we are trying to do in Bath, is create a long-term arrangement with our local authority that gives that price security, enables both sides to hedge, as Alistair says, but also provides real additionality in terms of local generation. There are complexities around establishing those PPAs, particularly if they are virtual PPAs or synthetic PPAs, which you may or may not want to go into now. They are critical to the long-term success of the community energy sector and provide one of the really sound and important ways that partnership between local authorities and the community energy sector can flourish.

Afsheen Kabir Rashid: I would agree with a lot of the comments already made by Pete and Alistair. From a London and urban context, I want to add that projects are generally more expensive. We have smaller roofs. We do not have big, large spaces to put solar panels on. That makes viability even more difficult. A lot of projects and sites do not even make it on to the pipeline because they are not economically viable. The PPA price and having some security around that would definitely bring more projects into the pipeline and into completion.



Having a relationship with the local authority is quite key to that and being able to have some level of support, so that we are not just passing risks on to our investors, but also not passing on risks to local authorities. Having some level of Government backing or guarantee should prices go beyond a certain level would really help. We can even share the benefits back. If prices go above a certain level, you can have a cap. As long as we can make our projects financially viable, the benefits can go back to Government. It is about sharing risks and benefits of making these systems viable and being able to provide that local value and community benefit also.

Q60 Chair: Do you think that the terms and conditions of PPAs should be standardised? Would this encourage greater uptake? That is something we have had suggested to us. If so, how would that work? Who would be responsible for it? Also in your answers, do you think the Government should underwrite PPAs to give the long-term price security that I think all three of you touched on just there?

Afsheen Kabir Rashid: As I have said, yes, it would be helpful. Having a shared risk and benefit approach, so that everyone is getting something out of it, is a fair mechanism going forward. In terms of standardisation, we ourselves have been trying to standardise. Many organisations here, while working with a range of local authorities, have standardised quite a lot of our templates.

We have found that, in spite of standardisation, legal and procurement teams within different organisations and local authorities often need to do their due diligence and still do their review process. Maybe more of a framework would be helpful so that we are more efficient with our time and different local authority procurement and legal teams do not have to go through this ping-pong process of to-ing and fro-ing. I know that our local authority in Newham has agreed one PPA and one set of lease agreements. We thought, "We have a template", but then it has had a change in legal team structure and it is doing that again. It is just a waste of time, really.

Chair: We will come back to procurement shortly.

Alistair Macpherson: I was going to come in on the underwriting point. In a PPA situation, effectively, that is just being traded on price. None of the local benefit of that generation is being put into that price because the off-taker is not in a place to take that and to share and hold that value.

That plays out in the conversation that we are having within Plymouth. We have, in many respects, what might be perceived as a perfect local power plan project. A 14 MW solar farm is being developed through a 50/50 joint venture between the local authority and us. It is on an old landfill site. The local authority wished to be the power off-taker through the national wealth fund. We also expect the local authority to be the debt provider to the project.



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We are really close, even on quite a challenging site in many respects in terms of the economics, to a deal. That deal looks like it gives the local authority a really good price for power in the first eight years. For that deal to work economically, it actually needs a commitment over 20 to 30 years, and the local authority is going, "Why do I take that risk?" That is a difficult position for it to be in. I understand the challenge it has with that, because it is being asked to underwrite that risk, which is not really its. It has a duty to its local community to do a range of things, and most of those are financially challenged in one form or another. This is one that maybe is an ask too far.

In a position where there was some form of underwriting mechanism, in the form of either a PPA or some other floor price mechanism, that would mean that the community business could still raise the finance. It would have that long-term certainty of a floor price. Then it could do deals on a shorter-term basis with the local off-taker, be it the local authority, the hospital or A N Others. That would be a good halfway house in terms of the situation we find ourselves in now.

Q61 Chair: I am going to move on to the next question, but we may come back to some more detail there. Afsheen, you mentioned procurement already. We have heard about the bureaucratic processes, the competitive tendering and the biases towards the cheapest option, which tend to favour large companies. It is a fairly common set of analyses of procurement more generally, not just in community energy. Do you have examples of where procurement rules are making life difficult with partnerships with local authorities?

Afsheen Kabir Rashid: Yes, definitely. I am going to take us a step back. Procurement rules are set and it takes us through a tender process, and that is fine. I will come back to that. More than procurement, we really need a landscape that encourages community energy organisations and local authorities to work together. It is about striking those partnerships, because then, once you have an agreed partnership, you have agreed a strategy of how you are going to deliver your net zero plans and climate targets. The framework for procurement follows based on that, and then procurement becomes more accessible. At the moment, those opportunities do not happen, because you do not even have that framework in place.

As an example of what good practice looks like, the GLA ran the Greener Schools programme. In the tender spec, it specified that partnerships with community energy groups will be looked at favourably in the application process. When funding was distributed, a lot of the local authorities contacted us and said, "Would you like to be part of this with us?" That created a framework that enabled us to work collaboratively and unlock the pipeline. That is the kind of framework and partnership approach that we need to see more of.

There is another example where it is not working, again with the GLA. I am giving a London-based context, because that is where we operate.



There is a pre-market engagement happening on the warm homes local grant. We do not tick any of the boxes on that survey. We are being encouraged to complete this market engagement survey form, but we cannot meaningfully engage with that process, because we do not have the systems, particularly the data operating systems, to be able to comply with a lot of that, so we are already out of the conversation.

The GLA is taking a very proactive approach, and having discussions and dialogue with us outside of that framework as well, to make sure that we can engage in this process. There is a bit of, "If you do not have the strategic and political will, the procurement will not follow". It is how we are creative and flexible around these frameworks to create the opportunities that will really unlock a lot.

The third point I would like to make, within the discussion around strategic partnerships, is that there is a budget made available for local authorities to bring in community energy organisations. If the sector is to professionalise, we need to be paid for our service. If social value is being valued truly, it needs to be paid for. Who is going to pay for that? How do we make sure the priority being given to social value does not mean that competitors and tenderers are priced out?

Q62 **Chair:** Do the rules need to change? Does there need to be different guidance to enable the partnership working and success of which you have given us examples?

Afsheen Kabir Rashid: It is the policy that needs to encourage the collaboration and the partnerships. That is my key point. I do not think that the procurement rules need to change as such.

Q63 **Chair:** It is the guidance that goes with it. That is interesting.

Pete Capener: From a Community Energy England perspective, if we look across the country, we can see that there is a huge variation in the approach to procurement among local authorities as they approach communities. Some local authorities are quite happy to say, "We will let you approach all our schools", for example, "and make an offer in terms of rooftop solar". Some local authorities regard that as needing to go out to procurement. There is quite a lot of variation. While the procurement rules are there, there is quite a lot of variance in interpretation.

Very quickly going back to the PPA point, the same thing applies there. Standardisation in both approaches, being very clear about what is possible for local authorities to do from a procurement or PPA point of view, would help immensely, because then local authorities can feel, "It is okay to do this". Traditionally, they might say, "We are the first people to do this. We had better wait until somebody else comes along and does it", and therefore nothing happens. A bit of a leadership role there, saying what is possible, would be really helpful.

Q64 **Mike Reader:** I just want to pick up very quickly. You mentioned social value. I was trying to understand why it costs you more money or adds



cost on. Is it because authorities are following the national TOMs and it is very much a box-ticking exercise? Is there another reason why you see that adding cost to the service that you are providing?

Afshen Kabir Rashid: It is not delivering the social value aspect of it, but engaging. If someone is applying for a particular tender, they will price it based on their staff costs and what it will cost them. They may think they are achieving their social value and have means within the organisation as to how they would be able to meet the social value targets. If they are going to actively engage with a community group such as us, we are not going to deliver that for free. We will have to be paid, so it needs to be included in the price framework for them that they are setting, without making them uncompetitive when they put out their price.

I am saying that, while we deliver social value, we deliver true meaningful benefit in the communities. That needs to be paid for. As community energy organisations, we are professionalising. We also need to pay standard salaries, and in a London context. We have volunteers and we rely on volunteers, but we have paid staff.

Q65 **Mike Reader:** When you say “they”, what do you mean by “they”? Who is asking you to provide those services? Is it local authorities or private contractors you are partnering with?

Afshen Kabir Rashid: It is local authorities. If local authorities are applying to various funding pots or tenders, or if corporate organisations are applying to tenders to local authorities to deliver services, they could potentially collaborate with us to do that.

Q66 **Ms Billington:** Is the problem that the policy framework and/or the procurement framework focuses on the energy generated, as distinct from all the other benefits? Do you need to make sure that you have, almost, monetised outcomes that you can demonstrate will benefit the local community in order for that overall value of what you are doing to be clear to the local authority? Otherwise, I will say, “No, thanks very much. I might as well just go to British Gas”.

Afshen Kabir Rashid: Exactly, you said it well. That is right, Polly, yes. We need to be recognising the whole package of things that we deliver. You are right in the sense that, right now, it is purely focused on carbon and the cost of delivering X amount of carbon savings, rather than everything else.

Q67 **Ms Billington:** I am aware of what community energy does, but my concern is that people hear more of the energy than they hear about the community, and therefore are not comparing what you deliver fairly with what other energy organisations may deliver. How can you articulate the different elements of the transition that you provide in a way that will be compelling for people who are having to make some very difficult financial decisions about how they might procure energy, which already, as we know, is extremely expensive for organisations with very tight



budgets?

Alistair Macpherson: We started on a question about regulations and the procurement thing. We three are saying that is it is not really the regulations. It is about understanding the art of the possible within this. To come back to your point within that, partnerships can help set that framing for procurements or what actually needs to be procured. Quite often, some services that local authorities choose to procure could be delivered through partnership in one form or another. That avoids that and avoids the local authority proceeding and saying, "We want to do it with this organisation because it is local" outside of the constraints of the public procurement regs. What is not commonly shared or understood is the art of the possible: what could be done within the constraints of the regs?

Chair: Torcuil Crichton has a question on this topic.

Q68 **Torcuil Crichton:** I have one quick question. Thank you all for coming in and apologies for moving the Committee on to the stage where I make a statement and ask you to agree with it. From what you said, Afsheen, about having to ping pong and reinvent the wheel every time you apply with a different local authority, what you said, Alistair, about risks for local authorities over the long term, and what you said, Pete, about local authorities feeling they are the first, it feels like the wheel is being invented every single time every project comes along. Would a role for GB Energy be to have a central community unit that gives the professional, paid back-up and replicates the model across different areas?

Pete Capener: Definitely, that would be a really good step. Going back to some of the things that we have been talking about needing, GB Energy can clearly play an important role in a community unit. Given its focus on the local power plan, that would be really good.

The comments that Polly was making about valuing and bringing up the value of community fit right into that. If I am perfectly honest, we are very good at demonstrating some parts of the value that we offer and could be better at demonstrating the whole piece. It would really benefit from some focused work on how you value some of the less obvious things, such as the community resilience or community partnership bit within this. Maybe a community unit with GB Energy could feed into that. There are other people who could feed into that as well. The question is a really good one. How we value and feed that into the procurement process is critical.

Q69 **Claire Young:** Pete, why has Community Energy England proposed a community energy export guarantee and how would it work in practice?

Pete Capener: At the moment, we have a smart export guarantee that does not have a floor price, does not extend for any length of time and does not provide the security or guarantee that we are looking for from a price point of view. Also, it is incredibly difficult to secure a smart export



guarantee for anything other than domestic customers. Even though, in Ofgem guidelines, you can go up to 5 MW, I am not aware of any smart export guarantee that does at that sort of scale. I am aware of only maybe a handful of building owners that have larger non-domestic solar rooftops that have smart export guarantee, and I am not aware of any community.

Part of the problem is that there is this traditional split between the organisation that owns the building, which pays the import electricity, and the organisation that owns the panels. In the case of community energy, it is the community business that owns the panels, so we would be applying for the smart export guarantee. It would appear that that split is also creating part of the problem, not to mention the complexity of getting a smart export guarantee set up. It is incredibly difficult to do. If you are a domestic customer, it is a lot more straightforward.

Framing it as a community export guarantee gives us the framing, if you like, to say, "It would be great to have something that"—returning to the theme—"provided a floor price and long-term price security, and was straightforward to set up". Obviously, there is always bureaucracy. There have to be checks and balances, of course, but it must be within our scope to create something that is simpler than the smart export guarantee and does not have this split in responsibilities. Calling it a community energy export guarantee gives us that framing, if you like.

It would operate very much like a smart export guarantee. If it is just provided into the community and local energy sector, it constrains it, perhaps, from a financing point of view. I do not know. That is for others to comment on.

Finally, a lot of the discussions that we are having come back to this question of how we create financially viable investable projects. If we are going to create 8 GW of capacity through the local power plan, there will need to be 8 GW of projects coming through. We need the PPA, the export guarantee or some way of creating that financially viable investable project. This is just one approach; there are others. The local CfD concept is a mixture of a number of the things that we have talked about. It is another example. That was the logic of why we were promoting the community export guarantee.

Q70 **Claire Young:** Let me come back on that point about the community energy contracts for difference idea. Does the complexity of the contracts for difference regime and the uncertainties around the auction process make this less preferable? You almost sound like you are framing it as an envelope around the outside of having things such as the export guarantees.

Pete Capener: There are a number of things there. The contract for difference scheme, so the national auction, is above 5 MW. Typically you do not get 5 MW schemes going, even though technically they could. They are usually at least 50 MW, and usually bigger, because of the



complexity. You need to have the bureaucracy and the ability to take quite sophisticated risk judgments about what price you are going to put into the auction. It precludes community energy organisations, even if they had a larger than 5 MW scheme.

I am not suggesting that you just replicate that at a smaller scale. The core element of the CfD, the strike price that you settle around, depending on whether the price is higher or lower than your strike price, is a really neat way of providing price security for both parties. That is the core of the virtual PPA that Alistair is talking about with the local authorities. That is why I said that it could be seen almost as a local CfD. I am not suggesting that you get into a complex auction process or create a lot of bureaucratic needs around it, because that would preclude our engagement.

We are developing a number of smaller than 5 MW projects, including ground-mount solar and wind. Particularly on the ground-mount solar, they are smaller scale and fit into the landscape better. They can be placed closer to demand and so are better suited for engaging with local supply initiatives that you are going to be talking about later and yet, because of their scale, they are hampered and are not financially viable. It is that critical bit that is going to be so important to building a whole-systems approach and local energy markets that we have to enable. Coming again back to the community smart export guarantee or the local CfD, they are all different ways to cut the orange or peel the orange. You know what I mean.

Alistair Macpherson: To add to that point and emphasise one bit of it, with the Plymouth example, I talked about that mismatch between what we need in terms of this price security and what the off-taker is comfortable with in terms of making a contract for power purchase. That is the nub of the challenge we have at Chelson.

If we had a community smart export guarantee, that would provide our project with a floor price and give us the revenue certainty. It would then allow us to broker a separate deal, still complementary and supporting consumers and generators locally, but that could be done on a timeframe that was much more attractive to the market at that time. That could be three years, five years or 10 years, but it would not force the local authorities into that position of making judgments that they were not feeling comfortable about. That would add value. That mismatch between long-term price security and PPA comfort is what a SEG could help with.

Q71 **Claire Young:** Afsheen, what difference would the proposal make to projects you have been involved in?

Afsheen Kabir Rashid: This would definitely bring in projects where there is a larger spill of electricity back to the grid. For example, primary schools do not have a lot of onsite usage when the panels are generating during the summer. Such projects would be more financially viable if we had a fixed SEG, because at the moment we do not include them. In



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terms of the size of our projects, we do not look at anything under 50 to 40 kW. A lot of schools do not get done for that reason. Yes, it would definitely bring in a lot more projects.

Pete Capener: We are seeing a lot of rooftops slip through our fingers, because we design our solar systems to match onsite demand, because the export value is so small. There are huge amounts of roof space that is not getting utilised. If we could do this and get more value for the exported electricity, we could maximise the solar on our roofs and get a lot more kilowatts in.

Q72 **Chair:** We heard a lot of that from churches as well.

Pete Capener: Exactly, that is a really good example.

Q73 **Chair:** Afsheen, should local authorities and other public bodies be required to work with community groups who want to install rooftop solar and make the roof space you have just been talking about available to community groups? Is that what you would like to see?

Afsheen Kabir Rashid: "Required" is a very strong word. We want to encourage participation. I would love for all the local authorities to work with community energy organisations, but in certain cases there might not be a community energy organisation present in their borough. It might need establishing, so it is putting them in a difficult position. It is more around encouraging, facilitating and creating the levers that will enable local authorities to reach out.

Q74 **Chair:** Pete, we might have got the sense of the suggestion of a requirement from Community Energy England, among others.

Pete Capener: I agree that there are areas that do not currently have community energy groups where it would be difficult to require them to work with community energy groups that do not exist. However, it is a bit like the shared ownership debate. We want to be incentivising partners, because partners that want to work with you are always going to be better partners than press-ganged partners. Incentivising and baking into things such as the local power plan is important. If funding is going to be made available to local authorities and communities, you could require partnership as one of the criteria for the funding. There are ways of incentivising and bringing together what I think would be critical partnerships from a transition point of view.

Alistair Macpherson: In Plymouth, Plymouth Energy Community has grown from a deep partnership with the local authority. We are now in a situation, a bit like Bath and Repowering London, where we stand shoulder to shoulder with the local authority as part of a suite of local actors acting on a values base, not for profit, to do stuff in our locality. That is the motivator. The mandate should not be the motivator. The local authority has lots of mandates and requirements, and is making choices on a daily basis of which ones to ignore, so I do not think, personally, that a mandate really helps. Something that builds appetite



for the depth of partnership that has been secured by people at this table is what we are looking for. Maybe there is a bit of stick there, but carrot is way more important in my experience.

Pete Capener: There are some really good examples of local authority partnership. Typically, some of the best engagement and best practice from community organisations, although not solely, because there are exceptions, comes from where you see those strong partnerships as we have in Bath, Plymouth and London.

Q75 **Chair:** We have had a suggestion that there should be some kind of template licence agreements for rooftop solar to remove some of the barriers to installing on public and commercial buildings. How does that appeal to you?

Pete Capener: Template licence agreements would help, certainly. One challenge we have is bringing forward a lot of the smaller voluntary community organisations that are still at the point where they have one project, or maybe no projects. Having access to template documents that enable them to get on the ladder really quickly would be really helpful in this process of expanding and unlocking the scale for the sector.

Q76 **Melanie Onn:** I refer the Committee to my entry in the register of interests. I wonder, with some of the smaller projects that voluntary community energy groups might be engaged in, whether there is an opportunity within infrastructure and planning arrangements to try to connect those up so that they create better value. Churches have indicated in previous sessions that they have plenty of rooftops but not enough usage to make it worth while. That might be a good solution to develop strength within the community of local generation, so that it would start to pay back if there were ways to properly connect up those projects. Is that remotely possible or not?

The second point that I wanted to ask was about the community energy fund. There has been an increase to that. Is it sufficient?

Alistair Macpherson: To clarify the question around planning, it was the tie-up between community groups and planning.

Q77 **Melanie Onn:** Yes, basically. I am a director of a community energy group. We have a number of different projects, but they are dispersed across the locality. If we could have other projects that were close together, we could link them up and the power generation would be much more beneficial. We would be able to then sell additional amounts at a lower price to the community.

Alistair Macpherson: There is definitely potential for local planning policy to enable community-owned solutions, so new installs. Community-owned solutions, be they ground-mount or field-mount, can be done within development management policies that are favourable to those. It can be done within strategic policy allocations for land or buildings that are supportive of those kinds of things.



Q78 **Melanie Onn:** Does the technology exist to connect project to project?

Alistair Macpherson: Do you want to talk about local supply?

Pete Capener: You are moving then into the whole territory around local supply and local energy markets, which I believe you are going to be talking about at the next session. There is certainly huge value there. If you want a comment on it now, the idea of creating virtual power plants, where you are linking up generation in a local area, potentially with local storage as well, gives you the ability to sell electricity directly to local consumers. That would certainly strengthen the generation as well as providing value to the consumers, so it would help massively to be able to do that. I do not know how much detail you want to go into now, because you have it in the next panel. You have some experts in the room.

Chair: Torcuil Crichton has some similar questions.

Q79 **Torcuil Crichton:** The holy grail here is that I look out my window on to my community-owned wind farm that is supplying me with cheap electricity, but we cannot get there. How do we get there? What are the restrictions? How could we get a simplified local supply system?

Pete Capener: It is possible to do that now. There are constraints around it. Mary Gillie will be able to comment with more detail than I. You can do it now, but there are a lot of constraints. We need regulatory change to make it more standardised and possible in more circumstances, and also to be able to clarify the network benefit that is associated with being able to supply locally.

I will comment in a little bit of detail. You can sell electricity through certain routes and avoid policy cost or levy charges. You can sell electricity from Land's End to John O'Groats, and that is very different from what we are trying to create from a regulatory framework, where you are geographically selling electricity. If you are doing that, you are avoiding the transmission costs, maybe reducing the balancing costs, and therefore can generate greater value for the generator, but also value for the consumer.

That is absolutely possible and it is the holy grail. It is what we have always wanted to be able to do from a community energy point of view: local power for local people. It is our *raison d'être*, if you like. We think that, if we can do that, it then places us in a very strong position, with our community links and our ability to draw together consumers and generators, to create added value in a way that few other actors within the energy industry can, so yes.

Q80 **Torcuil Crichton:** If that does not happen, are there other things that could happen? Should consumers or communities be rewarded for balancing supply and demand locally?



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Pete Capener: You can do that at the moment. There is a flexibility market where, as a consumer, you can effectively say, “I am going to not use electricity at this time of day” and get value from the energy supplier, or from the DSO if you are a large consumer. That ability as a consumer to create flexibility and value is there at the moment.

From a community perspective, it is quite difficult for us to access those markets, because the contracts involved in that are quite short term. Again, we come back to this long-term security point of view. We are creating long-term investments with local people’s money. We have to create low risk long term, so it is quite difficult for us to access the flexibility market. If we could, it would add significant value because we could link generation, demand and battery storage to create flexible generation and empower demand shifting to create flexibility on that side too.

Afsheen Kabir Rashid: Bringing that to life, we have a project in Brixton where we have an Energy Local club. I am sure that the second panel will talk about it in more detail. We have been doing this for a couple of years. It is a small number of residents involved in the trial, but they have seen up to 25% savings on their energy bills, particularly where, during the energy crisis, the price has been really high for them. Brixton Energy, which is the generator onsite, has been able to fix and lock the price at which we sell the electricity to the residents through an energy supplier. That is part of the Energy Local club. We have been able to demonstrate good value and benefits directly to the residents.

Taking it further, we have been engaging with these residents for many years now and seen that their willingness to flex their energy consumption and engagement with us has been really high. They totally understand the benefits. They are actually competing with each other too, like, “We want to use more solar. We are going to do this and then we are going to do that”. This is working in Brixton, which is an area of high deprivation and low-income households.

We were able to install on those sites back in the days when we had the feed-in tariff and we were able to install on a social housing estate. In the marketplace that we are in right now, we would not be able to install assets on social housing because the economics does not stack up. This is an example of that local value that Pete is talking about: energy generation, supplied locally and creating community benefits. Today, Repowering London employs a resident from that estate to run energy advice workshops and provide additional support. You see that the layers keep building on.

Pete Capener: Underpinning all of that is this community consent piece. If we are going to implement infrastructure, it makes such a big difference if I look out my window and see a wind turbine where I am actually getting the electricity from.

Torcuil Crichton: It is a way to win.



Alistair Macpherson: We have looked at the application of modification P442, which is a kind of class of exempt supply, so there is the ability to do that at the moment. To come back to that point we come to, we could do that and that would allow us to be supplying, using that modification, our local consumers, but it does not give us the certainty that we need. It still is not the thing that transforms these unviable projects into viable projects at the moment.

At the moment, we see that as a potential local supply upside, but it is not what is going to make the difference between the project working and the project not. Maybe future modifications to that around those positions being grandfathered in some form for community projects could help with that. It is not the perfect solution, I do not think, in terms of local supply, but there are ways. This stuff is possible, but it is not the critical part of a viable project at the moment, in the absence of a floor price of some form.

Q81 **Luke Murphy:** The Law Commission is reviewing the legislative framework for co-operatives and community benefit societies, I think at the behest of the previous Government. The idea of the review, as I understand it, was to modernise the law, reduce barriers and costs to operation and generally support more proportionate regulation. I understand that Community Energy England has described the proposals as potentially a catastrophic threat to community energy. I wanted to give you the opportunity to shed a bit more light on why you think that that is the case.

Pete Capener: The original Law Commission proposals included definitions for bona fide co-ops and community benefit societies that had real problems with them and could have created fundamental problems for existing and future organisations going forward. I will not go into all the detail associated with it, but I can do, if the Committee would like me to, in written form afterwards.

The good news is that the Law Commission, after that paper, continued discussions with the sector and others. The latest paper has come up with proposals that we can live with. Definitions are good. We like that. The changes that it made are very much better. We would now roll back and say that the threat of catastrophe has passed. There are still some issues with what is being proposed. Again, I will not go into the detail.

The key point, though, is that, moving on, there is a lot in the Law Commission review that is really helpful and makes sense. It is sensible stuff. The question in our minds is how the FCA is going to respond to it. The Law Commission is proposing things that are not in line with what the FCA currently does. There is a question at least, let us say, as to whether the FCA will adopt what the Law Commission is saying. That could be an area where the Select Committee might want to comment. There are a lot of very clever people at the Law Commission and, if they are making proposals, it would be good to see them actually be followed through.



Q82 **Luke Murphy:** I would be very happy for you to follow up and write to us. On moving from just being able to live with the proposals to something that actually helps and actively supports the sector, is there anything in particular that you are asking or pushing for? This is not just to Pete; it is to Afsheen and Alistair as well. Is there anything that would improve currently what is on the table? Also, could you say a bit more about this issue around the FCA and what you see as the issues there?

Pete Capener: On the outstanding issues on the Law Commission, there are three that the Law Commission has asked for further information on. One is around whether the £100,000 cap on investment should be removed, and that is fine. Another is on recommending the regulatory requirement to include the community shares unit standard mark when community benefit societies issue share offers. They have to have that standard mark and follow the guidance issued by the community shares unit. There has been variable experience with the standard mark. We have had good experience with it. We have had a very good practitioner who has been through it with us and has got it. Not all community energy organisations have.

There are some concerns within the sector that, if that was to become a requirement, you would move very quickly from something that is voluntary and have to implement a lot of additional checks and balances, including insurance for the practitioners. You need insurance for the people who are advising, so that, if a share offer goes bad, for example, they have got themselves covered because they have been recommending how the share offer should be set up. As soon as you have those checks and balances in, rather than £2,000 to go through the process, it is going to be £20,000, £30,000 or £40,000.

You are then losing all the value of being exempt from FSMA, which is critical. If you require us to fulfil those sorts of regulatory requirements, the small organisations that Melanie and others were referring to are never going to get off the ground. We have to really protect that exempt status. There are some concerns there about the drift. What they call light regulation, we see as potentially opening the door to something much bigger.

The third area is around how you set interest rates. This has been a perennial issue with the FCA and the Law Commission has picked up the cudgel, if you like. The FCA rightly, I think, says that you should only set your interest rates at a level necessary to obtain and retain capital. It does not want to see profit distribution through the back door by paying people extortionate or high interest rates. How you interpret that is the real question. There are different views about how you interpret that, whether you benchmark it against commercial rates or other approaches, or whether you have a fixed figure. Working that through with both the Law Commission and the FCA would be really helpful to get to a point that is comfortable for us, where we feel we are still able to raise capital to deliver the projects that we need.



Q83 Ms Billington: I am interested in what you said, Pete, that we needed regulatory change in order to be able to achieve what Torcuil was talking about. Do you have a specific set of regulatory changes that you want to see? Have you tested those against what currently are the underpinning principles of our regulatory framework when it comes to the energy market in order for us to understand where those tensions are?

My final question, or the final contextual question, is that this Government are a Government who are trying to achieve clean energy by 2030. There is an 8 GW ambition for community energy. Quite a lot of what you talked about is benefits beyond the gigawatts. You are talking about the regulatory framework needing to change. I want to know what that regulatory change is in order to achieve that amount of gigawatts, and whether we might need to put aside the other benefits, or whether you need to pursue a different kind of argument in order to be able to secure support for that activity, which is fundamental to the transition as you assert it. Sorry for that being too complicated.

Pete Capener: No, I think you are asking whether there are very clear regulatory changes that we could take. Are they going with the thrust of the current regulatory system?

Q84 Ms Billington: Can we take them to Ofgem and whoever it is?

Pete Capener: Yes, yes and yes. Again, this is a subject for your second panel. I will just comment on the implication if we can implement the changes that are currently being discussed within the Elexon working group people, for one, which is going through this process with Ofgem and industry representatives. Mary is the proposer of it. She will be able to give you far more detail on it, but it is going with the general drift.

We are not saying, like PPAs or other areas, that we need to add in social value to make this stack up. We are saying that there is an alignment of objectives here. If we are selling electricity locally, we are able to generate network benefit. It is that network benefit that the electricity system and the DSOs want. If we can secure it, we can share that between ourselves, so we get an uplift and our projects become financially viable and investable, and the consumer. It is absolutely possible. It is there on the table. It is within touching distance, but ask about the details in the next panel.

Chair: We will do that.

Q85 Wera Hobhouse: If we are all wanting the same thing, who is not wanting it? What is the barrier? Is it Ofgem or National Grid? Who is against it?

Pete Capener: That is a very good question. There are different views on how you deal with costs and benefits within the electricity system. Ofgem has taken a view historically. If we start to reduce transmission costs, who pays for that little bit of transmission cost you are not paying



for? Somebody else has to pay for it, because we still have to keep the transmission grid going.

Its argument has been that "It could potentially disadvantage those areas that do not have local supply and they could have higher costs. What does that mean in terms of our principal objective?", which until recently has always been the current consumer base and the concern about mitigating impacts on current consumers. With the changes that have happened within Ofgem and the greater focus now on carbon reduction, there is more focus on the longer term and future consumers as well as current consumers. There is a slight shift happening, I think. We will wait to see, but I am more hopeful that the benefits that we can see will be recognised and brought through on the local energy markets.

Chair: Thank you very much. There might be some follow-up points you want to put in writing to us. Please do so. With that, can I thank you for your evidence this afternoon?

Examination of witnesses

Witnesses: Steve Shaw, Dr Mary Gillie, Benedict Ferguson and Stephen Harris.

Chair: Welcome back to the Energy Security and Net Zero Select Committee and our second panel on our inquiry into community energy.

Q86 **Mike Reader:** Good afternoon, everyone. We have just heard from the previous panel around power purchasing arrangements. I think some of you were sitting in the back when people were talking. We have seen some evidence particularly that the short-term nature of them does not always support community energy. How could the Government support longer-term fixed-price contracts and ensure that savings are passed on to consumers? It is probably worth saying who you are quickly before you start, because we are on pace before votes.

Stephen Harris: I am Stephen Harris from OVO. I am responsible for our PPA off-take business as well as a few other things.

For us, we are a domestic supplier. Our tariffs and supplies to customers are generally one to two years, maybe three, and so our PPA contracts we offer are capped at three years. Wholesale liquidity beyond that is very thin, so it would be impossible for us to risk-manage longer-term contracts.

For us to offer a long-term PPA, we do need some other mechanism. We heard in the earlier panel about potentially having a CfD mechanism or a floor price, and those types of things could work. From my perspective it would make sense potentially for the PPA off-takers to administer that, so it is the off-takers who can access the CfD or floor price and then convert that into a fixed-price PPA for the generator.



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Those mechanisms would potentially need some central funding, but the advantage is that when they need funding is when wholesale prices are low, and potentially that is when billpayers can more afford to meet the cost of those schemes.

We cannot offer long-term PPAs without some sort of mechanism as it stands, but we recognise that is what a lot of community schemes need, and we would love to be able to do that.

Dr Gillie: I am Mary Gillie from Energy Local. We support communities to develop their own local energy markets. We call them Energy Local clubs. As Steve says, it is not in the nature of the market to make things long term. One of the beauties of a local market is that you are operating within a window.

You have your PPA price that someone such as Steve would be offering as a bottom price, and then you have your supplier price that a domestic customer would normally have. You have a window in between. That does not give price certainty, but it at least gives a certain amount of flexibility. Particularly for those local people, it is in their interest often to keep that generator running.

You give a degree of comfort. It is not 100% by any means, but it certainly gives people a degree of certainty. As well, as we move forward, if we use that mechanism to help balance our electricity system, not entirely by any means, but by doing as much as possible to encourage people into the right behaviour to match their demand to local generation, that then hopefully reduces our dependency, particularly on gas and global prices. That again will reduce volatility in our market. Hopefully it is not yo-yoing up and down as much.

Q87 **Mike Reader:** Benedict, would you like to add something?

Benedict Ferguson: I will articulate again what Mary said in a slightly different way. With local energy markets, we are talking about using that window of potential savings from giving network benefits to create a market that actually is secure enough for people to remain committed to naturally. You then do not need any levers or any compulsion. You have just created a space in the market that people will voluntarily stay in for a long time.

Q88 **Mike Reader:** Steve Shaw, just to change tack slightly, the Local Electricity Bill proposed a community and smaller-scale electricity export guarantee scheme. That is a mouthful. How does that compare to similar proposals to create price security such as from Community Energy England?

Steve Shaw: I am Steve Shaw. I am the director for Power for People. We were the authors of that Bill, two versions of it, in fact. The original version was introduced by Peter Aldous, former MP. That is quite different from the version that you are referring to, which is the one from the previous Session, sponsored by David Johnston, former MP.



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That is the first part that you are referring to, with that quite long title, which establishes the mechanism of an export that would go to smaller-scale generators. Among those could be community schemes. You need that in order to then have the second part, which is what actually establishes local supply.

With regards to your question, the most important thing to say is that this is just a suggested mechanism. We came up with this together with Nigel Cornwall, an expert on the system who previously worked at the Department in its former guise; Dr Jeff Hardy, a senior officer at Ofgem, who is now at the Grantham Institute; as well as a range of others, some of whom were on the previous panel.

It is just a suggested mechanism of how you can establish local supply. It is not the mechanism. The previous version of the Local Electricity Bill that Peter Aldous introduced as a ten-minute rule Bill in the 2020 Session was different again. That was simpler. That said you need to make the costs that these smaller generators are facing when they want to supply locally proportionate. That is what is making it impossible. Therefore, that Bill said, "Establish a local supply licence", and Ofgem would then decide what the detail was in order to make the various costs and burdens proportionate. It was very much a principle Bill.

Either way you cut it, it was a suggested mechanism rather than saying, "That is exactly what will work and it necessarily will be the thing that you need. That would be better than anything else that is particularly being proposed by Community Energy England or whoever".

Dr Gillie: As Steve said, it was just a proposal. One thing I would say is that for any kind of local energy market, local supply, or whatever you want to call it, we have developed one way within Energy Local within the existing structure.

I would say that community energy and local energy needs to step up to the plate as well. We need to be looking at a number of different principles behind whatever we come up with. It is about balancing the network locally and encouraging the right behaviour to avoid problems in the first place. That is not, "There is a problem. Oh heck, what do we do about it?"

Balancing demand to generation should reduce cost for everybody. If you imagine the cost of running the system as the pie, it is not just about how you divide up the pie. It is about whether we can shrink the size of that pie as well. We are contributing to shrinking the size. That is something we should be incentivising right up to transmission level.

Likewise, we should be balancing, as I mentioned earlier, and supporting licensed suppliers to be able to do their job at that national level as well. We want to be creating what I call a win, win, win, win, win situation for everybody. That might sound like mission impossible, but I do really think that it is possible. If we can think about those principles rather than



exactly one way or another way of doing it, we will head in the right direction.

Q89 Mike Reader: Stephen Harris, I am going to come to you with a slightly different tack. In OVO Energy's evidence, you talked about the misuse of class A licensing exemptions, and we had some evidence as well from Cornwall Insights that said that there is some quite significant profiteering through levy avoidance. How rife is that, and what do we need to do to fix that to build some trust in the system?

Stephen Harris: It is quite complex. I will be as brief as I can. These smaller supplier exemptions were introduced in 2001, focused on behind-the-meter private wire. The system has evolved massively, and now they are being used in a very different way. The exemption allows you not to pay for a number of generally environmental levies on the generation that is matched with exempt demand, and it is to the tune of about £50 to £60 a megawatt hour. The wholesale value for a wind generator is about £70 a megawatt hour. It is a huge extra subsidy that is accessible through this rule.

However, our evidence shows that, even when it is used by community schemes, only a small proportion of that £50 or £60 is making it to the generator. That is because it is very complicated. Some suppliers that are in the middle facilitating these arrangements pass on only small amounts of those benefits to the community generator, maybe a small amount to the consumer, and the rest leaks out of the system in the form of profits to them.

The other problem with the rules is that there are not really any eligibility criteria, and they are very poorly drafted because it is old legislation. There is a restriction on size to 5 MW, but some interpret that to mean it could be 5 MW out of a larger scheme.

There is no restriction on technology. You do not have to be renewable. There is no restriction on it being new. There is no restriction on the generation and the demand being near each other. The potential for this exemption to be used by a vast range of generators is huge. It is very hard to work it out, but we believe that around £100 million of costs have been avoided through this exemption in 2023-24. I would hazard that a very small proportion of that has gone to supporting new community schemes and most has gone out of the system. If this rule is not tightened, the potential is huge.

In the extreme case, through the work with Cornwall, there could potentially be 60 TWh, 18% of demand, £3.5 billion of cost avoidance passed on to other consumers, and a £30 higher bill for every household. That will not happen, but it could. The fact that the rules allow it is a problem. We believe they need to be changed. The current rules need to be restricted back to that private wire, and we need a new targeted, clear, simple mechanism that all community groups can understand, access and achieve all the benefits of. That mechanism can deliver the



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growth in community energy without pushing all this extra cost on to billpayers.

Chair: I am going to move on. The reason I am going to move on is that we are going to be voting at some point, which means we will all disappear. We are going to try to get as much as possible of the session done before that happens. Wera Hobhouse is going to show us how with the brevity of her questions.

Q90 Wera Hobhouse: We have already touched on some of this in the previous session, and that is around consumer-led demand systems and how the Government are ambitious to increase this. I was also at a meeting with ADA, the Association of Decentralised Energy, and talked about the benefits that you, Mary, have just been talking about, in that it should decrease the cost to the overall system, not just to community energy.

As a first question, how do local energy clubs work? Mary, can you quickly explain that?

Dr Gillie: It is licence exempt-plus. Should we put it like that? Hopefully we avoid many of the kind of problems that you have highlighted, which I largely agree with. I might not entirely agree with the solution, but I really largely agree with you. It is licence exempt, but we operate under what is called a complex site. It is like everyone is sitting behind one virtual meter, but everyone has their own meter, just as, if you use solar on your roof, the rest of the system does not know about the power that you have used yourself. It is almost like everyone is sitting behind one meter.

Q91 Wera Hobhouse: How do you measure that?

Dr Gillie: Everyone has their own meter. It measures it half-hourly. You can show that what we call the club was using power when it was generated locally, because that is also a half-hourly meter. You are netting one off against the other, and it is a difference between the others, which goes into a settlement, which is what is seen nationally. As I say, it is only done under what is called a primary substation, which is generally what people would often think of as their local community. It is not too large, so we get that benefit to a distribution network, but it is not so small that it is just completely unmanageable and you cannot really achieve anything.

In the clubs that we have set up, we have seen up a shift away from a standard domestic demand curve. It definitely has encouraged people to shift. We cannot really do a controlled thing because we cannot say, "I will just wait for a year while we look at your electricity bills before you join the club". That would not be a great sell for people. There is an estimation there, but we are definitely seeing a change, and part of that is harnessing that community endeavour of using their network, their generation, and feeling that they are doing something together.



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I am a really green person. If British Gas, Octopus or any of the other big suppliers rang me up and said, "I have a great green scheme", I would be like, "Well, maybe". If my neighbours come and say, "I have great green scheme", I am like, "Oh, really? I really want to join in on that". There is a great pull when people are working together like that.

Q92 Wera Hobhouse: Do you think they have a role in the Government's mission to achieve 8 GW of power from communities?

Dr Gillie: Absolutely. There are two sides of it. One is that actual pools of people have a space where they can ask questions and where their needs are taken into account, so it is designed for them and with them. They are then more likely to support it and feel part of it in terms of jobs, et cetera. There is another side of it as well, though, that it is not just about the electricity. We need to decarbonise heat and transport as well. Our next step that we are now working on, as I say, is almost in your local area. For every kilowatt hour that we generate, what is the best way we can use that?

Then we can start developing a financial plan that we can build in heat networks and charging, et cetera, because then we have a more guaranteed off-taker, but we also have a guaranteed price for generation. It is not entirely guaranteed, but it is within a window.

Wera Hobhouse: Yes, and you want to come in, but I want to continue with other questions.

Benedict Ferguson: In terms of delivering net zero and people's willingness to come into that game, if you have local energy clubs available, you have more willingness to accept a smart meter because the smart meter gives you actual power in your pocket and power to make decisions with much more transparency than the current offer in the market.

As people move into that, there is that ability to help with balancing, reduce the network costs and then build the whole thing. What I would say about the 8 GW target is it arises of a period during which the sector has been quite moribund, and we are facing all the barriers have been looked at and lead to this consultation that you are doing now.

Q93 Chair: That is probably linked to the question in the last session. How far can we go?

Benedict Ferguson: More than 8 GW.

Q94 Chair: How much more?

Benedict Ferguson: I would love to measure that, and I would love to see more work done. We need to look at ED3 and the way the price framework mechanism is being structured. There have been reports since DECC report in 2012 talking about the value of balancing the system, but



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we do not have the metrics on it and the sector cannot come up with it on its own.

Wera Hobhouse: And if the smart meters work. We had a big session on smart meters.

Q95 **Ms Billington:** I was just going to follow up on that. We still have the problem that Ofgem is concerned about the transmission costs, have we not?

Benedict Ferguson: Yes.

Q96 **Ms Billington:** Do you have a solution to that?

Dr Gillie: We are going to need large-scale generation. We are not going to develop everything on our roofs and so on, so we are going to need a transmission network. We are going to have to build it quickly, much more quickly than we are building it now, but I do think there is a real role, particularly at the moment where they are switching off wind farms, et cetera.

We are not just switching off wind farms, but we are also having to turn up gas. If we can shift our load to match our local generation, we can at least mitigate that, particularly in the short term. It is almost like we have two traffic jams now. We have a traffic jam at the distribution level and a traffic jam at the transmission level. They are actually bumping up against each other now. This is all part of disentangling the problems that we have.

Q97 **Ms Billington:** In your view, does Ofgem acknowledge the possibilities of being able to reduce transmission costs by what you are talking about?

Dr Gillie: It is starting to be acknowledged. I would not put it more strongly than that. One of the biggest problems with Ofgem is that it is incredibly siloed, and so you have people regulating distribution. You have people regulating transmission, supply, et cetera. They are not seeing the whole picture.

Chair: Inevitably that means we have to go to vote. We will suspend the session.

Sitting suspended for a Division in the House.

On resuming—

Chair: Welcome back to the Energy Security and Net Zero Select Committee. Thank you to the panellists for your patience. Wera Hobhouse, you are in the middle of your questions. Please continue.

Q98 **Wera Hobhouse:** This is to everybody. Does the requirement for everything to be connected under the same primary substation not limit the potential to replicate this at scale and apply it to larger renewables? Mary, you have already spoken about this. Steve can go first, and then I will go along the line.



Steve Shaw: Talking about the Energy Local clubs, I would first say that what Mary and her colleagues are achieving is very impressive and to be highly commended, but these are only a small number of clubs. This is a very small amount of generation that we are talking about, and the floor seems certainly to us that it relies on the benevolence of a licensed supplier to partner with them. That is the real constraint, and that is why, despite Mary doing brilliant work and having success over a number of years now, we do not have hundreds or thousands of these clubs, which we could have.

Q99 **Wera Hobhouse:** Should this requirement be removed, Benedict?

Benedict Ferguson: I do not think there is a need to. My sense is that the primary substation is a good scale, and it is a good scale at which to really bottom out the evidence on making those network benefits available and getting that balancing achieved.

It will look different in different places. There are different opportunities under each substation for renewable generation, and there will be different demand profiles as we move to a more electrified demand system on heat and EVs, but the actual scale is very good. As Steve says, we need to lean into the licensed suppliers that can really enable it.

Q100 **Wera Hobhouse:** Do you have one short comment, since we need to move on?

Stephen Harris: If the value of the energy club is to access the savings through the exempt supply mechanism, restricting it locally will definitely make it work better and will reduce the risk of those costs spiralling and really putting excess cost on bills for very little benefit.

We should be a little bit careful around matching local demand. It is a good thing at a high level, but we have to be careful we do not end up creating rewards for matching generation that was already there with demand that was already there. You are actually paying a subsidy for a spreadsheet exercise to match kilowatt hours. Where the generation is in a good location that is providing benefit, and where the demand is doing the same, then let us reward it, but it might be a little too simplistic to say matching the energy is always a good thing.

Q101 **Wera Hobhouse:** Let us move on to the next question about complexity of local energy clubs. Again to Benedict, we have heard that the regulatory and administrative complexity of setting up local energy clubs limits their future potential. First of all, do you agree, and how would you respond to this criticism?

Benedict Ferguson: This is what P441 is seeking to address, in order to put detail under that. You have the existing class A exemption and the issues with that. Then you have P441, which is clarifying what a complex site will look like and what can be delivered and hopefully given confidence to deliver that complexity. At the actual level of delivering the clubs themselves, we have had feedback from suppliers that there is



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complexity and cost associated with that and with the additional billing mechanisms. We would like to bottom that out, see the evidence and get a number on that cost. It is really about P441 clarifying that landscape and allowing us to move forward with it.

At the moment, the clubs that are operating are very simple because we have only seen clubs so far that are allowed one generator and one set of consumers. The complexity will increase as you get multiple generators and different types of consumers with different profiles. That complexity actually should lend itself to matching and balancing power curves and power demand curves better against each other and getting better benefits.

Dr Gillie: Could I come in there? I must have had a bad karma in a past life or something to get this far, but I would say that a number of the problems that we highlight are not about complex sites. It is in the nature of a lot of suppliers and billing systems are quite old. They are going to have to change anyway, if we are to innovate, and actually the settlement system is quite clunky. A lot of those problems are not really per se about using a complex site itself.

The other thing I would say is that, if I wanted to build a bridge, I would get a structural engineer. The role of something such as Energy Local is to work with suppliers to do the stuff behind the scenes so the communities can do the bit that they are good at. It is making sure that everyone is doing the right bit.

It is really important to be working with licensed suppliers. Yes, you can be seen as the blocker, but it is really important we have licensed suppliers. I always say you do not want your neighbour to be your debt collector if you get into trouble. Apart from that, you need someone who can manage that sort of problem. A lot of things do need to be done at scale. I would like the role of a licensed supplier to change, but I want to work with licensed suppliers because it is a really important role.

Q102 **Wera Hobhouse:** Stephen, would you say that the licence exemptions have very narrow criteria and therefore were not designed to support community energy, but, as we heard, hospitals or other arrangements? Therefore, should there be a more bespoke solution?

Stephen Harris: We have experts here on what community energy groups need to get projects up and running. You could argue that licence exemptions are okay when they are used correctly. They create this extra value for matched demand in an area, but currently the real problem is that they are being used in the wrong way by existing assets that are not communities at all. We think that closing that loophole or at least tightening it is really important.

From my perspective, the concept of being in an energy club with matched demand facilitated by blockchain peer-to-peer trade is not necessarily the way to engage communities or end consumers. We would



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advocate for something simpler where community schemes have access to some support, be that financial or a floor price mechanism that provides that price security, provided that they are providing benefits to local people. Although we talked about making the pie smaller, there is a passing of the costs on to others. If the energy clubs match demand and avoid costs, that will get passed on to others, and so we do need to be mindful of the cost to wider billpayers.

Q103 **Wera Hobhouse:** Steve, do you have anything to add?

Steve Shaw: Yes. Exemptions are not going to unlock the potential of community energy. Ultimately, legislators and the Government have the option to use substantial subsidy to create it, which we know worked because we saw that working under the feed-in tariff. We saw substantial growth in community schemes at that time. Then we saw them completely flatten off when the feed-in tariff stopped. The other option is to change the way the market rules work.

There are only two principal ways that you do that. You can completely untangle the licence supplier model that we currently have, which is what the first version of the Local Electricity Bill aimed to do by making the cost proportionate and asking Ofgem to establish a local supply licence. Then those proportioned costs create the ability for community schemes to sell to local customers if they wish and make a viable business model. Then you get scaling up. Otherwise, you can piggyback on the existing model we have of licensed suppliers, which is what the second version of the Local Electricity Bill did. By that, you get the licensed suppliers to offer contracts both for the export and to then do the billing and metering, so that those community energy groups can have local customers.

What is particularly interesting, and I would commend to the Committee, is that the existing Secretary of State and the Labour Front Bench backed the Local Electricity Bill last Session. Indeed, Mr Miliband made two amendments to the Conservatives' Energy Bill at its Report stage, new clause 53 and new clause 58, which were mirrored in the Local Electricity Bill.

In theory, we have a Secretary of State who supports this, and yet we have not heard anything about it specifically from him since the election. It would be very interesting if the Committee could perhaps find out what the Secretary of State's position is on this established-by-experts process that he supported already.

Q104 **Chair:** We may well remind him of that fact. Stephen Harris, you have answered this to a degree, although I would have to remember. This is about providing stronger incentives, whether for your business or for other suppliers, to support community energy and create a competitive market. Should this be voluntary? Should there be legislation? What is your view?



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Stephen Harris: We see our niches as operating around providing off-take arrangement with smaller renewables. There is competition for that. When you get into the really smaller scale, I recognise that there potentially are less people looking to do those off-take arrangements. As a commercial business, we do not need to offer arrangements. Whatever we are paying for the energy, it is fair value against the market rules.

If we create a model where supporting community energy schemes is what businesses want to do, be that off-takers, developers and so forth, then it will happen.

Q105 **Chair:** Do you then leave it to the market?

Stephen Harris: If you create market rules where community schemes are eligible for support, be that uplifts on the subsidies per kilowatt hour, upfront grants or access to a floor price or a CfD mechanism, they will become more viable business models and developers will want to work with them. It is about creating an environment where community energy is the business model that makes sense commercially and then it can flourish.

Dr Gillie: Can I come in on that? You have talked to a number of suppliers. Particularly for the smallest suppliers, I often find myself defending suppliers to the man on the street, which is not often the easiest thing to do, but I am aware that it is a very cutthroat industry. The margins are actually very small when we are talking about just selling to them, so it is very hard to innovate. It is very hard to upgrade your billing system. There is cost involved with that.

For suppliers that want to develop those new business models, because it is a different way of doing things, in many ways either mandating it or finding some sort of innovation funding for them is really important, because it is incredibly difficult for them to innovate in the market at the moment. As I say, it could be that you mandate, and then some people will do the bare minimal and some companies will see it as a business opportunity, or you find some sort of innovation funding mechanism, which is probably much harder to do than it is with DNOs, et cetera.

If I could just come back to one point, people sometimes talk as if all the use of system charges that we have for transmission and distribution are perfectly fair at the moment. It is completely not true. A lot of the costs are socialised and put on to a standing charge now, and that means somebody in a council flat in London is subsidising the upgrade of a system for some guy with his Tesla. That is not fair. He can slap a load of solar panels on his roof and avoid a whole lot of costs.

Chair: You do realise Elon Musk is watching our proceedings.

Dr Gillie: Right. No, I am not saying that anything I am offering is perfect. It definitely is not, but I am saying that we are trying to improve the existing system.



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Q106 **Chair:** Stephen Harris, what do you think of the idea that everyone should have access to one primary and one local electricity supplier? How feasible do you think it is and how does that compare as an option to ensure everybody always has this opportunity to have local supply?

Stephen Harris: To Mary's point, our focus on having our billing and customer service work within the current pretty complex system with lots of changes is key. The thought of developing the ability to create that split billing between the local and the national, and how it all comes together, would be a big undertaking. We have to make sure it is worth it. By worth it, I mean worth it in terms of delivering the national goal of getting to net zero or to clean power 2030. It would be a big undertaking.

For me, it comes back to this. When we talk about the local supply, what is the purpose of it? If it is to have lower bills for customers who engage, you have to be careful, because that potentially means higher bills for those who do not. If it is to create the right cost signals to enable the cost of the system as a whole to be lower, let us find a way to make it happen.

Q107 **Chair:** As an observation, more than one of you has touched on the idea that this is one of the benefits of local supply. Something we are looking at in our inquiry into the energy transition and making the case is that it is a good way of engaging people in the benefits of low-carbon generation.

Dr Gillie: We find we uncover a number of other problems, because it almost gives people permission to ask questions. If you have somebody local, they feel able to talk to them in a way that, with the best will in the world, somebody remote for them cannot. We actually find ourselves uncovering a whole lot of other problems as well along the way, which is a benefit to everybody.

Q108 **Chair:** That sounds like an argument for ensuring everybody has access to local supply. Is that fair? I am leading you now.

Dr Gillie: Yes. You need to train people and so on to make sure that there are those people there to do that. As I say, it is all about how you do it.

Steve Shaw: I feel that you are understating it and that others who have talked about the benefits are understating it. It is essential. There is going to be more and more potential risk of a public pushback. The low-hanging fruit of the transition is largely gone, in terms of closing coal power stations and building very large offshore wind farms, for example. It is going to affect people's lives more and more and more if we are to do what all parties and government policy says we want to do. The antidote is things such as community energy. It is so powerful what it does. These examples are incredible. We cannot afford not to do it. We must scale it up and the only way it is going to be done is through a regulatory reform process.



Benedict Ferguson: Mary just highlighted that there is unfairness in the system as it exists. We are looking at a position where we are asking for this massive transition and this massive change in society. We have democratising distributed energy technologies, and we have a market that is suppressing their use and suppressing normal local people from taking that opportunity up and for participating and benefiting.

What we are seeing is people offered something smart that they are told is a great deal, and people do not believe it any more. Increasing numbers of people do not believe it. There is a real risk piece here. Proper local energy clubs, such as the ones that Mary is developing, give that level of agency and participation.

That is what is going to get people picked up. I do not think it will be the case that those who can participate or feel moved to participate will. I think we get more and more people. Going back to your 8 GW target, if you want a small bit of it maybe just about delivered by community energy, that is the current position. It is a really, really suppressed sector. We need the same size goalposts as the other sectors that we are playing with.

Q109 **Claire Young:** You have been talking about the unfairness, and I can see that this may exist at a number of levels, because it may be that you are more likely to develop community Energy Local clubs in more affluent areas where there is perhaps more local capacity within the community to develop that. Stephen talked about that risk, because, effectively, you are then moving costs on to people who do not have community energy clubs.

Is there an argument that you need to decouple the incentives to develop community energy, but have the dual tariff? From a grid point of view, we want to encourage local use of electricity. That is a separate thing from then incentivising the provision of local energy. I am just trying to understand. Is there a way we decouple that?

Dr Gillie: The two go together.

Q110 **Claire Young:** You think that they have to.

Dr Gillie: Yes. I would slightly push back on this idea that it is only leafy green places. Afsheen gave an example of Brixton. Give me the tools and we will do so many more. We so want to work with Repowering London and do that on every block in Brixton.

We get so many benefits from doing that. As I say, even for the people who did not join it, we managed to sort out their energy bills, maybe sort out their mental health, whatever it was. It was a route into talking to people. Also, if you get people involved, even being on the committee is something they can put on their CV. We have had people going into STEM at university because of their experience. There are so many different things. That is all to do with going to net zero as well. We cannot disentangle them.



Q111 **Claire Young:** Maybe I phrased it in a slightly provocative way, but should the focus be on how we support those sorts of schemes more directly when developing them in the first place? Government have limited resource that they are going to be directing towards these things. I am just trying to understand where the Government should be channelling that money.

Dr Gillie: Give me the regulatory framework, then.

Benedict Ferguson: If it is a market, markets will deliver, but we have to have a market.

Chair: Yes, a market with the kind of adjustments that you were talking about before.

Stephen Harris: We have a PPA off-take with Ambition Community Energy. It is a wind turbine in Lawrence Weston in North Bristol. It is quite a deprived area and an amazing community project. As part of that arrangement, we trialled a bill discount for anyone in the local community within certain postcodes on windy days to have half-price electricity on those days. That was something that was done by us, but those types of arrangements facilitated by the off-taker could be part of the relationship between the community generation scheme and the off-taker.

Potentially, as I said before, if the way you access funding for the generation is a commitment to providing those benefits to the local community, you create this flywheel to get things moving. That does not require people to join the energy club. It just requires them to be in the right postcode.

Steve Shaw: It is not about huge resource from Government. Regulatory change will get you the results you want. We attempted to put safety mechanisms into some of the clauses of the Local Electricity Bill of last Session to make sure that other unintended consequences were mitigated, such as the review process for Ministers and the ability to adjust the fixed price that community energy schemes would be offered. The principle in legislation such as the Climate Change Act is quite good, where a committee is set up to review whether government policy is achieving the principle or not. This is the kind of thing that you would want to see.

This relates to your question. I was asked by Pete Capener from the previous panel to talk about whether the community energy fund is enough, with the extra £5 million that has been given. We are so pleased and welcome the Government's announcement of that extra money for the fund and it will be very helpful, definitely, but those kinds of amounts are only going to get you a small incremental increase. Again, you do not need to spend it if you create the regulatory framework that we have already proposed two versions of.

Q112 **Torcuil Crichton:** Thank you all for coming in, for bearing with us while



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we were away and for your passionate support of community energy. The statements you made prove why we wanted to have this investigation in the first place. Stephen, you gave some very disturbing evidence about the abuse of levies and exemptions, and I just wondered whether there is a case for exempting community energy from levies, if that means they are going to be abused so much. Please answer.

Chair: If you can give a short answer, then we will have a go.

Stephen Harris: As I explained, everyone is acting within the rules. It is the rules that are not fit for purpose. No one has broken the rules, but the rules are bad. In terms of the exemptions, the exemptions are worth £55. Is that the amount of subsidy that we think we want to allocate to whoever is exempt, be that community schemes or whoever the eligibility applies to?

Chair: Thank you. We will suspend there while we vote.

Sitting suspended for a Division in the House.

On resuming—

Chair: Welcome back again to the Energy Security and Net Zero Select Committee. Torcuil Crichton will continue with the questioning.

Q113 **Torcuil Crichton:** As I was saying before we were so rudely interrupted, to what extent do you think community-owned renewable energy projects should be exempted from green levies, so people do not pay twice? They are paying into green levies, and then they are paying again when they are using green energy. Stephen, you had answered, but, Benedict, I was going to ask you as well.

Benedict Ferguson: Not totally. Where levies need to be contributed to and people benefit from them, there should be a contribution. The argument is more the other way around: we are seeing community energy projects providing benefits that are not being credited. That is the adjustment that we are asking for. We are not asking to get out of anything or not to contribute. We very much want to contribute. We think that there is a massive underestimation of what the sector could contribute. It is really about opening up the potential for us to secure the value for society and the improvements for people in communities that our very small sector, compared to what it could be, has already evidenced in spades.

Q114 **Torcuil Crichton:** Mary, I take on board what you said as well, about community energy projects reaching further into people's lives than just supplying electricity. I have seen that in my own constituency, with all kinds of welfare, food and warm home grants that are available through community energy schemes. You raised the example of the guy in the high-rise paying for the Tesla, but should everyone not pay? Why should people who are on community energy schemes be exempt?



Dr Gillie: I was just really trying to emphasise that sometimes people talk about it as if the system at the moment is entirely fair, whatever fair is. I am not saying that anything I propose is perfect; I just want to emphasise that we are not moving from some perfectly fair system to something that is unfair. There will always be anomalies in what we are doing. As I say, it is about trying to reduce those costs for everybody. Could we move to a situation where local balancing of a network is the norm? I do not see why not. Everybody is under a primary substation. We have load and generation that needs to be balanced.

I will give you some of the work that we have been looking at, which we would like to tackle. Maybe we could call it an extreme example, although it could be extrapolated elsewhere, but some of the islands in the Hebrides at the moment cannot connect more than 250 KW of generation, because of problems at transmission level. That is then holding back tackling fuel poverty and things like that. There are also upgrades to a distribution network that are required.

One thing they wanted to do was install a battery so they could use the local generation under a local energy market. We just saw the strategy for a distribution network and they are talking about putting what is called a STATCOM in. A battery can act as a STATCOM. How about they install a battery and they use a local energy market to make that whole thing worth while? Flexibility contracts are not going to make the number stack up for storage. Then we do not put in that STATCOM, because we already have that service from the battery. The cost of that STATCOM would have been smeared across everybody's bills. We have just saved for everybody. I am just giving you that as an example. It might not go ahead, but that is where we are working with DNOs to try to understand how we can reduce the cost for everybody.

Stephen Harris: Benedict put it well. The exemptions from the renewable levies are how that additional funding materialises, but that is really a proxy for saying "support for community energy". If community energy paid for the levies but got the support then you would end up in the same place. That is probably the way we should do things.

Steve Shaw: A solution is proportionality. A really good analogy is what we have with grocery retail. If you are opening a big supermarket, what you have in terms of burdens, and ultimately costs, is so much larger than if we have smaller retail, so corner shops and so on. We want both. We have a regulatory system that largely creates that proportionality, and therefore we get the benefits of both. We could have that with energy. Indeed, we attempted to do that with the first version of the Local Electricity Bill.

Q115 **Mike Reader:** You will be pleased to know we are on to the final question. Thank you for bearing with us. We are going to look at learning from Europe and from around the world. Benedict, what could the Government learn from Europe in relation to successful policies to



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support local energy trading, and how should they seek to do so?

Benedict Ferguson: I knew you would come to me first. I still have relatively little to say, in some ways. I will put my hand up; in our written response we mentioned learning from Europe. We talked about the renewable energy directive that mandates that citizens who generate renewable energy—and that includes renewable energy communities to be treated as citizens—have a clear right to consume, store or sell. This very much talks to the local energy markets piece.

When you start to dig into that—it is a story that some people will be familiar with, with the European Union—you quickly find empty folders without the case studies in them. The other thing that you find is a different way of solving this within every regulatory regime. What is really important about the learning from Europe is the leadership. What needs to happen is decisions at a political level that lead a position, if you have a value-based position that you are coming from.

Going back to talking about the value piece as well, noting the last session, we talked about valuation and procurement of wider benefits. One of the issues that we have with that is that there are multiple methodologies. There is no central recognition of one methodology. You can ask for it as many times as you want, but if you do not put the result on the balance sheet alongside the single bottom line then you do not make the decision based on the values you are securing. It is the leadership, really, from examples in Europe where you have markets that are not working.

Q116 **Mike Reader:** Do you see those values in the UK Government's mission-driven approach? Do you see that at the forefront as an objective of this Government?

Benedict Ferguson: It is very early to ask that. This Government are a year in. It is very early to ask the Government to put anything very concrete behind that. We are really pleased to see the words that are there, the rhetoric that is there, and that mission-driven approach. As a sector we are experiencing brilliant engagement and a sense that Government are really listening, but this needs to be concretised and delivered. Some of these are things we have been asking for and saying are a problem for our sector for many years under a previous Administration.

Q117 **Mike Reader:** Steve, People for Power built on this in its submission. We heard about Denmark's wind capacity being 52% owned by citizens and 67% of onshore wind capacity being generated in citizen-owned parks. What can we learn from Europe?

Steve Shaw: In Denmark there are multiple stories where, because the town or local community know that they are going to receive direct benefits from the new wind farm or wind turbine, you have these citizen-led initiatives. They actually say, "Can you please build it here?",



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which is quite different from some of the stories you hear across our nations.

It is very important to remember that, a bit like Benedict said, a lot of those legislative and governance structures are very different as well. It would not be wise to try to replicate them here. For example, the municipality of Munich had a referendum to purchase back the grid from the owner, which made the ability to have a lot more community-led renewable generation in and around Munich much easier. We do not even have a structure that would allow that in terms of the democratic process, let alone the repercussions that might have on how our regulatory rules work to do with the grid.

There are a lot of big subsidies that are being given in places such as Denmark, the Netherlands and Germany—and continue to be given—that were similar to the feed-in tariff, but, as I said earlier, that is not necessary. What is necessary is to use what we have now and adjust it, so that we have a regulatory framework where you can have local supply. You can have those community schemes selling locally.

Q118 Mike Reader: Has there been more consistency in the regulatory framework in Europe, and Governments sticking to policy, or have they still faced some of the challenges we have faced with chopping and changing? Mary, you are shaking your head.

Dr Gillie: I would not say so, no. Some of them have just been state-owned and not unbundled for much longer, so I suppose you could say that is consistency in one sense. There is a sense of, "I would not start from here". Well, we are here, so we are going to have to start from here. I will just give you one example. When they tried to standardise the inverter standards for connecting small-scale generation, hey presto, there were 27 annexes to that standard. I will not give you one guess of how many countries were in the EU at that point.

For things such as Munich, the whole layout of a network is different. There are so many things that are different. We can just learn about it from principles and from different places. You mentioned mood music—absolutely. I am an engineer because I want to use technology for the benefit of the environment, people and society. Just give me the tools to allow me to do the job.

Q119 Mike Reader: My final question is on green power pools. We have heard they have an advantage of working over much wider geographical areas than local energy clubs, and with larger-scale renewables such as offshore wind. Do we need further action to develop that concept in the UK? If so, what would that action be?

Steve Shaw: Our concern with things such as that is that they are still clever initiatives within the existing rule structure, whereas what we assert is needed is a regulatory change. That is the only thing that is going to really get you the scaling up.



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Dr Gillie: A long time ago we did have one big power pool in this country, and we got rid of it.

Q120 **Chair:** Benedict Ferguson, you just asked about Europe. What are the lessons from the Welsh Government and the way they have operated that might be applicable to England, for example?

Benedict Ferguson: On this particular topic?

Chair: Yes, indeed.

Benedict Ferguson: I am glad it is not a global question. I worked for many years for the Welsh Government energy service, so I have been working since 2010 towards efforts on community energy in Wales. We are very, very proud to have Energy Local as one of our members at Community Energy Wales. It has established some operating clubs that have evidenced and bottomed out, as I say, with a very small pool of users and small amounts of generation, that they can achieve some shifting of demand. They can achieve some balancing on the network. They can achieve billpayer savings. That is a learning in Wales.

The other learning is that those have been happening for many years, and we do not have the licensed suppliers queuing up and ready to facilitate that and really expand that. We have a lot of moribund clubs that are there waiting for support and waiting to go, which could have been delivering those benefits in their communities for several years.

I will just go back to the mandating piece that was mentioned earlier. We start to talk about carrots and sticks, and that is not always very helpful. It is more about enabling across the piece. There must be a carrot. Once we get this going at scale, there will be a market that licensed suppliers can participate in, but in the meantime we have talked about the wickedness of some of the problems, the risks, the aversion and the challenges.

I see mandating as something that can ease our way. If the pathway to net zero is this important, and we want the community energy contribution to happen, then mandating suppliers to support P441 and clubs as quickly as possible helps us to stop having the debate. It helps everyone to stop having the debate, move forward, and get on with delivery. You then have some very smart community energy organisations and some very smart licensed suppliers that will get on with solving the problems and delivering it.

Stephen Harris: On that issue, we have to be clear that having the club and creating any cost savings is benefiting the whole. But, if you have a very complex system and the licensed suppliers say, "It is not economical; it costs us too much to facilitate", you have to question whether it is the right model, because if there are costs on the supplier side then those are borne by consumers in the end. We need to be sure that we are not designing a very complex system that feels intellectually



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perfect, when actually a simpler system that is easier for consumers to engage with and benefit from, and easier for the industry, suppliers included, to deliver, could be a better solution.

We talked a bit earlier about the £5 million extra funding for community energy. The licence exemption was £100 million last year. I bet it is more than £200 million or £300 million. That is money that, with better eligibility rules and better targeting, could be going to community energy schemes and supporting them. The REGO market is £200 million a year. If that was targeted towards new community energy, that is £200 million per year that could support community energy. There is money in the system; it is just not reaching these guys. We need to get the regulatory framework right, but we need to use every penny that is on customers' bills to really drive it forward and not have any wastage.

Steve Shaw: My final thought is to re-emphasise that you need to get a DESNZ Minister in here and answer why the shadow Front Bench in opposition supported the Local Electricity Bill, and yet, since the election, we have not heard anything about it from them.

Chair: We have got that message very well now.

Dr Gillie: Yes, we need clear steer from DESNZ to Ofgem and the other regulatory bodies, Elexon, et cetera, to support local energy markets, because they implement policy and you set it. We also need legislation.

Chair: To our second panel, thank you all very much. Thank you for the three sessions that we ended up having. That is the end of today's Committee hearing.