Written evidence submitted by Community Energy Wales - Ynni Cymunedol Cymru (REW0013)

1. Summary

1.1 The community energy sector punches well above it's weight and delivers a wide range of social, economic and environmental benefits. Community energy delivers 12-13 times more social and community benefit than equivalent commercial installations[1]. In 2019 the sector, generated £4.7 million in local economic benefit to their local community in England and Wales, and more than £2m in Scotland[2]. A study published this year suggests that, given a supportive policy environment, the community energy sector could expand by up to a factor of 20 by 2030, creating up to 8,720 jobs, adding value of £1,860m, saving 1,800,000 tonnes CO2e and cutting £150m from consumer bills.[3]

1.2 To support the Welsh Governments ambition to develop 1GW of locally owned energy in Wales and to recognise the value that the community energy sector brings we recommend the Welsh Affairs committee support the following recommendations.

1. Re-introduce a 'Feed in Tariff' for Community Energy rebranded as the 'Community Feed in Tariff'.
2. Restructuting the CfD scheme to include support for community energy projects
3. Require all renewable projects taking part in the CfD auction have a minimum level of community ownership.
4. Reinstate EIS and SITR for community energy schemes.
5. Lobby Ofgem to promote upfront investment in grid reinforcement
6. Support the Local Electricity Bill
7. Set clear objectives for community energy in the UK

1.3 We would be happy to go into more detail on these proposals if required following your review of the call for evidence.

2. Introduction to Community Energy Wales

2.1 Community Energy Wales is a membership organisation with over 50 members throughout Wales. Our shared vision is of strong, well informed and capable communities, able to take advantage of their renewable energy resources and address their energy issues in a way that builds a more localised, democratic and sustainable energy system.

2.2 Community energy refers to the delivery of community led renewable energy, energy demand reduction and energy supply projects, whether wholly owned and/or controlled by communities or through partnership with commercial or public sector partners. It delivers large amounts of social

[1] https://www.gov.uk/government/publications/community-renewable-electricity-generation-potential-sector-growth-to-2020
[2] State of the Sector Report 2020 (communityenergywales.org.uk)
[3] https://www.spenergynetworks.co.uk/pages/wpi_report_the_future_of_community_energy.aspx

and community benefit via community benefit funds and accruing directly from the energy interventions themselves.

3. Why is Community Energy Important?

3.1 According to research commissioned by the government, community energy delivers 12-13 times more social and community benefit than equivalent commercial installations[4]. In 2019 the sector, generated £4.7 million in local economic benefit to their local community in England and Wales, and more than £2m in Scotland[5]. A study published this year suggests that, given a supportive policy environment, the community energy sector could expand by up to a factor of 20 by 2030, creating up to 8,720 jobs, adding value of £1,860m, saving 1,800,000 tonnes CO2e and cutting £150m from consumer bills.[6]

3.2 We are facing a climate and ecological emergency and we all need to work towards a transition to zero carbon. The Committee on Climate Change net zero report says, (p12) *"Clear leadership is needed, right across Government, with delivery in partnership with businesses and communities. Emissions reduction cannot be left to the energy and environment departments or to the Treasury."* Neither can it be achieved solely by large constructions by renewable energy developers. (p33) *"Engaging the public to act. Much of the success so far in reducing emissions (e.g. power sector decarbonisation and even the phase-out of inefficient gas boilers) has happened with minimal change or awareness needed from the public. However, this cannot continue if the UK is to reach net-zero emissions."* The report continues, (p193) *"It will not be possible to get close to meeting a net-zero target without engaging with people or by pursuing an approach that focuses only on supply-side changes...Some of the difficult decisions that will be required (...) will only be possible if people are engaged in a societal effort to reach net-zero emissions and understand the choices and constraints...There is currently no government strategy to engage the public in the transition to a low-carbon economy. This will need to change.*

3.3 We would argue, as the CCC does, that neither Government nor large developers are going to 'deliver' net zero. It must be 'achieved' as a collaborative, participatory endeavour which needs more than 'engagement'. It needs citizens to consent and want to participate. This requires a genuine stake in the action, which comes from ownership and control. As a motivated, knowledgeable and trusted intermediary, community energy is essential to advocating for and achieving the energy transition.

3.4 This has been recognised at the highest level. Claire Perry, when Minister for Energy and Clean Growth, said, *"Community energy is a key cornerstone of government's ambition for transition to a low-carbon, smart energy system."* Additionally she recognised that, *"The future of energy is local".*

3.5 The government has a duty to take account of carbon reduction. It is simplistic to say that the best way to achieve that is by big renewable generation projects. A small community embedded project which combines demand side response and management and raises awareness and activity on the part of the residents may, per £1 invested, generate more carbon savings. The CCC says that

[4] https://www.gov.uk/government/publications/community-renewable-electricity-generation-potential-sector-growth-to-2020
[5] State of the Sector Report 2020 (communityenergywales.org.uk)
[6] https://www.spenergynetworks.co.uk/pages/wpi_report_the_future_of_community_energy.aspx

'support for onshore wind is at an all-time high of 76%... 65% of the public would be happy to live within five miles of a wind project, ***especially if projects are community-owned****.'*

3.6 In addition, a recent survey by Client Earth, 2018[7] found that *"Almost three quarters of consumers would be interested in joining a community energy scheme if the government made it easier (71%), and individuals keen to install their own solar panels (62%) and home energy storage (60%)."*

3.7 In Wales there is policy put in place to ensure local people and organisations have the opportunity to partake in the energy sector. The Welsh Government has set a target for at least 1 GW of renewable energy capacity to be locally owned by 2030. There is also an expectation for all new energy projects in Wales to have at least an element of local ownership from 2020.

3.8 The recent IWA report 'A plan for Wales renewable energy future' report recommended that between 5-33% of all schemes above 5MW should be in community or local ownership from 2020 and that in order to deliver 100% renewable electricity by 2035 over 10,000 MW of renewable would need to be installed, this would require between 500MW and 3300MW of additional locally owned capacity[8].

3.9 The community energy sector punches well above it's weight in energy generation when compared to other local organisations such as Local Authorities or Housing associations. It is clear that in order to maximise the benefit to communities in Wales this needs to be scaled up significantly as we currently have 39MW of community owned energy capacity installed in Wales[9].

Locally owned renewable energy projects in Wales summary by ownership

Ownership category	Number of projects	Capacity (MWe)	Capacity (MWth)	Estimated generation (GWh)
Community	197	39	1	52
Domestic	60,802	190	109	422
Farms and estates	778	23	119	429
Housing association	5,687	7	5	9
Local authority	300	13	3	32
Local business	382	271	16	796
Other public sector and charity	414	5	23	78
Total	68,560	549	276	1,819

Fig 1. Local owned renewable energy generation in Wales

3.10 We believe it is essential that communities are able to be actively involved in and benefit from the transition to zero carbon energy. The community energy sector provides a wide range of examples of how communities can become more involved and active in this area. Often a renewable

[7] https://www.clientearth.org/british-public-supports-urgent-action-and-litigation-on-climate-change-poll-reveals/
[8] IWA_Energy_WP6_Digital-2.pdf
[9] energy-generation-in-wales-2019.pdf (gov.wales)

energy project is just the start and community energy projects expand into other areas including sustainable transport, energy efficiency, heat, innovation and storage.

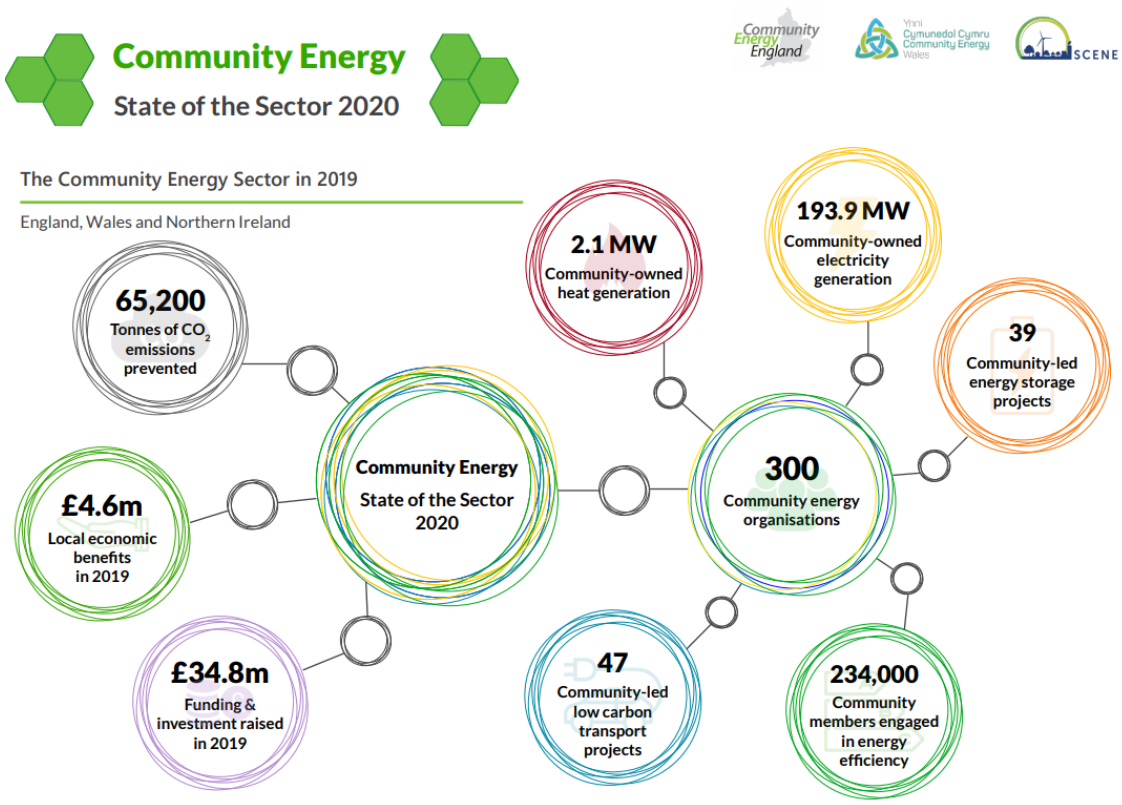

Fig. 2 – Impacts of community energy organisations across England, Wales and Northern Ireland.

4. Challenges Facing the Community Energy Sector

4.1 The most recent Community Energy State of the Sector report highlighted a range of barriers faced by community energy schemes.

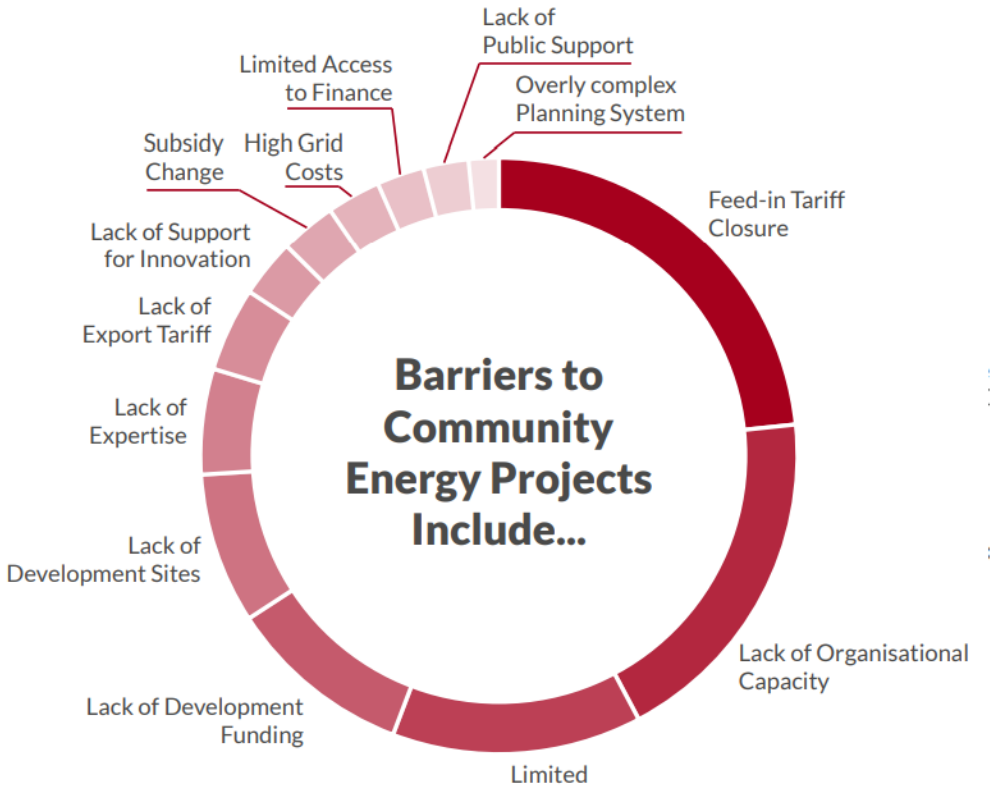

Fig. 3 Barriers to community energy projects

Viable Business Model

4.2 With the end of the Feed in Tariff (FIT) and export tariff it has become increasingly challenging for community energy groups to develop new renewable energy projects. Small scale renewables in particular are hit hardest by this as they do not benefit from economies of scale or access to Contracts for Difference. The removal of the export tariff also creates a huge degree of uncertainty and if you are asking volunteer Directors to give up many years of their lives to take a project forward or community members to invest in a project through a share offer they need much greater certainty over the likely return on the scheme.

4.3 In order to develop projects you are now reliant on either being very large, much larger than traditional community energy schemes or being able to add value in other ways such as selling the power directly to an energy consumer through a direct wire or grid balancing. These increase the complexity of projects which creates an additional barrier to community energy.

Case Study – TGV Hydro

TGVHydro design and installed microhydro schemes in Wales, founded in Wales in 2011, was a multi-award-winning business including a 2015 Ashden Award. The company consistently achieved a turnover of over £1m and was profitable. It employed 15 people and had developed considerable expertise in the design and construction of microhydro schemes below 200kW. It has completed over 60 schemes with a combined capacity of approaching 2MW. The removal of FIT led to no new enquiries for schemes. In 2018 all staff were made redundant and the construction equipment in part purchased with a WG business growth grant in 2012 of £50k was sold sold.

Access to finance, particularly development finance

4.3 Fortunately, in Wales community energy schemes are able to access support from the Welsh Government Energy Service (WGES) and the Development Bank of Wales (DBW) who can provide a combination of grants, development loans and construction finance. There are other smaller sources of similar support through Robert Owen Community Banking Fund (ROCBF). The challenge is that with smaller scale projects being less viable community groups are having to take on larger more challenging and complex projects which increases the development costs. Often this can be more than is available through WGES making it a challenge to take the project forward.

4.4 The community energy sector has been very effective at raising finance for schemes, particularly through community share offers. In 2019 community energy projects in England, Wales and Northern Ireland managed to raise nearly £35 million to invest in projects. Raising finance through community share offers was made more challenging in 2016 by a change in the rules on the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) which could enable investors in new enterprises to receive tax relief on their investment. Investors in community energy schemes were no longer able to claim SEIS or EIS and they were also unable to claim Social Investment Tax Relief (SITR) meaning that it became much harder to raise these investments particularly at the earlier stages of the projects when there was higher risk.

4.5 The Chief Secretary to the Treasury wrote to Community Energy England in 2016[10] setting out that community energy projects were seen as "low risk" ***and that "the purpose of the tax-advantaged venture capital schemes is to encourage investment into smaller, higher risk companies that would otherwise struggle to access the funding they need to develop and grow."*** **This is a misunderstanding on the part of the Treasury as Community Energy schemes are not low risk.**

4.6 When the FIT and Export tariff were available these schemes were less risky but now those support mechanisms have gone these investments are much higher risk.

Grid

4.7 Access to the grid in Wales is particularly challenging. Areas of Mid Wales and Western Areas such as the Llyn Peninsula or Pembrokeshire often find the cost of grid reinforcement prevents projects going ahead due to the cost.

Case Study Abernant

In mid-Wales Abernant was a proposed 18kW peak output microhydro generator on a farm south of Builth Wells in the Western Power DNO area. The scheme was to be community financed with a rental income supporting the landowner. In December 2014 a routine grid connection request was completed and a connection offer was assessed to require 48km of 66kV line reinforcement. The quoted cost was £5.7m. It was estimated to take up to 6 years to complete. For a small system with a construction cost of around £100,000 this is clearly disproportionate.

[10] Letter from David Gauke MP to Community Energy England, 6 January 2016 (Ref: MC2015/27107)

4.8 This issue is inhibiting Wales ability to deliver it's potential on Renewable Energy and disproportionately impacts on smaller scale generators such as community energy schemes. This does not just impact on renewable energy but the poor grid in Wales also negatively impacts Welsh communities ability to decarbonise as it can also be an issue for electric vehicle charging and electrifying heating and hot water through heat pumps.

Access to Land/Buildings

4.9 In an increasingly competitive energy market access to land and buildings for community energy schemes can be incredibly challenging. The community energy sector lacks the resources to secure viable sites through land owner agreements and winning tenders. It is often the case that tender criteria preclude community energy schemes for tendering for the opportunity due to the financial criteria which most community energy schemes fail to meet.

4.10 This was the case in a tender that Natural Resources Wales (NRW) put out a few years ago which no community energy organisation could tender for due to the criteria.

Capacity

4.11 The community energy sector is generally reliant on volunteers to deliver or oversee most projects. Whilst the sector in England and Wales has become more and more professional and now employs 263[11] it still does not have access to the same level of resources that exists within the private sector.

4.12 In an increasingly competitive market in order to research, create and secure opportunities it takes significant resources. Ofgem recognised this by giving the community energy sector an additional 6 months to develop pre-accredited FIT projects but now the FIT is gone this benefit no longer exists.

4.13 In Wales the WGES does help to provide some of that support and the sector itself is developing community owned developer models through organisations like YnNi Teg and Egni Coop but this is still a significant challenge for the sector. In spite of this community energy schemes are often involved in innovative projects.

[11] sots20report-v1-5web.pdf (communityenergywales.org.uk)

Case Study: Energy Local – Bethesda

Energy Local is being developed in a number of communities across the UK. Bethesda in North Wales is the first operating Energy Local club and is able to provide cheaper locally sourced electricity to members within the local community. In partnership with Co-op Energy the initiative is able to encourage the use of locally sourced electricity through a local match tariff and encourage demand shifting through a Time of Use Tariff through the use of smart meters. This has the benefit of saving its members money when they use locally sourced or off-peak electricity, increasing the income of the community owned generator leading to greater community benefit and reducing the impact on the distribution and transmission network by shifting demand.

5. How can the UK Government best support the deployment of renewable generators in Wales?

5.1 We hope that we have been able to demonstrate the value of community energy and highlight how we believe it is an essential element in engaging and involving the public in meeting our net zero future. In Wales all energy projects must have an element of local ownership which highlights their ambition to retain the benefits of renewable energy within the local economy.

5.2 We have identified a number of areas where the UK government could support the deployment of more community owned energy.

5.3 We propose a restructuring of the CfD scheme, to include support for community energy projects. We note that the Republic of Ireland has established a 'community preference' category in the Renewable Energy Support Scheme and would urge a similar approach for the UK. This could be done by a 'carve-out' or set 'minimum' designated for community-led projects within Pot 1, open to <5MW projects and with its own administrative strike price. This and the precise details should be worked out in participation with the community energy sector.

5.4 We would also recommend that a **required minimum level of community ownership** of 15% should be a prequalification for participation in the CfD auction process.

5.5 We propose the Government to **reinstate the Enterprise Investment Scheme (EIS) and Social Investment Tax Relief (SITR)** to community energy projects.

5.6 Support us to work with Ofgem to ensure forthcoming proposals for RIIO2 and network and transmission charging forum fully consider the issues around the siting of smaller scale generation. In particular, promote and enable the opportunity of **upfront investment in grid reinforcement** to open up capacity for renewable energy and other low carbon technologies to be established in rural Wales.

5.7 Support the Local Electricity Bill[12] and help to create a local market for small scale community energy schemes. A number of trials exist highlighting the demand for local electricity supply such as those being run by Energy Local and Gower Power in Wales.

5.8 Work with the Community Energy sector to **set clear objectives on the UKs ambition for community energy** and work with us and our partners Community Energy England (CEE) and Community Energy Scotland (CES) to deliver them.

[12] Local-Electricity-Bill.pdf (powerforpeople.org.uk)

6. How can the UK government work together to support the development of renewable energy projects in Wales?

6.1 The UK government must implement policy that supports Welsh Governments objectives on developing locally owned energy in Wales. As we have highlighted there are many barriers to smaller scale locally owned energy projects which could be helped by our recommendations above but further supported through better dialogue and an understanding of Welsh Government policy.

7. What mechanism can ensure that subsidies for renewable generators are good value for money?

7.1 I am not aware of any subsidies that are now available for renewable generators other than contracts for difference which is a competitive process and is more about price certainty than subsidised cost.

7.2 We would certainly propose that the **reinstatement of the Feed in Tariff (FIT) generation and export tariffs for community energy projects** would have huge value in supporting our sector – It could be re-branded as the 'Community Feed in Tariff'. This would not have to be at a high cost, it could be set at a similar rate to the export tariff which is similar to the wholesale price of energy but it would give security and the incentive for renewable energy projects to be community owned.

7.3 In order to get maximum social and local economic impact from any subsidy then any subsidies that exist should be used to support the uptake in community initiatives such as community energy. As well as local economic benefits you also get additional social value brought by the value of committed and dedicated volunteers and community based organisations. These organisations are often dedicated to tackling many of societies problems such as the climate and ecological crisis, social inequality and poverty.

8. What opportunities are there for renewable generators in Wales of greater interconnetion with other electricity markets?

8.1 It is always more efficient to use power locally rather than move it great distances. Creating opportunities for direct supply of energy, particularly to help support the public sector to become zero carbon and reduce it's energy costs could be a good model. We are in the early stages of a similar project with a large energy consumer in Wales.

8.2 The Local Electricity Bill could also create new local energy markets which would benefit local supply and demand.

9. What opportunities are there fore renewable energy to aid Wales post-Covid – 19 economic recovery?

9.1 By supporting community and locally owned energy we can ensure that the value of our investment in renewable energy is retained in our local economies. By taking an approach of community wealth building we can ensure that we maximise the value of money spent in all areas including Renewable Energy. We have demonstrated in our introduction to community energy the value our sector brings and the potential for growth.

9.2 The Welsh Government is looking to support this type of approach through it's foundational economy work.

Case Study: YnNi Teg

YnNi Teg received £100,000 of funding through Welsh Governments foundational economy. It enabled YnNi Teg to employ 2 staff for 1 year with a relatively modest investment. It has led to over 30 opportunities across Wales being assessed. This has subsequently led to a portfolio of projects in development with a capacity of 41mW w and has levered in over £250k of additional funding. This portfolio has the potential to be worth in excess of £20 million. The largest of these projects, the Bretton Hall Solar Farm, if successful, would be the largest community owned solar farm in the UK.

9.3 Community energy schemes have also demonstrated how they have been able to respond to the pandemic and the needs of their community.

Case Study: Community Energy Response to Covid 19

Despite the challenges, the community energy sector demonstrated its contribution to community resilience, adaptability and ability to provide support and funding quickly and directly to organisations and people within their communities. In the first week of the lockdown in March 2020, the Communities for Renewables (CfR) collective mobilised £100,000 of Corona Crisis Funds between them to support the most vulnerable in their communities. Six community-run solar farms in England and Wales supported by Community Owned Renewable Energy (CORE) Partners advanced a total of £195,000 in community benefit funds to support their local communities. Several community energy organisations in Wales such as YnNi Teg, Awel Aman Tawe, Ynni Ogwen and Carmarthenshire Energy in Wales used some of their community benefit fund to support local food banks and Repowering, South London Community Energy (SELCE) and CREW Energy in moved their fuel poverty advice services online or over the phone, working with other local community organisations to reach vulnerable members of their communities and help them access support and crisis funding.