URN 15D/362: Consultation on changes to Feed-In Tariff accreditation

Response by Community Energy England

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COMMUNITY ENERGY ENGLAND

Community Energy England (CEE) was established in May 2014 to provide a voice for the community energy sector primarily in England. Membership already totals over 180 organisations. The majority of the member organisations are from the community energy sector but the membership extends across a wide range of organisations which works with and supports the community energy sector. Further details can be found on the CEE website at www.communityenergyengland.org

Before addressing the specific questions in your consultation we wish to raise a few specific high-level points for consideration.

Important issues for sustainable community energy

Community Energy England supports the Government's Community Energy Strategy and the aspiration that the community sector can play a bigger role in the U.K.'s overall energy system.

Regulatory stability

Frequent and sudden changes to the regulatory system have a strong adverse impact on all projects but particularly on the community energy sector. Community energy enterprises are collaborative and democratic in the way that they operate. Community projects often largely, if not totally, rely on volunteer time and skills. This means that projects typically take longer to deliver than those in the commercial sector; while the outcome is often better because of the involvement of local communities in the design, planning and implementation of the project.

Because of the longer project implementation times, regulatory changes while the project is in progress have a greater probability of affecting the outcome.

Regulatory complexity

Because of the broader range of people involved in community projects, there will be a significant proportion who are not expert in the energy market. It is therefore preferable that support mechanisms avoid excessive complexity. The incentive mechanisms for sustainable energy in the UK have become ever more intricate in recent years after successive amendments to the Renewables Obligation and the Feed-in Tariffs, and the introduction of Contracts for Difference. The changes currently proposed, to remove the ability to pre-accredit projects for the Feed-In

Tariff (FIT), would add further complexity; in particular due to the uncertainty about the income stream extant at the time of commissioning.

In simple terms the proposed changes to the pre-accreditation for FITs would damage the community energy sector's ability to raise cash. Whether through a share offer, or loans from community-centred finance organisations, community projects will be affected more adversely than commercial developers.

There are many good community projects close to achieving pre-accreditation. These projects may have already received preliminary grant funding (via WRAP/RCEF or similar schemes), will have required significant volunteer hours and enjoyed the widespread engagement of their local people. Removal of pre-accreditation for the FIT will destroy these community projects overnight and leave their many supporters distraught.

Answers to consultation questions

1. Do you agree that, in the context of deployment and spend under the FIT scheme significantly exceeding expectations, it is appropriate to remove the ability to pre-accredit from the FIT scheme?

We disagree.

The mechanism for controlling the spend on the FIT is degression. This mechanism, though not perfect, does provide a brake on the potential future spend.

To this end, it is argued that pre-accreditation for FIT provides a leading indicator of uptake and, if not all projects come to fruition, may trigger degression prematurely.

As pre-accreditation impacts on degression rates it is not clear what savings the removal of this will produce.

Therefore to remove FIT pre-accreditation from all projects on the basis that this is a cause of excess spend is draconian.

2. Are the assumptions made above on the impact of removing pre-accreditation reasonable? Please provide robust evidence to support your response.

No.

DECC has made the following statement: "DECC has not attempted to measure the likely impact on deployment and therefore savings".

Undoubtedly the removal of pre-accreditation will have a severe impact, especially on the community sector. However the true impact can only be judged when an Impact Assessment on the government proposals has been undertaken and published. Given the longer timeframe required by community schemes, many have been investing significant volunteer hours and money in getting to the stage required for pre-accreditation.

One guaranteed effect of the removal of pre-accreditation on community schemes is a rise in deemed risk to lenders. The inability to 'lock' the FIT payment into the post commissioning income stream risks that one or more degressions may be applied before beneficial operation. Any supplier of finance will therefore assess this as higher risk lending, with an attendant rise in interest demanded.

Another consequence may be that higher rates of interest have to be offered to potential shareholders. This could cause the sector further difficulties with the Financial Conduct Authority in the exercise of its registration function with community benefit societies and co-operative societies.

As financial negotiations are likely to be more protracted for community schemes, as compared with commercial schemes, there is an attendant unique risk to community schemes that degression will be triggered by the faster-to-commissioning commercial schemes. This would result in community schemes being disproportionately impacted by degression.

When considered in the round, a vicious circle develops where community schemes are doubly impacted. If the proposals did not intend disproportionately to impact community schemes, they need rapid re-assessment.

We have been contacted by the following community groups*[1] concerned at the impact on their projects if pre-accreditation is withdrawn:

- Ambergate Hydro
- Sandford Hydro
- Hinderwell Community Solar Energy Project, North Yorkshire
- Low Carbon Hub, Oxford
- Energy4All, countrywide
- Grand Union Community Energy, Kings Langley, Herts
- Low Carbon Chilterns Co-operative Limited, Buckinghamshire
- Sunrise Community Energy , Ipswich, Suffolk
- More Renewables, Lancaster
- South Staffordshire Community Energy / Chase Community Solar

Oxford based Low Carbon Hub (LCH) is a good example of why community energy needs pre-accreditation for rooftop solar and why it will be even more difficult for groups if it is removed. LCH says it has taken the best part of 3 years to develop the confidence of local businesses and local authorities to build this pipeline particularly in helping them to understand how the community benefit model works in comparison to business models they are more familiar with. LCH regards the ability to pre-accredit projects as an important part of building confidence in its way of working because it enables firm figures in terms of the shared benefits of the project to be presented to and agreed with building owners.

Another good example is from Bath & West Community Energy. BWCE supported the fundraising for a 5 MW community project at Braydon Manor that is owned by Wiltshire Wildlife Community Energy. The fund raise was prepared in September 2015, launched in October and closed in January 2015. It then took a further 6 months to agree bank debt and contract terms before financial close could take place. Removal of pre accreditation would have made it impossible for this project to reach financial close because there would be great uncertainty on the FIT level.

[1] * some names withheld due to reasons of commercial confidentiality

The fact that this consultation paper is only open for 4 weeks and has coincided with the holiday period and 3 other consultations of relevance to the sector has impacted on the number of examples and evidence that we are able to supply. The examples above are therefore only a representation of the community schemes that may be affected.

3. Are there additional measures which could achieve the objectives of encouraging deployment under the scheme while ensuring value for money under the LCF?

We agree there are opportunities.

On 22nd July 2015, the Secretary of State for Energy and Climate Change announced the Government's wish "*to take control of the costs of renewable electricity subsidies under the Levy Control Framework (LCF). This is part of the Government's commitment to control energy bills for hard-working British families and businesses as we continue to move to a low carbon economy and make progress toward our carbon reduction and renewable energy targets*".

Firstly it is essential that the Government makes clear what inputs now constitute the LCF. Previously it has been stated that that energy consumption reducing measures via the 'Green Deal' would help to reduce energy bills for British hard-working families.

The most effective way of delivering value for money is by delivering grid parity for renewables, something that this proposal fundamentally undermines with no evidence that it will deliver financial savings.

Other ways to control the LCF without these measures are:

- There will be many projects already pre-accredited which will not come to commissioning fruition. These monies could be ring fenced to continue pre-accreditation support for the community sector. This will NOT increase the exposure under the LCF as the cost of these pre-accredited projects is already factored in.
- Degression should be retained as a mechanism to control spend for projects commissioned in the future, especially as true technology costs reduce.

4. Are there groups or sectors where it may be appropriate to reintroduce pre-accreditation in the future?

We believe that the Government should retain pre-accreditation for all renewable technologies and across all sectors.

Above all it should retain pre-accreditation for the community sector as the uncertainty caused even in the short-term will cause the abandonment of many community projects which are already financially marginal and have reached a critical stage. Any hiatus in the provision of pre-accreditation for the FIT will lead to currently viable community projects, particularly in the hydro sector, being stopped. Furthermore lenders and potential community investors across all technologies need continuity of risk profile. A period of uncertainty will severely prejudice many projects which, through no fault of their own, find themselves facing an unpredictable future.

Furthermore, the rationale for abrupt removal of pre-accreditation and then possible re-introduction at a later date is not clear. The only explanation for this which we have received is that ‘state aid’ rules require total removal. We do not accept this explanation and so have provided further details below.

State Aid

The UK Government consulted on support for community energy projects under the Feed-in Tariffs Scheme as recently as May 2014 and published the results of that consultation in November 2014.

According to the Government, state aid was an issue in relation to Part B of that Consultation (see Part A para 2.20). This related to increasing the maximum specified capacity ceiling for community projects from 5MW to 10MW, but any other aspect of additional support for community energy also being considered as part of this consultation. In particular, and of relevance to this consultation, Section 6 of the response (paragraphs 6.1 to 6.11) makes it clear that the government understood at that time, the extra time and certainty needed by community energy schemes and felt that the time periods for pre-accreditation could be extended without reference back to the European Commission for approval. Indeed there is not one single reference to ‘state aid’ in Section 6.

This is consistent with both the introduction of the system of pre-accreditation and subsequent modifications where there has been no suggestion to date as far as we can ascertain that the European Commission regards them as requiring consent under state aid rules.

The system of pre-accreditation was introduced to the UK in 2012 in an order of that year. We can see no record of prior consent having been sought from the EU for that change. The final modification to the FITs system before the introduction of pre-accreditation was in 2011 and related to farm scale anaerobic digestion and one other change and not to pre-accreditation.

In the 2013 modification, the UK applied for a modification to Feed-in Tariff for non-solar PV as follows:

> “5 (f) Introduction of a system of preliminary accreditation for non-PV installations, with the effect from 1 December 2012, for prospective FITs generators where installations have a relatively long lead time. The system will provide a tariff guarantee for a fixed period of six months to two years, depending on the technology”.

According to paragraph 1 (9) of the response “The UK authorities have indicated that, in their view, the modifications described under recital (5) c., d., e. and f. do not amount to new aid that needs to be notified, but are within the scope of the previous Commission decision (approving the aid notified by the UK under the case N 94/2010 and SA.33210 – 2011/N) or represent purely administrative changes of the aid scheme. However, information on these modifications was provided to the Commission.”

Then at paragraph 2 (19) of the response the Commission actually states that "***As for the preliminary accreditation described under recital (5) f., the Commission considers it as an administrative modification that has no impact on the evaluation of the compatibility of the aid measure with the common market.***"

We therefore do not accept why, if 'state aid' was not an issue when it came to extending pre-accreditation periods for community energy projects between 2012 and 2014, it should be an issue now even under the new EU FITs scheme. We therefore do not accept that DECC is bound to refer this matter to the European Commission and believe it could spare community groups – which now have a well-accepted and agreed statutory definition – from any changes to pre-accreditation <u>including temporary removal</u> from the community sector in the forthcoming order.

Conclusion

We note the supportive comments made previously by the Secretary of State for Energy and Climate Change towards community energy and so it cannot be the Government's intention to deliberately undermine the community renewable energy sector. If the sector is to survive and grow, this needs to be backed by some positive action.

Local community energy groups are funded, owned and supported by their communities. They seek to use their skills, volunteer their time and show determination to make their towns, cities and villages more sustainable places to live and work.

Pre-accreditation for the FIT enables this to happen. Please rethink these proposals.