



Department  
of Energy &  
Climate Change

# Community Energy Strategy Update

Creating the conditions for long-term growth

March 2015

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# Ministerial Forewords



The UK's energy infrastructure is rapidly being transformed. Our goal is to maintain and enhance our energy security, while we create the cost-effective, predominantly low-carbon system required to meet the climate change challenge. This brings huge opportunities to local communities across the country for economic growth and jobs. Green growth and green jobs - community energy is a concept whose time has now come.

As a society we have a great deal to gain from a drive for community energy. Large-scale generation will clearly continue to play a significant role in meeting our energy needs. But our vision is of a future no longer dominated by a small number of large energy companies and traditional business models, but a flexible, devolved, competitive and innovative energy system that serves local people.

With community energy we win as a nation, with a diverse, increasingly home-grown green mix contributing to energy security and decarbonisation. But this is not just about generating electricity at local level. We have specifically drawn the widest remit for Community energy. It is also about communities coming together to work on renewable heat systems for their communities, to save energy together through energy efficiency, and to buy energy together through collective purchasing. So we are also re-empowering local communities – to create jobs, to share the profits of investment, to work together to save energy, save money and cut energy bills too.

In 2014, I published the UK's first Community Energy Strategy to maximise the benefits that flow to local communities from this clean green energy transformation and catalyse green growth from the bottom up. Over the last year, the specialised unit I set up in DECC to implement this strategy has been working together with the community energy sector and financial bodies, to clear any obstacles from the path. We have listened and we have acted.

This Community Energy Strategy Update sets out the progress we have made over the last year. In May 2014 the Government achieved state aid approval for the Green Investment Bank (GIB) to expand its investment mandate to include community-scale renewables. The Bank is already working with partners on lending programmes worth over £250m. Network operator and community groups have come together to make practical changes which will help new projects connect to the grid. We have worked through regulatory issues that were concerning community energy groups and we now have a much improved position. The new National Heat

Map published this year now includes additional information on water source heat pump potential.

There are now over 5,000 community energy groups active in generating, managing, purchasing and reducing energy. But we are still at the start of this journey. This Government has been determined to embed community energy in the energy system, and with the framework now put in place, the green shoots we have planted over the last few years will flourish and grow.

**Rt Hon Edward Davey MP, Secretary of State for Energy and Climate Change**



I am delighted that we are publishing this update on progress since we launched our Community Energy Strategy, in January 2014. This report sets out how we are helping the sector to realise its full potential as energy decentralises and as consumers become more empowered about their energy production, supply and use. But just as importantly, the update shows how communities are developing the real-life solutions that best suit them.

Community energy groups bring people together in common endeavour. They generate local employment, both directly and indirectly through enabling people to reduce their energy bills, and generate income for other purposes. And they expand the idea of the possible among their members, unleashing creativity and innovation. Carbon Co-op in Greater Manchester, for example, is developing fantastic assessment and decision making tools for retro-fitting energy-saving kit in to houses and flats, which will be made freely available to all via the new Community Energy Hub.

The impact of community energy organisations on the overall energy market is growing too. They are providing greater competition to established players in power generation and heat supply. They can deliver cost-savings for consumers as well as carbon reductions, especially among off-gas grid homes, and they are playing a key role in helping consumers become more informed and active. Indeed, community energy projects have acted as a catalyst for other things like collective buying and switching.

This document sets out a work in progress, and it is important that Government backs the sector and enables it to continue to innovate. Priorities for action and future development cannot be driven from Whitehall. We will create a supportive framework, while community energy organisations themselves decide upon the best way forward. Together, my ambition is to see us working hand in hand to turn energy “consumers” into energy “pro-sumers”.

**Amber Rudd MP, Parliamentary Under-Secretary of State for Energy and Climate Change**

# 1. Introduction

## Building on the UK's first Community Energy Strategy

- 1.1. This publication sets out how the Government is building on the step-change in Government leadership and support since the publication of the Community Energy Strategy<sup>1</sup> in January 2014. It looks forward to key areas of action for the sector and Government over the next 12 months to drive further progress and accelerate the revolution in the way we generate and use energy.
- 1.2. Government recognises that community energy has the potential to be transformative. However, we are at an early stage in its development. The Government is supporting the growth of the sector and testing and learning from different models and approaches to see what works best. We have seen significant activity in the last year since the publication of the Strategy, but there is a great deal still to do if the sector is to realise its full potential.
- 1.3. The Community Energy Strategy set out the key benefits of community energy:
  - It can help **maintain energy security and tackle climate change**
  - It can **save money on energy bills**
  - It can **bring wider social and economic benefits**, including generating income streams for the community, increasing community cohesion, and building confidence and skills.
- 1.4. The Government's ambition is that every community that wants to form an energy group or take forward an energy project should be able to do so, regardless of background or location. We will back those who choose to pursue community energy, working to dismantle barriers and unlock the potential of the sector.
- 1.5. The implementation of the Strategy will help underpin the diversification of the current centralised energy system to a much more distributed approach, whereby local people have more control of and a stake in how energy is generated and supplied, and how their community's energy demand can be managed and reduced.
- 1.6. The Government supports a spectrum of community models to energy generation, demand reduction, demand management and purchasing. Often these are wholly community-led and owned, formed to address a local energy challenge or opportunity; at other times, partnership working with the private, public and voluntary sectors can be an effective way of enabling local action.
- 1.7. We recognise that much of the time community engagement and involvement in local energy projects will benefit from the participation of local authorities. This is why we're partnering with local authorities such as Bristol City Council who are spearheading innovative partnerships with community groups. We're providing almost £1m in funding to Bristol, complementing their unique programme of events as European Green Capital throughout 2015, to develop programmes that could be rolled out through local authorities across the country.

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<sup>1</sup> <https://www.gov.uk/government/publications/community-energy-strategy>



- 1.8. Whatever the model, a defining feature for all community energy schemes should be demonstrable benefit to the community and, in many cases, an appropriate level of civic participation. It is this principle that lies at the heart of regulatory changes over the last year. In October, a Financial Conduct Authority consultation considered the suitability of certain co-operative models for community energy groups. Today, the FCA are announcing that they intend to engage further with stakeholders on this consultation (see Chapter 2).
- 1.9. In this Update, we provide a number of examples of great projects making a real difference all throughout England. But community energy is flourishing right across the UK. The Scottish Government last year consulted on their Community Energy Policy Statement, which aims to place community energy at the heart of local energy systems. They will be finalising this over the coming months. The Department of Enterprise, Trade and Investment (DETI) is leading on the preparation of the first Northern Ireland cross departmental Community Energy Action Plan for consultation by mid-2015. And the Welsh Assembly is also committed to supporting the community energy sector, examples of which are mentioned in this document.

## Key areas of Government progress over the last twelve months

- 1.10. The first year of implementing the Community Energy Strategy has seen significant progress. The Government has begun a rolling programme of action to address the barriers to community energy deployment, and has introduced new policies and programmes as well as improving existing ones (see Table 1). The Government is helping to create the right conditions for community energy to grow:
- **A secure foundation** by providing a top-level commitment to community energy in Government and embedding community energy in policy design and delivery. For example, through the introduction of a dedicated Community Energy Unit within DECC to drive and coordinate activity, and working with the sector to build the evidence base and unlock the potential that community energy represents.
  - **A clear pathway to success** by opening up access to finance, removing barriers and designing policies and programmes that empower communities and their partners. For example, Government is supporting the sector by improving the information, advice and networking resources available through the new Community Energy Hub.
  - **Fostering innovation** by supporting the sector to create, test and learn from innovative policy solutions to transform our energy system. For example, the Government has awarded over £250,000 to projects piloting 18 new models on community energy efficiency projects, and we are investigating ways communities can supply energy locally.



**Repowering London work experience programme in Roupell Park Estate, Brixton**

**Table 1 – How Government is helping to create the right conditions for community energy to grow**

	<b>Done in 2014</b>	<b>2015 and beyond</b>
<b>A secure foundation</b>	<p>Formation of first dedicated Community Energy Unit in Whitehall to drive and coordinate Government community energy activity</p> <p>Kick-off of the evaluation of the £80m Green Deal Communities scheme, the £15m DECC/DEFRA-funded Rural Community Energy Fund (RCEF) and the £10m DECC-funded Urban Community Energy Fund (UCEF), and the DECC/Cabinet Office-funded £500,000 DECC Peer Mentoring Fund</p> <p>The first meeting of the Cross-Government Community Energy Board</p>	<p>DECC-funded research working with the Community Energy Coalition and Energy Saving Trust to review community energy approaches to energy efficiency and fuel poverty</p> <p>120,000 Euro International Energy Agency funding for a cost-benefit analysis of community renewables</p> <p>Preparing for survey of community energy sector in 2016 to understand the effects of this Strategy on the types and locations of community energy project.</p> <p>We will continue to investigate the opportunities for the Heat Network Delivery Unit to support smaller scale community projects</p> <p>Further meetings of the Cross-Government Community Energy Board</p>
<b>A clear pathway to success</b>	<p>The UK Green Investment Bank (GIB) was successful in expanding the scope of its operation, leading to a £200m funding line for community-scale renewable energy (£100m GIB funds, and £100m KKR contribution)</p> <p>£10m UCEF launched, providing early stage finance for urban community energy projects in England</p> <p>£15m DECC/ DEFRA RCEF distributed £450k to 25 electricity generation projects in 2014</p> <p>Local authorities become eligible for RCEF and UCEF if</p>	<p>GIB exploring whether a scalable and commercial funding model can be developed to help support the construction of community-owned projects</p> <p>£200K UCEF grants issued. Loan element of UCEF launched, projecting up to £1m in loans available over the course of the year.</p> <p>RCEF passes £1m distributed to 48 projects in February 2015 and projecting £800k for 25 electricity generation projects over the course of the year</p> <p>Package of community Feed-in Tarrifs (FITs) measures</p>

	Done in 2014	2015 and beyond
	<p>working with an applicant community group</p> <p>Community energy finance roundtable (reported back with recommendations in summer 2014)</p> <p>£80m local authority led Green Deal Communities programme launched</p> <p>Further £1m of additional funding to continue supporting Big Energy Savings Network in 2014/15. Helping up to 100,000 consumers over autumn/ winter 2014/15 reduce their energy and costs through community and third sector outreach.</p> <p>Launch of the Register of Community Benefits and Engagement to provide a means for developers and communities to record the range of community benefits offered and received from different onshore wind projects in a transparent manner.</p> <p>DECC published updated guidance for organisers of collective switching schemes</p>	<p>come into effect from April 2015 (extending pre-accreditation period, expanding the definition of “community organisation” and allowing two projects to share a single grid connection and receive separate tariffs).</p> <p>Guidance in spring 2015 covering the treatment of different community ownership models under the FITs Scheme and reaching agreement with a commercial developer over sharing FITs payments.</p> <p>DECC-funded Community Energy Hub to be launched on Community Energy England’s website in March 2015 and fully operational later in the year</p> <p>Funding the Community Shares Unit</p> <p>DCLG will work with DECC to coordinate advice, and best practice on neighbourhood planning for community energy, together with information on existing examples.</p>
<b>Fostering innovation</b>	<p>Shared Ownership Taskforce Framework published; Government response published February 2015</p> <p>Joint Cabinet Office/DECC £500,000 Community Energy Peer Mentoring Fund</p> <p>Working Groups established to address barriers to Planning &amp; Permitting, Hydro and Grid Connections (reported back with recommendations in summer 2014)</p> <p>Roundtable with the Secretary of State on License Lite, leading to the formation of a Local Supply Working Group to identify key regulatory barriers and suggest solutions</p>	<p>Shared Ownership Taskforce to undertake a 6 month progress review against their Framework and report back to DECC</p> <p>Community Energy Saving Competition provides over £250,000 of funding to 18 projects across England.</p> <p>Community Heat Conference, March 2015 in association with Welsh Government, Forestry Commission, UKDEA and Community Energy England.</p> <p>DECC science and innovation programme on solid wall insulation to help skill up community energy groups during the installation process</p>

## 2. A secure foundation

### Embedding community energy in Government policy design and delivery

- 2.1. The Community Energy Strategy is not just a statement of ambition; it sets out firmly and clearly how the Government sees communities as integral to our energy system. It also sets out pragmatic - but critical - steps to embed community energy in the Government's policy design and delivery process.
- 2.2. A crucial step towards this was the creation of **Community Energy Unit** with Director-level supervision within DECC to coordinate and drive forward Government activity supporting the sector and to provide advice and support to community energy organisations. For the first time the sector has a dedicated expert resource in Whitehall committed to its development, which includes external support provided by community energy specialists seconded to DECC.
- 2.3. We recognise the importance of ensuring that there is cross-Government support for the sector. To ensure that community energy is taken into account in other HMG policies, the Unit has also established a **Cross-Government Community Energy Board**. Members include Her Majesty's Treasury, the Department for Communities and Local Government, the Department for Environment Food and Rural Affairs, the Department of Business, Innovation and Skills, the Department of Transport, the Department of Education, and non-Governmental public bodies such as the Office for Gas and Electricity Markets and the Environment Agency. This is helping to ensure that Government policy is joined up and we can build community energy into future policy across.
- 2.4. We continue to value the experience and on-the-ground expertise of community energy practitioners from across the UK through the Government's **Community Energy Contact Group**<sup>2</sup>. The group's purpose is to support the development and implementation of the Community Energy Strategy, providing advice and challenge on community energy policies and wider policy areas where appropriate. Opening up policy-making to community groups has been integral to the work of the Community Energy Strategy and we will continue to reach out, listen to, and integrate the views of stakeholders in future community energy policies.

### Building the evidence base for transformational policies

- 2.5. We understand that community energy faces barriers to development –that's what the Strategy sets out to tackle head on. The Strategy also committed to learning more about these barriers. What are specific barriers that impact community energy projects? What additional cost do they impose on community groups? How can we cost-effectively overcome them? With support from the International Energy Agency (IEA) we have

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<sup>2</sup> <https://www.gov.uk/government/groups/community-energy-contact-group>



commissioned a study to address exactly these issues. The study, which will work with community groups, financiers and other stakeholders, will conduct a **cost-benefit analysis** of community renewable energy projects across several countries. It will report in September 2015, with interim findings available to DECC in June.

- 2.6. To design policies that best support community energy projects it is also important to understand the effectiveness of existing policies. That's why we have comprehensive monitoring and evaluation plans in place for our core schemes, such as the Rural and Urban Community Energy Funds. These will help to determine the impact of the funds on addressing the start-up barriers that community energy projects face, the impact of the funded activity upon communities, and how public money could best be used to achieve better outcomes. A comprehensive final evaluation report of the Urban Community Energy Fund is expected in summer 2016, and the equivalent Rural Community Energy Fund evaluation is expected to be complete in early 2017.
- 2.7. We'll also be carrying out a **sector survey** in 2015, with results in 2016, which will help to assess the impact the Strategy has had, understand the needs of a diverse and growing sector, and explore what actions can be taken next to help support and drive further progress. In addition, we recently commissioned the Energy Saving Trust and Forum for the Future to conduct a study identifying the best energy efficiency projects and the specific characteristics that make them successful.
- 2.8. We also recognise the importance of sharing best practice for community energy projects. DECC is committed to publishing results of the evaluations we commission and we will disseminate and discuss our findings with the community energy sector through seminars and events as well as publishing our written reports.
- 2.9. Building an evidence base is not just about domestic projects; we're also keen to learn from **international best practice**. The UK and Danish Governments have committed to collaborating on sharing information and analysis on district heating networks, and the Community Energy Unit is reaching out to officials in other EU member states such as Germany and Ireland. The Government is also committed to sharing best practice within the UK, where all of the Devolved Administrations, including Scotland, Wales, Northern Ireland and England see increasing activity in community energy projects.
- 2.10. These measures will help us bolster our approach to community energy policy-making, understand the needs of its stakeholders, and design the right policies to help the sector continue to flourish and reach its potential.

## Establishing a stable regulatory environment

- 2.11. Community energy needs stable and supportive governance and regulatory arrangements. As the sector has grown, and community energy business models become established, the Government and regulators have adjusted the regulatory structures around community energy to better conform to their features.

## Tax Relief

- 2.12. We recognise that community energy organisations currently face particular investment risks in comparison to commercial energy generators. For this reason, community energy organisations will be able to benefit from tax-advantaged investment under Social Investment Tax Relief (SITR), which provides tax incentives to encourage investment into social enterprises.
- 2.13. This will be a change for community energy groups, which are currently eligible for tax-advantaged investment under the venture capital schemes – Enterprise Investment

Scheme (EIS), Seed Enterprise Investment Schemes (SEIS) and the Venture Capital Trust scheme (VCTs). The Government believes that the community purpose underpinning community energy schemes makes accessing risk finance under Sitr more appropriate for community energy than using the other tax-advantaged venture capital schemes.

- 2.14. Sitr is specifically designed for social enterprises and offers the same generous income and capital gains tax incentives as EIS. Sitr differs from the venture capital schemes by offering tax relief on unsecured debt as well as equity investments giving community groups an even greater opportunity to attract the investment they need.
- 2.15. The Government is currently seeking EU State aid approval to expand the maximum amount of tax-advantaged investment available for individual organisations under Sitr to £5 million per year and £15 million in total.
- 2.16. To provide a smooth transition from the venture capital schemes to Sitr, the Government announced at the Budget 2015 that all community energy organisations will continue to qualify for investment under the venture capital schemes for six months following the confirmation of EU State aid approval of the enlarged Sitr scheme. This provides a reasonable period for adjustment and more certainty to affected groups.

#### **Box 1: Tax relief for co-operatives**

The Sitr provides tax relief for qualifying investments into charities, community interest companies, community benefit societies with a similar asset lock and accredited service providers of Social Impact Bonds. Unlike community benefit societies, another form of mutual society, co-operatives are run for the benefit of their members rather than solely for the benefit of the community. Co-operatives which meet the social purpose and other conditions can convert to a qualifying community benefit society by free application to the FCA, making them a qualifying organisation for Sitr.

#### **The Financial Conduct Authority's rules on co-operatives and community benefit societies**

- 2.17. The sector has had significant growth in recent years, attracting substantial investment in community electricity generation projects in particular. Much of the finance entering the sector is through community shares, a form of share capital offered exclusively by co-operatives and community benefit societies. The Community Shares Unit estimate that since 2012, community energy groups have raised up to £29m in share capital.
- 2.18. In September 2014, the Financial Conduct Authority (FCA), who register co-operative and community benefit societies, published a consultation clarifying the rules that apply to these societies. Stakeholders have since raised concerns about this consultation, in particular a concern that the FCA have ceased to register community energy co-operatives, a key model for the sector.
- 2.19. Community shares are an unregulated form of investment. After registering a co-operative, the FCA has no role in ensuring that the financial promotions that are advertised are regulated according to standards in other sectors that make investment propositions to the public. The Government welcomes the growth in investment in the sector, but we acknowledge that this brings risks, not only to community energy investors (many of whom are investing for the first time), but also to the sector generally.
- 2.20. The consultation has addressed questions about the suitability of the co-operative model, including those concerning social benefits and the gains that are captured only

by members. It is important, to the community energy sector and to the co-operative model, that this issue is resolved.

2.21. Both the Government and the FCA are working to respond to the concerns of the sector. Today the FCA will demonstrate this by announcing that they intend to engage further with stakeholders on this issue.

2.22. To provide clarity in the short term, DECC are publishing a guidance note interpreting the FCA policy consultation for the community energy sector, helping groups to choose the model that suits them. This has been developed with in consultation with the FCA. Additionally, DECC will be funding the Community Shares unit in 2014/15, who provide guidance to community energy organisations that want to attract investment through community shares. As a sponsor of CSU, DECC will be able to ensure that community energy sector specific guidance is shaped to suit the demands of the sector and helps to support investor protection through a higher standard of financial promotions.



## 3. A clear pathway to success

### Developing capability and capacity

#### Community Energy Peer Mentoring

3.1. We know that capacity and capability are key issues for groups who want to scale up and take forward projects. That is why we ran the **DECC/Cabinet Office pilot peer mentoring scheme** throughout 2014. This £500,000 scheme, which is funded by the Centre for Social Action in the Cabinet Office, enabled community energy groups to receive face-to-face support and advice to get started with community energy projects; to build sustainability in this emerging sector by capturing and disseminating best practice; and to create a user friendly evaluation method for understanding the impact of their work. 12 community energy groups were awarded grants and are successfully running their programmes. The grant recipients are due to report the findings from their evaluations in April 2015.

#### Community Energy Hub

3.2. We are committed to helping the sector access the best information, advice and support and form networks that enable them to self-help. DECC is seed-funding a **new Community Energy Hub** being developed by the Energy Saving Trust Foundation, Project Dirt, SE2 and Community Energy England. This fulfils a key commitment in the Community Energy Strategy to produce an independent and self-sustaining resource managed and led by the community energy sector. The Hub will include a range of services and resources that will help boost the capability and capacity of community energy.

3.3. The Hub will be hosted on Community Energy England's website and will provide the first truly integrated information sharing and social networking site to support community groups setting out to explore a potential energy project, as well as those that are well established but need specific support and advice. It will provide signposting and guidance to the best resources available, as well as hosting content locally on the site. The main Hub will be launched at the end of this month with the final version in operation by the summer 2015.

3.4. The design and functionality of the Hub will draw on the experience and insight of community energy groups and practitioners, and on lessons learned to date from the RCEF and UCEF. It means support will primarily be provided by members and peer organisations, facilitated through the site's social networking capabilities. These peer groups are best placed to catalyse and develop other community projects and networks. This approach was selected in response to a number of key themes that have emerged from the community sector when asked what is needed to help stimulate further growth:

- **A public platform for communities:** Providing an open access central point for community energy projects and groups to promote themselves and network with other community groups, the private sector, local authorities and other key stakeholders, helping them to form partnerships to progress projects.
- **Improving understanding of the sector:** Increasing the visibility of the sector and providing evidence of its scope and nature that will be updated on an ongoing basis.

Reports will be provided from the site to Community Energy England and DECC detailing the number of users, their activity and key metrics on community energy based on this information.

- **A user-friendly hub that is inclusive and sustainable:** Delivering an online information hub that is simple to navigate, signposts to the high quality resources already available from different organisations, and can easily be maintained by the sector.
- **Online peer support and integrated social networking:** Providing a flexible online platform for peer to peer support and information-sharing that is fully integrated with social networks in response to the community energy sector's use of those platforms.
- **Offline peer support that builds on existing infrastructure:** Recognising existing community energy networks and working with the sector to build an infrastructure for peer to peer support around them.
- **Reaching new and existing community energy projects:** Hosting the Hub on Community Energy England's website provides a natural port of call for existing and emerging community groups. The Hub will also help grow the community energy sector through capitalising on the broad reach of Energy Saving Trust and their partners across the UK public.

3.5. In March 2015, the Secretary of State allocated an additional £50,000 of Government funding to enhance and extend the content and functionality of the Hub, bringing to a total of £150,000 provided. New resources for the community energy sector will include:

- **Community renewables development toolkit:** Drawing on experience from Local Energy Scotland (a registered charity that provides practical help for communities on green energy development and energy conservation in Scotland) to provide resources that lead the user through the process of developing a community renewable energy project, including detailed guidance on ensuring a project is investment ready.
- **Community energy efficiency toolkit:** Working towards a similar pathway to a sustainable business model for community energy efficiency projects (see Case Study 1).
- **Grid connections guidance:** Working with Distribution Network Operators (DNOs) to provide a guide for people developing community energy projects that want to get a connection to the electricity network
- **Case studies and best practice:** Beginning to collate and link to the examples that exist of groups that have successfully launched an energy project. This will include specific guidance on issues such as state aid and business planning that have been identified by successful groups as the areas that will help others follow in their footsteps
- **Interactive mapping tool:** Allowing users of the Hub to view an interactive map of community energy groups across the country and find out what other activity is happening in their area easily

3.6. DECC has either already published or is working on a range of community heat resources that will either be made available on the Hub - or will be linked:

- The Hub will link to the **Community Biomass Guide**<sup>3</sup> developed in partnership with the Forestry Commission that offers a range information, tools and case studies to help communities evaluate the potential of woodfuel resources.
- We are working on scoping a **Community Heat Toolkit** which will build on feedback from break-out sessions at DECCs Community Heat Conference in March 2015, attended by 150 local authorities and community groups.
- The **national heat map** was extended to incorporate a **water source heat map layer** in March 2015. This layer provides an indication of the heat potential available from rivers, canals, coastal sites and estuaries in England.

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<sup>3</sup> [www.forestry.gov.uk/communitybiomass](http://www.forestry.gov.uk/communitybiomass)

## Case study 1: Carbon Co-op

Based in Greater Manchester, Carbon Co-op is a community benefit society of more than 100 householder members collaborating to make radical reductions in home carbon emissions through adoption of energy efficiency measures - whole house retrofit. They pool resources to acquire technical skills, access to finance, share experiences and to bulk purchase materials at discount.

2014 saw Carbon Co-op deliver Community Green Deal, a unique programme of nine whole house retrofits for owner occupier members around Greater Manchester. Householders received multiple energy efficiency improvements including external and internal wall insulation, triple glazed timber windows, new boilers, passive stack ventilation and solar PV.

With average works of £40,000 per property participants benefitted from zero interest loans provided by DECC and ECO subsidies, with householders making significant energy performance improvements and approaching 80% savings on energy bills.

The project benefitted from Carbon Co-op's bulk procurement services to achieve a discount on the purchase of energy efficiency improvements, combined with cutting edge architectural and retrofit experience from technical partners URBED.

Carbon Co-op are now in the process of developing My Home Energy Planner, an online whole house assessment and decision making tool to assist householders in procuring retrofit works. Core elements will be made available to other Community Energy organisations as an open source tool, assisting the sector as a whole in delivering sustainable models for community-led energy efficiency programmes.



## Providing a financial framework to support growth

### Rural and Urban Community Energy Fund

- 3.7. We recognise the issues community energy groups face in accessing finance to develop projects, and have acted to prevent viable projects being impeded by a lack of resource for project development. Providing enduring support structures is a key feature of this

Government's Community Energy Strategy. They are also designed to ensure continuous and stable support to community groups. That's the thinking behind the **£10m Urban and £15m Rural Community Energy Funds**, which provide financial support to community energy groups wishing to develop community heat and electricity energy generation projects.

- 3.8. In November we launched the £10m urban counterpart in November, and it has already attracted over 170 expressions of interest. We recently approved the first 11 grants which will provide over £150,000 in funding to community groups across England. The Rural Community Energy Fund, run by Defra and DECC, has to date distributed more than £1 million to over 50 community groups to investigate renewable technologies.
- 3.9. Through these funds, community groups can receive grants for technical feasibility studies, and loans for the later, more complex stages of project development. This funding will help groups overcome the riskier stages of renewable development and attract commercial finance, or raise money through a community share offer. At this stage, loans issued to groups are repaid, enabling the fund to self-sustain, recycling funds to support more community groups. The potential generation of all the approved RCEF and UCEF projects is already up to 60MW and growing.

### Case Study 2: The Chamberlain and Demontfort Trust

The Chamberlain and Demontfort Trust Ltd were one of the first community groups to receive funding from the newly launched Urban Community Energy Fund (UCEF).

The group, based in Erdington, Birmingham, see community energy as a great opportunity to pursue their goal of community development and are working with community members in Erdington to create Erdington Energy Project (2EP). 2EP will aim to deliver a 1MW solar energy project in Erdington. The anticipated benefits include the displacement of about 400 tonnes carbon dioxide annually, reduced energy costs for building users, apprenticeships and training for community youth as well as community development projects from surplus funds.

Set up in 2014, the three goals of The Chamberlain & Demontfort Trust are post-16 education and training, poverty reduction and community development. Their education objective is being delivered through Colmore Business School.



### The Green Investment Bank

- 3.10. The Green Investment Bank can play a key role in enabling access to project finance for community-scale developments. The Government achieved state aid approval from the European Commission in May 2014 for the Green Investment Bank



(GIB) to expand its investment mandate to include community-scale renewables, mainly small-scale hydro-electric and wind projects, in response to a funding gap in the market.

3.11. This is the first time that GIB has supported renewable power generation at a scale that is appropriate for community projects and is an important step forward in enabling the crowding-in of sustained capital from other sources – potentially a game changer for the sector. GIB has already put in place two investment platforms for small scale renewables in the UK, which are either available to help fund appropriate community renewables projects or provide for power to be sold back into the community:

- In November 2014, GIB, leading global investment firm KKR, and specialist investment manager Temporis Capital LLP announced a new £200m lending programme for community-scale renewable energy projects in the UK;
- In February 2015, an additional £60m was announced by GIB and the Strathclyde Pension Fund for investment in UK community-scale renewable energy projects, through Albion Community Power plc, and focussing predominantly on small-scale hydro and brownfield wind developments; and,
- GIB is currently exploring scalable and commercial funding models which could be developed to provide specific support for the construction of community-owned projects

## Finance Roundtable

3.12. The community energy sector has been increasingly successful in attracting investment. The Government's work with the Community Energy Finance Roundtable (CEFR) aims to build on this success.

3.13. The CEFR was set up in 2013 to explore the financial barriers to community energy projects. Chaired by Simon Roberts of the Centre for Sustainable Energy, it included members from community groups, developers, commercial lenders and community support organisations.

3.14. The Roundtable aimed to recommend solutions to issues limiting access to, and/or availability of, finance for community energy projects. It reported in July 2014, with 13 separate recommendations consolidated into four broad themes. These themes and the Government's approach to tackling them are outlined below.

## Ensuring community energy projects are investor-ready

3.15. Increasing investor confidence is key to growing the sector and increasing the level of ambition of projects. The Government recently launched UCEF, which supplements the existing RCEF, led by DEFRA, that helps groups to develop robust business plans to secure investment. In support, we are developing a community renewables development toolkit which will provide detailed guidance on ensuring a project is investment ready. This will be available on the Community Energy Hub later this year.

## Ensuring access to development risk capital for community groups

3.16. Obtaining capital for feasibility and planning stage work can be difficult for community groups. For instance, community groups often lack collateral. A number of public programmes specifically support development risk capital, such as UCEF and RCEF, Ynni'r Fro in Wales and CARES and Renewable Energy Investment Fund (REIF) in Scotland. These funds provide various grant and loan finance for community groups unable to access capital elsewhere. RCEF and UCEF alone have issued over £1m in

grant and loan funding. In addition to this, the Community Energy Hub will provide information on other sources of funding, and collate guidance on state aid issues for community groups.

### **Ensuring investor protection**

- 3.17. The growth of external finance has been central to the growth of the community energy sector. As this continues, most notably through community share offers, it is critical to ensure investor protection, particularly for less experienced investors. The Government is working closely with the Financial Conduct Authority to make this happen. From April 2015, DECC will fund the Community Shares Unit which was set up by Department for Communities and Local Government to develop standards of good practice and raise awareness to support the growth of community shares.
- 3.18. We will provide over £110,000 for activities including a dedicated standards guide for the community energy sector and the training of practitioners who will support community groups to issue best practice financial promotions. This funding will help to support access to finance for the sector whilst also helping to protect investors who want to contribute to local community energy projects.

### **Building a market for project debt.**

- 3.19. The relative immaturity of the sector, and the small size of projects, has hindered the development of community energy project debt. The Social Investment Tax Relief, which qualifying community energy organisations will be eligible for following State aid approval for the expansion of SISR and the transition from the venture capital schemes, provides tax incentives to encourage both equity and debt investments in social enterprises where the debt is unsecured. In addition, our work to help projects become investor-ready is also helping to mature the sector. We will closely monitor the sector to understand whether the new incentive adequately provides access to debt finance.

### **Other recommendations**

- 3.20. We are keen to do more to ensure that community groups are able to access capital and can continue to drive the development of the sector. We will be monitoring the sector to ensure that they provide sufficient support and will keep the other recommendations of the Finance Roundtable under review.

## **Mainstreaming community energy**

- 3.21. Community energy is playing a significant role in a more distributed and diversified energy system with an increasing number of independent actors. Communities are being integrated into existing DECC policies, and they're also seen as a vehicle to reduce energy use locally, and help improve competition in the consumer market through collective switching campaigns.

### **The Feed-in Tariff and Renewable Heat Incentive**

- 3.22. The Feed-in Tariff (FITs) scheme, which requires licensed energy suppliers to make payments to generators of small scale renewable energy based on the amount of electricity they generate, offers funding to qualifying community energy schemes. It provides a guaranteed revenue stream to renewable energy developers, which can help get community energy groups off the ground.
- 3.23. The scheme is designed to promote the uptake of a range of small-scale renewable and low-carbon generation technologies. A wide range of technologies are

supported under FITs, including solar PV, onshore wind, hydropower, anaerobic digestion (AD) and micro (<2kW) combined heat and power (micro-CHP).

- 3.24. Under the scheme generators receive three sources of benefit: a generation tariff for electricity generated, an export tariff for surplus electricity exported to the grid) and the bill savings where generated electricity reduces the amount of electricity that must be purchased from energy suppliers
- 3.25. From 1 April 2015, we are introducing a number of new measures under the FITs scheme aimed at enhancing support for community electricity projects. Community organisation definitions have been extended to include registered charities and their wholly owned trading subsidiaries, giving communities more choice around organisational form. And preliminary accreditation validity has been extended by six months for all technologies, giving communities more time to complete their project development.
- 3.26. What's more, two projects up to 5MW can now share a grid connection, which will help to lower costs and increase scale for ambitious community groups. These projects can receive separate tariffs based on their individual generating capacity, reducing upfront costs and complexity, and facilitating community ownership and split ownership of electricity generating assets. This is a very significant change, enabling community organisations to partner much more easily with traditional energy companies.
- 3.27. Almost half of the final energy consumer in the UK is used as heat, which is responsible for almost a third of the UK's greenhouse gas emissions. The Renewable Heat Incentive is a key part of the Government's strategy to tackle this. It provides financial support in the form of a payment per unit (kWh) of renewable heat produced. This covers anything from large-scale industrial heating to small business and community heating projects.
- 3.28. The Renewable Heat Incentive (RHI) is the first of its kind in the world. It is intended to help businesses and consumers overcome the financial barrier preventing the adoption of renewable heating technologies, building the UK's supply chain for these technologies and, ultimately, helping to drive down costs.
- 3.29. Building on the success of the FITs programme, we will feed the points that have been raised by communities about the RHI into our consideration of improvements we could make to the scheme. However, any changes to the RHI are dependent on the choices of the next Government and the spending review.

## Community Heat

- 3.30. Community heat projects often face lower costs and fewer challenges than electricity projects, and their scale is often inherently at the size of a community. This Government is ramping up its support to community heat, not only through the RHI, but in a number of ways, such as RCEF. Over one third of RCEF applications we've funded to date have been to explore the viability of community heat projects (see Case Study 3)
- 3.31. In March 2015, the Government convened the UK's first Community Heat Conference to help catalyse community energy heat projects and take forward the development of a Community Heat Toolkit. This met in Birmingham Town Hall where local authorities and community groups from across England and Wales joined with DECC to discuss the opportunities and challenges to seizing the untapped potential of community heat. We also launched the Community Biomass Guide at the event, which will be available on the Community Energy Hub (see Chapter 3).



- 3.32. The barriers to heat uptake are often technical in nature, which is why over the last year, the Government has added a further £150,000 to the existing £500,000 fund for enhancing the skills of installers of renewable heat.
- 3.33. Additional information on water source heat pump potential was made available in March 2015 as part of the national heat map, which will be available through the Community Energy Hub. All of these initiatives support the activity of the Heat Networks Delivery Unit, which supports local authority-led action in this area (see Box 2).

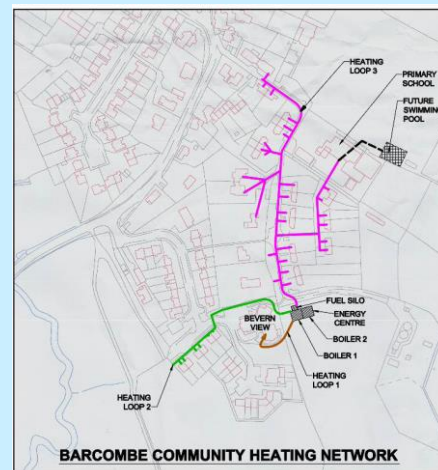
### Case Study 3: Barcombe Heat Network

Barcombe is a village in East Sussex, located off the gas grid, with approximately 600 households and a number of community buildings and shops. The village largely depends on electricity, coal and oil for its heat. As a result, residents' fuel bills are significantly higher than average.

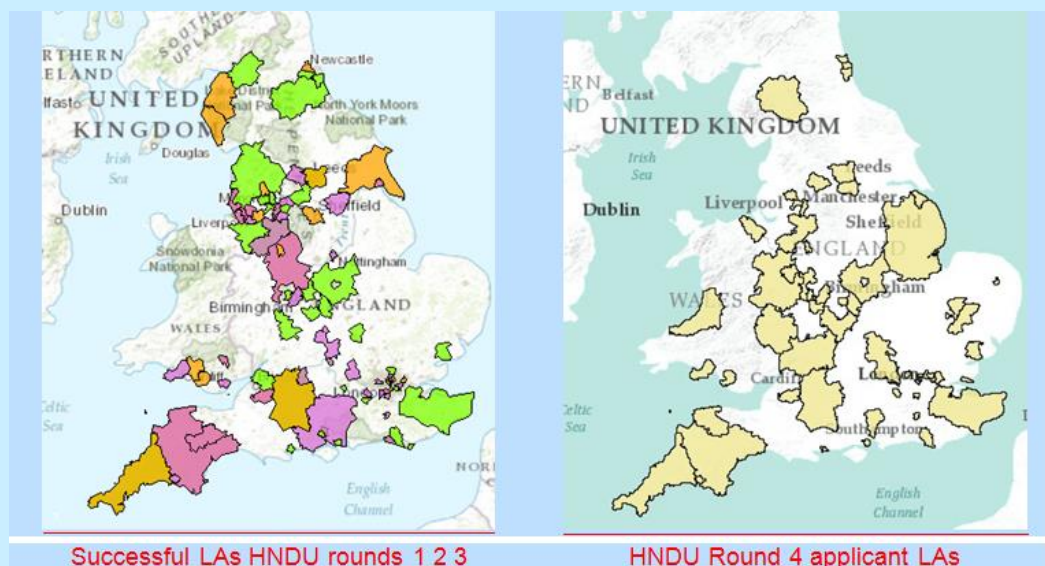
Barcombe Energy Group was formed in 2011. It successfully applied to DECC's Local Energy Assessment Fund, using the funding in 2012 to help residents improve the energy efficiency of their homes and to develop ideas about how the village could move away from dependency on fossil fuel.

The Rural Community Energy Fund (RCEF), launched in mid 2013, provided further opportunities. The Parish Council and Barcombe Energy Group partnered to apply for grant funding, which funded a study investigating options and proposals for a biomass-fuelled district heating project. Its recommendations included a 200kW wood chip heating boiler system to provide heat to a residential care home and 10 homes, with a second 200kW wood chip boiler and silo providing heat to the primary school and 14 homes. Potentially there could be a third, 350kW boiler providing heat to 22 homes and a future swimming pool.

Community engagement has been significant, with all homeowners contacted to gauge levels of support for the scheme. Benefits to local homeowners should include reduced fuel bills and less reliance on liquid fuels. There could be investment opportunities in the form of a community share issue, on top of a reduction in the village's collective carbon footprint.



## Box 2: Heat Networks Delivery Unit



DECC's vision is for heat networks to play a critical role in providing affordable decarbonised heat and improving security of supply. The Heat Networks Delivery Unit (HNDU) was established in 2013 to address capacity and capability issues faced by Local Authorities in England and Wales when exploring opportunities for heat networks. This innovative support unit combines grant funding with guidance from a team of commercial and technical specialists with rich experience in developing heat networks, recruited into the department to work as critical partners to Local Authorities.

HNDU is currently supporting 122 projects in 91 Local Authorities with almost £7 million in grant funding awarded, to support £10 million of development studies in the coming year. This number is set to grow as the fourth funding round closed for applications on 27 November 2014. The portfolio of projects supported explore a range of commercial models and technical solutions for delivery of heat including heat sources not suited to individual properties but that require a network to exploit them or to optimise their usage.

Longer term, the ambition is that schemes will join and expand to form a new generation of citywide networks, commercially financeable, which will bring reliable, controllable and low cost low carbon heat to homes and businesses across the country.

Government support and the willing engagement from Local Authorities are creating a significant investment opportunity for heat networks in the UK. The portfolio of HNDU projects alone could represent between £400 million to £800 million of capital investment opportunity over the next 10 years (on an assumption of 25% to 50% of current projects coming to fruition). This estimate does not include heat networks being developed by other means e.g. the private sector, nor future projects supported by further HNDU funding rounds.

## Green Deal and the Energy Company Obligation

- 3.34. The Green Deal was a key element of the Government's strategy to help lower bills for consumers. Since 2013, the Energy Company Obligation (ECO)<sup>4</sup> and Green Deal programmes have delivered energy efficiency measures to over 1 million homes.
- 3.35. Increasingly Government is recognising the importance of communities as a way to reduce energy consumption and deliver our priorities. Green Deal Communities, which supports local authorities to take a "street by street" approach to deliver energy efficiency measures to hard-to-treat homes, is a prime example of this. This £80m Programme has opened up opportunities for community energy organisations to partner and work with local authorities to access funding for local programmes. Community energy and social enterprises have played a central role in this scheme (see Case Study 4).

### Case Study 4: Warm up Bristol

Bristol City council's 4 year initiative 'Warm up Bristol' received £7.3m from DECC's Green Deal Communities programme to deliver energy efficiency measures to its residents. The project launched in October and several hundred households have already signed up for work.

A key to delivery of the project is working with community groups and social enterprises in the city focussed on helping householders learn more about how to take control of their energy use; helping people to reduce the cost of their bills and alleviate fuel poverty; how to improve the energy efficiency of their homes through simple as well as more extensive energy saving improvements; and helping householders access the benefits of renewable energy technologies such as solar PV.

For example the Easton Energy Group is supporting the scheme by helping the people of Easton know what is available and how they can access Warm up Bristol's support. Easton Energy Group is also managing a show home in Easton so that local residents can see first-hand the type of energy efficiency measures that can be installed and the benefits of doing so. Other local community partners in the scheme include the Bristol Energy Network and Streets Alive.

- 3.36. In December 2014, ECO was extended in legislation to March 2017. Suppliers can deliver on their obligations in a variety of ways including working with local organisations, such as community groups. DECC will work with the providers to include information on ECO on the new Community Energy Hub to enable community groups to understand how they can play a role in delivering the obligations.

## Fuel Poverty Strategy

- 3.37. As highlighted in the new Fuel Poverty Strategy for England<sup>5</sup>, community energy groups are often particularly well placed to tackle the causes and incidence of fuel poverty, leveraging their knowledge of and links with local communities to reach households in fuel poverty and help them develop solutions that suit them best.

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<sup>4</sup> More information on ECO can be found on the ECO website at <https://www.ofgem.gov.uk/environmental-programmes/energy-companies-obligation-eco>

<sup>5</sup> <https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm>

- 3.38. This is why we are proud to support the Community Action Awards run by National Energy Action. The awards recognise best practice amongst those who are working to tackle fuel poverty and improve energy efficiency in their local communities, recognising excellent projects and enabling them to spread good practice to other groups.
- 3.39. Recognising that there is no one size fits all approach to tackling fuel poverty, in coming months DECC will make available a pot of up to £2 million to support local fuel poverty innovation in 15/16. The Fuel Poverty Strategy for England highlights a number of areas where this pilot funding could be of value, and where it can complement and enhance existing investment, including supporting projects that seek to address fuel poverty through community energy schemes. But Government does not have all the answers. Partners will have other valuable ideas on what should be supported. Starting now we will use existing networks and other tools to shape the objectives and success criteria for putting this funding to best use.

## Collective Switching

- 3.40. Community energy organisations are well placed to help individuals save money and build market power through collective action. DECC is proud to have helped pioneer a collective switching movement with the Cheaper Energy Together scheme. Since then collective switching has become mainstream.
- 3.41. Over 115,000 customers have switched to a better deal, saving households no less than £20m. Many councils and consumer websites have set up collective switching clubs helping to boost competition with suppliers offering bespoke competitive tariffs (see Case Study 5). Many of these groups have targeted vulnerable consumers, such as prepayment meter customers and those without internet access.
- 3.42. This civil engagement has also boosted commercial activity, notable campaigns including Money Saving Expert and The Big Deal in partnership with The Sun. Yet again, collective action and consumer engagement is helping to change the energy system, and communities are at the heart of it.

### Case Study 5: Collective switching schemes

East Riding Council, with funding from DECC, created the YORSwitch brand which offers gas and electricity switching for households and business and a bulk-buying cooperative scheme for heating oil. They made use of partnerships and local networks to market the schemes and provide additional support for the vulnerable. These schemes have seen more than 3,500 domestic electricity and gas customers switch, collectively saving more than £600k per year on their energy bills; and over 200 members saving about 10p per litre on heating oil through the heating oil co-operative.

The Welsh Government has supported the CydCymru collective switching scheme, which works with local authorities and community groups to encourage people to switch supplier. Last year Cyd Cymru / Wales Together helped over 1,500 households in Wales to switch to a cheaper energy tariff, saving on average £185 per household.

## Big Energy Saving Network

- 3.43. In February 2015, the Government launched the 'Power to Switch' campaign to help consumers reduce their energy bills by shopping around for the best possible deal. Households switching supplier through a price comparison website are currently saving an average of around £300 on their energy bill as a result.

- 3.44. Despite the savings available, evidence shows that those who are “less educated, less well-off, more likely to describe themselves as struggling financially, less likely to own their own home, less likely to have internet access and more likely to be disabled or a single parent” are less likely to have considered or actively switched”.<sup>6</sup>
- 3.45. Face to face help and advice through organisations that already have the trust of vulnerable consumers and can reach those who may otherwise be isolated, is one of the most effective ways to help them engage with the energy market.
- 3.46. That is why, in May 2013, DECC announced £900,000 funding to create the Big Energy Saving Network (BESN) for 2013/14 and provided a further £1m in 2014/15. This programme provides grant funding to community and voluntary organisations that are able to reach, have the trust of and can therefore assist vulnerable consumers to take action to save money through switching. Further funding of £1.3m was announced in the Budget 2015, to ensure that BESN, as well as the Big Energy Saving Week, to ensure the programme will continue into 2015/16.
- 3.47. BESN delivers an extensive programme of outreach throughout the winter, providing training and grant funding to community and voluntary organisations to help vulnerable consumers cut their energy bills through switching to a better tariff and the take up of Warm Home Discount or ECO Affordable Warmth.
- 3.48. The BESN harnesses the expertise and reach of trusted third sector and community bodies to provide targeted, personalised advice to communities led by specially trained Network energy ‘Champions’.
- 3.49. This programme has been independently and externally evaluated by Sheffield Hallam University, who have validated the delivery methodology. Following the success of the inaugural 2013/14 BESN, which reached over 90,000 consumers, we aim to have reached a further 100,000 in winter 14/15 through around 170 funded projects across Great Britain.

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<sup>6</sup> <https://www.gov.uk/government/news/switch-to-save-27-billion-up-for-grabs-by-switching-energy-supplier>



## Unlocking opportunities in the policy and regulatory system

### Hydro Working Group

- 3.50. Community Hydro projects can lead to significant social and environmental benefits in their communities. However, they also face difficult challenges to development. The Community Energy Hydro Working Group set out to identify these challenges, and propose solutions to overcoming them.
- 3.51. The Group reported to the Secretary of State in 2014, and we welcome their careful consideration, identifying finance, issues with landowners, and long approval and organisational timelines compared to commercial projects. They also proposed a number of solutions to overcome them.
- 3.52. In response, we have extended preliminary accreditation (which allows prospective generators to fix their tariff rate for two years) for the hydro FIT by six months for all community projects from 1 April 2015, reflecting the longer project development times associated with community generation projects. We acknowledge the Group's view that the hydro Feed-in tariff should be maintained at the current level we intend to take this into account in the periodic review of the Feed-in tariff scheme later this year.
- 3.53. We agree with the group about the importance of predictable packages of public grant and low-cost loan funding for hydro schemes. The Urban or Rural Community Energy Funds in England set out to do just that, recycling funds to ensure a lasting support scheme for the sector and six hydro schemes are already availing of this support. Hydro projects in Scotland and Wales can apply for support under CARES and Ynni'r Fro respectively. Ynni'r Fro has identified 28 community hydro projects through the Ynni'r Fro programme, with 3 of these expected to complete before the end of the current programme in 2015.
- 3.54. We are keen to do more. For example, it may be possible for eligible community hydropower schemes to access grant funding from the European Agricultural Fund for Rural Development (EAFRD) to cover the costs of environmental protection improvements, such as fish passes, when combined with funding from the Rural Community Energy Fund. Assessments will be made on a case-by-case basis.
- 3.55. Natural Resources Wales (NRW) has also set up a new 'Hydropower Stakeholder Group' which meets on a quarterly basis. We're eager to hear their views, learn how regulations are changing in Wales and to continue to engage with the sector to overcome the barriers to hydro schemes.

#### **Case Study 6: Shrewsbury Hydro**

Shrewsbury Hydro Limited (SHL) is a spinoff company formed out of work undertaken by Transition Town, Shrewsbury to investigate renewable energy generation and energy efficiency opportunities in Shrewsbury, Shropshire. Shrewsbury is busy market town serving a wide rural population throughout Shropshire. This hydro project started in 2011. Capacity was built by DECC's Local Energy Assessment Fund (LEAF), which enabled initial work to take place in 2012.

Following a successful bid to DECC and DEFRA's £15m Rural Community Energy Fund (RCEF) the plans have now moved further forward. The current proposal is to build a 400kW hydro plant on a weir in the River Severn in Shrewsbury which SHL estimate could generate 1.7m kilowatt hours of renewable electricity per year, saving up to 1,000 tonnes of CO<sub>2</sub> emissions per annum and generating from Feed-in Tariffs a significant income for the local community.

There has been strong community support for this scheme and the site, once developed, is expected to act as a key educational resource for the town.

The initial feasibility study was positive and SHL are now, with further support from RCEF, progressing with planning and environmental consents, ahead of tackling the challenge of raising the capital required to construct the hydro installation.



### Planning Working Group

- 3.56. Planning permission can be a challenging area for community groups, often involving lengthy and complex procedures that can be difficult for community groups to navigate.
- 3.57. To identify and consider these challenges facing community energy groups DECC set up the The Planning and Permitting Working Group in October 2013. In August 2014 they reported to the Secretary of State making suggestions for improving this experience so as to help secure more developments on the ground.
- 3.58. The Group identified three sets of related matters central to the delivery of successful planning applications
- The skills, knowledge and resources of practitioners and communities in energy planning.
  - The local planning process.
  - The national policy framework for community-led renewables.
- 3.59. The Government acknowledges the importance of ensuring practitioners and communities understand and are well equipped to deal with the particular challenges that can arise for community-led projects as the process may be an unfamiliar experience. We are now beginning to gather evidence on what kind of information is necessary to support groups through this process through the evaluation of the Rural and Urban Community Energy Funds, and through the lessons learned from practitioners involved in the Community Energy Peer Mentoring Scheme. We will report

on this later in 2015 and commit to publish any information and guidance on the Community Energy Hub website.

- 3.60. In the short term, we are committing to providing a one day training event on planning and community renewables in summer 2015. Available to planning schools, planners and committee members, this will be used to build our understanding of where more can be done in terms of training and resources for communities, including the value of dedicated training/technical briefings for elected members of planning committees.
- 3.61. We also plan a special community energy planning roundtable, inviting DCLG, Local Government Association, Royal Town Planning Institute, Town and Country Planning Association, planning schools and community energy practitioners, to discuss issues relating to CPD and professional training.
- 3.62. Through the neighbourhood planning support programmes, DCLG will ensure that communities considering policies or proposals for community led energy in their neighbourhood plan or through a neighbourhood development order have access to expert advice and best practice on neighbourhood planning for community led energy, together with information on existing examples. In particular, upcoming neighbourhood planning masterclasses and newsletters, will promote resources for developing community led energy, including external sources of advice and support such as the Centre for Sustainable Energy's programme for supporting neighbourhood planning.
- 3.63. The National Planning Policy Framework sets out a clear expectation that local councils will support community led initiatives for renewable and low carbon energy. This is in recognition of the particular challenges that community proposals can face. The planning guidance accompanying the Framework provides further advice on how local councils can support such initiatives. The advice is not exclusive and there will be other ways that local councils working with local communities can help secure the success of community-led energy projects. We will keep under review whether additional clarification or information would add further value.
- 3.64. We are also keenly monitoring provisions contained in the Planning (Wales) Bill currently before the National Assembly for Wales will ensure that pre-applications discussions and consultations with interested parties will become a mandatory part of the planning process. National Planning Policy as set out in Planning Policy Wales and Technical Advice Notes 8 and 20 recognise the significance of renewable energy projects and the significant job creating opportunities they may provide. The policy requires all aspects associated with development to be factored into the decision making process

### Grid Connections Working Group

- 3.65. The Community Energy Grid Working Group made a wide range of recommendations to help improve community energy groups' experience of the network connection process. The recommendations can be categorised into three broad themes: customer engagement, enabling smart connection offers and managing the cost of connections. A range of bodies, including network operators, community groups, Ofgem and Government, being allocated responsibility for taking them forward or responding to the issues raised.
- 3.66. Encouragingly many of the actions are already underway or planned as a result of the working group's process, for example:



- Information, case-studies and guidance on grid connection issues will feature on the new Community Energy Hub once it is fully operational. In addition, online peer support and an interactive mapping tool will allow community energy groups to coordinate and support each other (see Chapter 3);
- Sharing of grid connections between two operators, at least one being run by a community organisation, with the separate tariffs payable based on the individual generating capacity of the operators;
- As part of one of the core regulatory price control incentives (Incentive on Connections Engagement (ICE)), distribution network operators (DNOs) are already updating their strategies as to how to better engage with distributed generation customers like community energy;
- A new community energy workstream has been formed as part of the DECC/ Ofgem Smart Grid Forum, which will help ensure that community energy needs are considered as smart grids develop;
- Ofgem has amended the assessment criteria for the DNO stakeholder engagement incentive to take into account how well they engage with community energy groups specifically;
- DNOs, as part of a wider push to improve transparency, are improving: the information on network capacity, the transparency in costs and connection offer terms;
- DNOs and community groups have been working together to explore opportunities to work together in future smart grid trials under the Low Carbon Network Fund and Network Innovation Competition and ensure there are no barriers to participation;
- Government welcomes the positive way that network operators and community groups have come together to help tackle these issues. The practical changes and improvements to service will help make a tangible difference to community developers on the ground.

3.67. The group also made “transformational” proposals which would see community groups given preferential treatment (e.g. reserving capacity for community groups, socialising a greater share of connection costs, allowing connection payments post-installation). The Government agrees that these would help to overcome the specific challenges facing community energy, but they would also require changes to fundamental aspects of the existing arrangements. There would also be wider impacts on other customers, as the proposals would either directly move costs that community energy projects currently face onto the wider customer base, or indirectly require the wider customer base to underwrite some of the risk associated with community energy projects. They will come at a cost to the wider consumer base by potentially increasing the network-costs element of the bill. DNOs are also limited in how far they can discriminate favourably for community energy groups specifically (as opposed to renewables customers more generally) under UK and European Law.

3.68. In order to take these forward, the Government agrees with the Working Group that further detailed analysis of the specific benefits that community energy schemes bring and the impact on the current regime is required. Government believes community energy can bring benefits to the wider consumer base, such as helping to increase

competition and using generation revenues to re-invest in local communities (e.g. energy efficiency measures, local amenities), and a more detailed understanding of the costs and benefits of community schemes in rural areas will be provided by the RCEF monitoring and evaluation project now underway. Government, working with Ofgem and wider stakeholders, is therefore developing a programme of work to gather the information needed in order to consider the case, alongside taking forward the actions that can be delivered in the near-term.

- 3.69. In support of this process, the Government welcomes Ofgem's recent Open Letter consultation on enhancing the connections process. It sets out what DNOs and third parties can already do to support earlier network investment that can reduce connection time and cost for all types of customer, and seeks stakeholder views on what more could be done. As well as anticipatory investment it also seeks views on whether there are other changes that could make it easier for community energy schemes and other customers to connect and in what circumstances these might be justified. For example, it seeks views on whether there are situations in which DNOs should be able to offer more flexible payment terms, such as payment post-connection. Given the potential impact on consumer bills this is clearly a complex issue, but an important one. Government encourages community groups to participate in this discussion and the consultation is open to mid-May. Responses will inform Government's and Ofgem's ongoing consideration of community energy, its benefits and its treatment in grid connection matters, with a view to setting out a clear way forward and, if appropriate, considering changes to legislation and the regulatory framework.

#### **Case Study 7: Northern Powergrid and Community Energy**

Northern Powergrid see community energy as '*an emerging proposition to which they owe a good level of service*'. They also recognise its potential in serving the country's transition to a low carbon economy and in tackling fuel poverty. They have endorsed a relatively wide approach that seeks to make access to the grid easier and targets the capability and partnership barriers for all projects types. They have done this together with VONNE and Involve NE (regional voluntary infrastructure bodies) to create a local information network for community energy groups which have culminated in annual events both in 2014 and 2015 - which DECC has presented at. They are exploring regionalised and customised guidance and support through their 'North East Community Energy' pilot project with Community Energy England and VONNE. They have also created a 'Community Energy Seed Fund' and have distributed grants to 10 groups to help them with the start-up phase of their projects.

## 4. Fostering innovation in community energy

### Testing new approaches to community action on energy efficiency

- 4.1. The aim of the Community Energy Saving Competition is to test and learn from innovative community action on energy saving that can offer progress towards replicable and sustainable delivery models. Launched in early 2015, DECC has awarded a total of over £250,000 to 18 projects. This is over three times our original commitment of supporting five groups.
- 4.2. The participating groups will submit an evaluation report to DECC by the end of May 2015. We will use this evaluation to feed into a new Community Energy Efficiency Working Group.
- 4.3. Our new Community Energy Efficiency Working Group will meet for the first time by summer 2015. The Terms of Reference will be drawn up by DECC, with an independent chair appointed. The purpose of the group will be to identify opportunities and barriers to community approaches to energy efficiency. Its remit will also include helping to develop the Community Energy Efficiency Toolkit as well as providing a valuable contribution to building the community energy evidence base. The Group will provide a report to Government by spring 2016.

### Shared ownership can galvanise support for renewables and mainstream community energy

- 4.4. The Community Energy Strategy set a stretching and ambitious goal for community shared ownership; that from 2015 it will be the norm for communities to be offered the opportunity of some level of ownership of new commercially-developed onshore renewable projects. Significant progress has been made since the launch of the strategy:
  - We convened a **Shared Ownership Taskforce**, including representation from project developers, trade bodies and community energy groups to agree a Framework for how to increase the offer of shared ownership to communities.
  - The Taskforce launched its Framework<sup>7</sup> at the end of 2014. It provides a guide for both developers and communities on the offer of shared ownership.
  - The **Government responded on 27 February**<sup>8</sup> setting out how we will support the implementation of the Framework. We now expect all relevant renewable energy

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<sup>7</sup> <http://www.renewableuk.com/en/utilities/document-summary.cfm?docid=CB5A9C2C-FA70-46CE-83757D293D992E3E>

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/408440/Government\\_Response\\_to\\_Shared\\_Ownership\\_Taskforce.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408440/Government_Response_to_Shared_Ownership_Taskforce.pdf)

developers to engage with the Framework and discuss shared ownership opportunities with local communities.

- We introduced **legislative powers** now included within the Infrastructure Act 2015, which if exercised would require commercial renewable electricity developers in Great Britain to offer communities the opportunity to invest in new commercial renewable electricity schemes being developed in their area. The powers would only be used if the voluntary approach, being led by the Taskforce, is not successful and only then following a formal consultation where the views of stakeholders and lessons from the voluntary approach would be taken into account.
- There will be a **review of progress** at the end of 2015.

## Helping communities supply energy locally

4.7. In our Strategy, we committed to looking at ways beyond ‘Licence Lite’ in which communities may be able to supply electricity to their local areas. Energy supply is key to the success of community energy. It will help communities to bridge the gap between energy consumption and generation and empower them to take full ownership of local energy systems.

4.8. In May 2014 the Secretary of State hosted a special Roundtable on Licence Lite with 30 key stakeholders. Of the issues raised, a number related to the concept of ‘local supply’ (which is different in scope and nature from Licence Lite). Subsequently, Government formed a Local Supply Working Group, consisting of Ofgem, community energy groups, legal and other representatives.

4.9. In collaboration with Leeds University<sup>9</sup> and through engagement with community and other stakeholders interested in ‘local’ energy issues, a number of local supply business models have been identified. Some are already operating, others are in development, and others are ideas for potential future approaches.

4.10. The business models are diverse, including locally-focused white label partnerships (see Case Study 8), local pooling and aggregation arrangements, peer-to-peer supply and a range of municipal level activities including local authorities as licensed suppliers, energy (and other utility) service providers. To operate within today’s regulatory environment, the business models typically require the parties to work with a licensed supplier to ensure that necessary industry, system integrity and consumer protection measures are discharged. Stakeholders also identified the potential for a bespoke licenced community energy supply company to undertake many of the licensing requirements on behalf of small community energy schemes.

### Case Study 8: OVO Communities

In April 2014 the independent energy supplier OVO Energy launched a partnerships programme with local councils, housing associations and community energy groups called “OVO Communities”. The platform is an innovative solution giving local groups the tools they need to roll out integrated packages of energy services, covering affordable tariffs, smart metering, energy efficiency installations and support for distributed generation.

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<sup>9</sup> Hall, S., Roelich, K., (2015) Local Electricity Supply; Outcomes, Opportunities and Archetypes, Draft independent report to DECC, iBuild Consortium.

OVO has announced partnerships with Cheshire East Council, Peterborough City Council and Southend-on-Sea Borough Council, which will be live by May 2015. Plymouth Energy Community and Community Energy South have registered a memorandum of understanding to partner with these councils. OVO's ambition is to set up 100 community energy supplier partnerships across the country that could serve over a million customers.

On Monday 16th March 2015 Cheshire East Council became the first council in over 60 years to sell energy to its residents when it launched its tariffs using the first ever OVO Communities framework. The initiative, known as "Fairerpower", is expected to save residents up to £250 per year on their energy bills and is focused on tackling fuel poverty in the area.

For more information visit <https://www.fairerpower.co.uk/>



- 4.11. The Local Supply Working Group identified a number of barriers to the effective adoption of local supply business models. These include issues related to the lack of knowledge, capacity and expertise, the lack of proven replicable models and challenges associated with regulatory arrangements. In response to these barriers, the Working Group agreed a set of short, medium and longer term strategic recommendations.
- 4.12. The new Community Energy Hub will include information and guidance on local supply and DECC will continue to chair the working group. We welcome ongoing discussions with Working Group members on opportunities that might exist concerning innovation funding.
- 4.13. In parallel Ofgem has published an open consultation on a wave of Non-Traditional Business Models (NTBMs) already active in or seeking to enter the market. Developed by bodies with diverse motivations (social and environmental as well as financial) and ownership arrangements, NTBMs offer new products and services (or ways of delivering these) which, over time, have the potential to disrupt the energy system. Community energy schemes are identified as a key player in this emerging landscape, many of which aspire to operate on a sustainable, local basis.
- 4.14. Ofgem is seeking to better understand the diversity of NTBMs, how they might transform the energy market to the benefit of consumers and what implications this might have for regulatory arrangements. We encourage all community energy groups,

and their representative bodies to contribute to Ofgem's dialogue; the consultation is open until 20 May 2015.

- 4.15. It is possible that Ofgem's consultation surfaces similar issues to those identified by the Local Supply Working Group. As such, we will await the conclusions of Ofgem's consultation before determining how best to progress the outcomes of the Local Supply Working Group.



## 5. A Forward Look

- 5.1. The growth in community energy is part of a broader diversification of the current centralised energy system to a much more distributed approach. The market is starting to be re-scaled and opened up to a range of new actors and innovative approaches for smarter supply and demand management. Large scale generation will clearly continue to play a significant role in meeting our future energy needs, but our vision is of a future market no longer dominated by a small number of large energy companies and traditional business models.
- 5.2. DECC will work with Devolved Administrations to continue to explore ways to ensure a holistic approach to energy supply and demand in both the domestic and non-domestic sectors. The Government's vision is for communities and other local actors such as local authorities to play a major role in driving the social innovation and technical diffusion needed for the UK's low carbon transition, helping people change the way they think and act about energy. By coming together to manage their energy needs locally, generating their own energy, managing their energy use to maximise the use of locally produced electricity and using revenues to invest in energy efficiency and local amenities, local communities can build their capacity to buy and sell their own energy and become increasingly self-sufficient.
- 5.3. To help realise this vision, DECC is delivering on its commitments in the Community Energy Strategy to provide a stable and supportive regulatory and policy framework, increase access to finance, help build the capacity and capability of the sector, and build more effective working between communities and their partners. The implementation of the Strategy will help establish an integrated and long-term strategic approach to DECCs community energy activity
- 5.4. The working groups concentrated primarily on issues connected to power generation, but community energy approaches have rich potential to address a number of other energy system challenges, and much of the activity of community energy groups is already in other areas. With their community focus and knowledge of local needs, community energy organisations are often particularly well placed to reach those in fuel poverty, to promote the uptake of energy efficiency measures, and to facilitate collective switching. Community energy organisations are fundamental to achieving our objectives in all these areas.
- 5.5. For energy efficiency in particular, we see value in further consideration of the potential for community energy approaches and how barriers to this might be identified and overcome. We are committed to continue working closely with the sector to understand how its role can be maximised, and how we can support the sector in realising the full potential of community energy across the energy system, building on the quality of engagement and idea-generation the sector has demonstrated in the year since the Strategy was published.
- 5.6. This document has set out actions which the Government will take forward over the next 12 months to drive activity in the sector. We welcome the sector's ambition to continue to expand, to achieve the scenarios for growth set out in the Community Energy Strategy, and we will continue to support the sector in realising its significant potential.





