

FiTs Review Team
Office of Renewable Energy Deployment
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23 October 2015

Dear FiTs Review Team,

Consultation on a review of the Feed-in Tariffs scheme: Supporting Community Energy

Community energy initiatives are now demonstrating how they can help improve communities, address fuel poverty and promote environmental sustainability across the UK. Government has already indicated its intention to support community energy, through its Community Energy Strategy (2014). However, the proposals in this consultation threaten to significantly restrict the opportunity for community energy to deliver greater impact before it has a real chance to scale and make much of this strategy unachievable.

Big Society Capital (BSC) is responding to this consultation in order to demonstrate the importance of continued support for community energy initiatives. In doing so, we also make a proposal for how a scheme can be tailored to provide targeted support for community energy initiatives that make a genuine positive impact across the country, at limited cost to the consumer.

Our detailed response to the consultation is attached. It considers:

- BSC's experience as a broader champion for community energy and as an investor in innovative community energy initiatives;
- The many positive impacts that community energy has across the country, including regenerating communities, addressing fuel poverty and improving environmental sustainability;
- How the current proposals will severely limit the future development of community energy just at the time it is growing; and
- A detailed proposal for how to continue to provide targeted support to community energy through a community FiT.

We hope our response is helpful and stand ready to provide you with any support you need as you consider the consultation further.

Yours sincerely,



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Community Energy Consultation: Response of Big Society Capital

Response of Big Society Capital

This document outlines Big Society Capital's (BSC) response to the *Consultation on a review of the Feed-in Tariffs scheme*. BSC, as a market champion, believes strongly in the important impact of community energy to individuals and communities across the UK, which it has seen first-hand through its investments. This current consultation threatens to compromise this growing and impactful industry. BSC has developed a proposal for consideration by Government that prevents the dismantling of existing community energy initiatives and promotes the development of a broader infrastructure of community energy, enabled by social investment.

We have developed this response through discussions with our investees, engagement with multiple individual community energy providers and representative bodies, as well as reflecting on our own experience. We believe this response is broadly consistent with and supportive of a number of the other responses made by organisations helping deliver community energy.

This response includes the following parts:

- (1) Background to BSC and our experience in supporting community energy;
- (2) Positive social impacts that community energy has had in the UK;
- (3) The effect of current proposals on UK community energy; and
- (4) Proposal for the design of a Community FiT scheme.

1. Who is Big Society Capital and what is our experience in Community Energy?

Big Society Capital (BSC) is a financial institution with a social mission, set up to build the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance to enable them to grow, become more sustainable and increase their impact on society. It is doing this by building a diverse social investment market: encouraging investors to lend or invest money to achieve a social as well as a financial return. Since it was set up as an independent organisation in 2012, Big Society Capital has signed over £218 million in investments to specialist organisations who lend to charities and social enterprises.¹

BSC believes that supporting community energy is a key way of improving communities and the lives of individuals across the UK. We therefore have put community energy at the heart of our ongoing strategy and are committed to developing community energy as both a market champion and investor. We have worked with a range of actors, including Green Investment Bank, community energy organisations, other financiers, as well as Government in helping promote a more supportive landscape for community energy in the UK. We also have helped to develop the community energy market through making investments into innovative institutions that provide different pieces of infrastructure needed for the industry's further growth.

We describe below our six investments with strong links to community energy initiatives made so far:

Date	Intermediary, Fund and amount committed by BSC	Amount allocated for community energy	Description	Community benefit fund contributions	No. Communities

¹ For further information, see www.bigsocietycapital.com

		projects to date			
2013	Pure Leapfrog – Community Energy Fund £1.5m	£1.5m	Provides small, low interest loans to community energy groups in areas of high deprivation	£3.3m of surplus over life of projects	16 projects with BSC funds; PV for 20 community buildings, 21 homes and 2 schools
2013	FSE – Community Generation Fund £0.75m	£0.75m	Provides critical grantable loan finance for the pre-planning stage of projects alongside long-term loans for construction	N/A	4 communities received contingently repayable loans
2013	Social Investment Scotland (SIS) – Social Growth Fund £8m	£1.2m <i>[across all SIS funds]</i>	Provides both amortising loans and interest roll-up loans to primarily regulated social sector organisations in Scotland.	N/A	4 organisations funded through FITs in Scotland
2014	Resonance – Community Shares Underwriting Fund £2m	£0.55m	Provides a backstop facility to community share issuances that do not manage to raise the amount of funding they seek. The fund offers up to 50% of the target equity offering in the form of a bullet loan, enabling community projects to go ahead by providing loans to make up for a shortfall in equity finance.	N/A	Supported 10 communities with energy projects: 6 solar schemes, 2 wind projects, 1 hydro project, 1 biomass project
2014	Charity Bank £14.5m	£1.8m	Seeks deposits from socially-conscious individuals and lends solely to charities, social enterprises and other social sector organisations.	£2.65m over life of project	6 projects supported, including 2 hydro projects covering 330 homes.
2015	Pure Leapfrog – Bridge Finance £15m	£15m	Provide bridging finance to community groups wishing to own and benefit from large-scale renewable energy projects.	Target: £3-5m over life	Target: 3-5 communities
TOTAL	£41.75m	£20.8m		£8.95m	43 to 48 communities

The above demonstrates not only the scale of our commitment so far to community energy (over £20), but also the reach to nearly 50 communities as well as how significant the community benefit fund contributions can be leveraged through investment (representing almost 50% of capital by BSC).

In addition to the above, prior to the DECC consultation announcement, there were a number of other proposals for new community energy projects that presented innovative ways of driving more impact in communities and some at larger scale, which we were considering supporting. This is consistent with increasing opportunities for social investors to support community energy initiatives. These are detailed in Part 3. These have all been halted since the consultation launched.

2. What is the impact of community energy in UK?

Community energy delivers a range of social impact to individuals and communities across the UK. This Part addresses the scale of community energy in the UK, how it helps generate impact for communities, reduce fuel poverty and promote environmental sustainability across the UK.

2.1 What is community energy in the UK?

To understand the nature and scale of community energy in the UK, we rely heavily on the Community Energy Strategy (2014) by DECC. These principles are as important now as they were when written. ‘Community energy’ means community projects or initiatives focused on the four strands of reducing energy use, managing energy better, generating energy or purchasing energy. This includes communities of place and communities of interest.² A summary of the state of UK community energy:

- There are at least 5,000 community energy groups active in the UK since 2008.
- Community energy groups vary in size, although many have a small core of dedicated volunteers who organise activities.
- Community energy projects are geographically dispersed, with groups are undertaking energy projects across all parts of the UK with South West England and Scotland home to a larger proportion of groups than would be expected based on population size.
- More community energy activities occur per person in rural areas, with between 41% and 65% of groups located in rural areas, compared to its share of 18% share of the population.
- Community energy in the UK is currently focused largely on renewable electricity generation, with the most prevalent technologies being solar PV and onshore wind.
- At least 60MW of community-owned renewable electricity generation capacity is currently in operation.
- Community energy projects have also begun to develop new approaches to renewable heat, reducing energy use, purchasing energy and managing demand.

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. The Government has also identified the key benefits of community energy³:

- 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.

The above demonstrates that Government has clearly and explicitly identified the positive social benefits of community energy, and therein demonstrates the missed opportunity to benefit the UK by reducing or removing the FIT programme.

In addition, the UK is lagging behind its neighbours in offering communities control over their own energy production. Currently, 95% of the UK’s energy generation market is controlled by just six companies and renewables owned by communities is less than 10%.⁴ In Germany, 65% of renewables are owned by individuals or communities. Denmark is now striving towards producing 50% of its

² DECC Community Energy Strategy (Jan 2014), p20

³ DECC Community Energy Strategy Update (March 2015), p6

⁴ <http://www.theguardian.com/environment/2012/may/30/germany-renewable-energy-revolution>

electricity through wind power by the year 2025⁵ (29% of Denmark's total electricity generation capacity in 2010 was provided by wind turbines⁶), and over 1 million people (out of around 5 million population) are members of renewable-energy co-operatives⁷. For the UK, this not just impacts our communities but also the fundamental energy security and resilience of the UK. Further detail on our assessment of the impact of community energy can be accessed in an Insights Paper on *Conservation of the Natural Environment and Social Investment*.⁸

2.2 Community energy helps regenerate communities

Communities in the UK are facing a significant decline in public spending, both from national and local sources, meaning that local social issues have become increasingly prominent⁹. Community organisation, including asset ownership and management, has emerged as one solution allowing communities to address problems in their localities themselves. A steady income stream enables these groups to begin to address locally identified social needs, as well as helping make them more sustainable as organisations.

Community energy generation is a straightforward way of supplying energy to local people, and generating income streams that can be vital for community organisations to become viable and maintain sustainability. Renewable energy income does not discriminate on geography or affluence, which makes them an ideal intervention for communities in deprived areas. Community energy projects can deliver impact for communities in four ways, beyond cheaper and greener energy described in detail below:

- Through the use of surpluses for social purposes in areas of need (creates a grant stream): £23m in community benefit funding has been generated specifically for local communities over the 20 year lifetimes of projects by 80 community energy organisations.¹⁰
- Through the involvement of the local community via appropriate governance structures (giving them work experience, training, skills and engagement): 155,000 volunteer hours reported across 11,000 community energy group members, valued at £5m, 83% of groups actively mentor other community energy groups and 88% of existing community energy groups actively participate in other local events.¹¹

⁵ <http://www.bancroftthisweek.com/?p=4949>

⁶ Community Energy Strategy, p26

⁷ <http://www.straight.com/life/542026/vancouvers-solshare-energy-hopes-raise-1-million-community-owned-solar-power-projects>

⁸ See BSC insights at <http://www.bigsocietycapital.com/research/conservation-natural-environment-and-social-investment>

⁹ Certain indicators are showing downward trends with regards to the health of our communities. In 2012/13, 62.9% of people agreed or strongly agreed they felt they belonged to their neighbourhood, down from 66% in 2009/10. Only 58% of females reported feeling fairly safe walking alone after dark in 2013/14, down almost seven per cent from 64.6% in 2011/12. A fifth (20.2%) of households in the UK in 2012 reported great difficulty or difficulty in making ends meet. In 2011, 58.4% of people aged 16 and over in the UK reported that they felt close to other people in the area where they lived, lower than the EU average of 66.6% and ranking 27th of 28 countries. Randall, C., Corp, A. ONS Measuring National Well-being: European Comparisons, 2014 (18th June 2014)

¹⁰ Community Energy England's recent member survey of 80 organisations with almost 11,000 members: <http://communityenergyengland.org/wp-content/uploads/2015/10/CEE-Survey-2015.pdf>

¹¹ Ibid.

- Through the long-lasting legacy of valuable asset ownership for community organisations: Research by NCVO estimates that around 43,000 organisations hold some form of tangible fixed asset, only 27% of the voluntary sector, with the average value of tangible fixed assets amongst asset owners is £512,000.¹² Organisations with strong asset base are in a much better position to raise finance to serve their community in a stable and sustainable way.
- Through local procurement during development and construction, encouraging local spending (providing jobs, skills, work experience for local community members):
 - o 45% of project capital spending was spent with local contractors, worth £23 million according to CEE. A further £1.1 million is estimated to be spent annually for ongoing contracts, the vast majority of which is with local firms.¹³
 - o In Pure Leapfrog's £1.5m Community Energy Fund, 2 jobs in one of the beneficiary organisations were created due to the project going ahead, and for 17 projects local solar photovoltaic installers were used.

2.3 Community energy addresses fuel poverty

Community energy directly addresses fuel poverty by lowering bills of the fuel poor, and diverting profits from renewable energy schemes to interventions targeting fuel poverty reduction. Lower bills occurs by giving building tenants free daytime electricity, and as BSC's priority is to serve disadvantaged groups, often the people who benefit from this are fuel poor.

A UK household is defined as in fuel poverty if they have required fuel costs that are above average (the national median level), and were they to spend that amount they would be left with a residual income below the official poverty line (new definition). In the simplest terms, the household needs to be below the poverty line, and be in that half of the population facing the highest energy costs. As of Feb 2014, there were 2.46m households, or 6.99m people, living in fuel poverty in England. Using the original definition that a household would have to spend over 10% of its disposable income to pay for adequate energy services, in Feb 2014 there were 6.59m households in fuel poverty across the UK (almost exactly 1 in 4 households), 4.82m in England.

Three key drivers of fuel poverty are:

- Low household income;
- Poor heating and insulation standards; and
- High energy prices.

Low-income consumers tend to pay more for their energy because they are more likely to opt for pre-payment meters over direct debit, which allow customers to pay for energy as they use it. Meters make budgeting easier but are significantly more expensive than direct debit schemes. In addition, customers who have old-fashioned token pre-payment meters can find themselves plunged into debt if their supplier is delayed in manually recalibrating their meter every time there is a price rise (although some suppliers have stopped back-pricing).

¹² UK Civil Society Almanac 2015, NCVO

¹³ Community Energy England's recent member survey of 80 organisations with almost 11,000 members: <http://communityenergyengland.org/wp-content/uploads/2015/10/CEE-Survey-2015.pdf>

The cost to consumers is more than just financial, but also social. Fuel poverty:

- Increases the chances of Carbon Monoxide poisoning (acute and chronic) due to old or inefficient heating systems;
- Results in more excess winter deaths, estimated at c.25,000 per annum;
- Increases the level of minor illnesses such as colds and flu and exacerbates existing conditions such as arthritis and rheumatism;
- Significantly increases the likelihood of children living in cold homes to suffer from chest problems, asthma and bronchitis due to higher mould prevalence;
- Increase hospital bed occupation and loss of patient independence due to the above health factors;

As a result, the cost of cold homes to the NHS in England is estimated to be around £1.36 billion per year, according to the charity Age UK. Whilst this effect is difficult to quantify across the community energy market, the impact is easier to understand through considering Generation Community (see case study below). Other cases like this will not happen if the proposed changes go ahead.

In 2012, **Generation Community** successfully launched its first community benefit project in Newport, South Wales – an area specifically chosen for its high level of deprivation and fuel poverty. Investment was raised through a community share offer, where 98 individuals from across the UK invested a collective £400,000. The investment was then leveraged with a £50,000 debt investment from the CAF (Charities Aid Foundation) Venturesome Fund. The project, to date, has provided free solar PV installations to 74 households in fuel poverty, giving them 25-35% electricity savings per annum, equating to combined financial savings of over £12,000 p.a. Over 120,000 kWh of energy has been generated by this project already, saving over 53 tonnes of CO₂. After the first year's FiT generation, the energy production from the installations indicates that the investing members are on track to receive their projected 7% return.

Surplus income from the project is being used to establish a 20-year education and empowerment programme with the NEA (National Energy Action) – the UK national fuel poverty charity. Estimates are that these technologies could reduce residential electricity bills by £170 per household per year, significant in the context of the low incomes.

2.4 Community energy promotes environmental sustainability

Climate change is occurring on all continents and in the oceans, driving heatwaves and other weather-related disasters. People who are socially, economically, culturally, politically, institutionally or otherwise marginalised are especially vulnerable to climate change (e.g. through reduction in crop yields and therefore higher food prices, reduced availability of clean water therefore higher prices).¹⁴ Of course, the UK will be affected by this as other countries and the Government has committed to this by investing in low-carbon energy sources, improving fuel standards in cars and increasing energy efficiency wherever possible.¹⁵

By using renewable energy sources, community energy does reduce carbon emissions and address climate change. According to our calculations, over 20,000 tonnes of CO₂ emissions are saved over the lifetime of community energy programmes BSC has invested in.

¹⁴ <http://www.theguardian.com/environment/2014/mar/31/climate-change-poor-suffer-most-un-report>

¹⁵ <https://www.gov.uk/government/topics/climate-change>



In addition, many community energy projects do not just reduce emissions, but they serve to educate the community about the need for energy efficiency and the broader effects of climate change. Projects, such as Repowering London (below), often devote substantial amounts of capital to energy efficiency education, which will be lost if these community energy initiatives no longer exist.

Repowering London is a community benefit society that aims to promote and facilitate the wide-scale development and local ownership of renewable energy projects across South London. It has helped raise £183,650 in community equity raised over 3 projects, each of which has a 20% Community Fund donation for energy efficiency education. Community investors have helped facilitate this 3-4% estimated community investor return (with 30% EIS relief or 50% SEIS relief).

3. The effect of current proposals on UK community energy

The proposals in the current consultation will significantly restrict the development of community energy across the UK and across all types of community energy. This Part describes how the current proposal has effected the development of community energy through the reduced ability of social investors, such as BSC, to offer support, the effect on community energy generally, the minimal cost savings expected from the proposals, and the conflict with other Government policies.

3.1 Current proposals have resulted in the loss of £25-40m of investment into communities

As a direct result of this consultation and the pending decision, there has been a great lost opportunity for communities and for the community energy sector. BSC was actively considering investments of approximately £25-40m in total into 3 funds that would have invested in community energy projects. These funds would have reached at least 33 communities, potentially over 100,000 homes, and would have delivered between £40-72m in community benefit fund surplus. These are detailed below and do not include other future investment opportunities.

Intermediary	BSC investment	Description	Pipeline size	Community benefit fund over life	No. Communities
	£10-15m	Free solar on roofs scheme for Local Authority and Housing Association tenants	80-100MW	£1-2m per community, £14-28m total	14 communities
	£10-15m	Provide share offer underwriting and subordinated debt to 9 community energy projects	70MW	£20m	9 communities
	£5-10m	Proposal to construct solar panels on the roofs of Local Authority and Housing Association stock at scale, at no cost to the organisations (free solar model).	7 projects at advanced stages, 82 MW longer pipeline up to 150 MW	£1-2m per community, £6-24m total	6 to 12 Community Benefit Societies in areas of deprivation, each proposal reaching 2,000-5,000 homes. Total: 12,000 – 60,000 homes

The announcements of this consultation has meant all these potential investment deals have been halted. This is because:

- It is unclear as to how these deals would repay capital due to depressed revenue streams, even for social investor capital with reduced return expectations, such as BSC.
- It is also unclear how a long-term sustainable market can develop for community energy over the next few years in the absence of continued support as many existing community energy providers and infrastructure bodies will disappear before they have a chance to become sustainable.

This is disappointing to us and we remain interested in delivering social impact for individuals and communities in the UK by investing significant amounts of capital into community energy.

For your information, BSC's minimum requirements for an investment into community energy are:

- Timely, appropriate levels (proportional to the investment) of surplus reinvested to address local socio-economic need (e.g. fuel poverty). For example, an amount of surplus should be gained over the life of the investment, ideally a multiple on the original investment amount.
- Embedded process for ensuring this surplus is reinvested in an appropriate, relevant manner.
- Appropriate governance, including local representation.
- Appropriate community engagement from a cross-section of the community (e.g. community consultations, options appraisals).
- Significant proportion of long-term assets and revenue streams under community ownership.
- Positive impact on the environment (initiatives causing negative environmental impact will be screened out).

3.2 The consequences of the current proposals on broader UK community energy

We have engaged our investees and key stakeholders in UK community energy as part of this consultation response. The feedback we have consistently received about the consultation proposals is that community energy in the UK will no longer be viable. This effect will be felt across all key technologies and across all regions of the country, including the most deprived communities.

Community energy is likely to be particularly affected by the changes to Feed-in-Tariff rates outlined in the consultation, when compared with other private renewable energy developers because of its higher resource requirements and unique project characteristics. Private investors, needed to finance the development of community energy schemes, will naturally be more reluctant to invest in community energy schemes when compared to regular renewable energy because:

- Any profit generated is generally delivered to local communities for projects that aim to reduce fuel poverty, increase access to education and address other local needs (e.g. Pure Community Energy Fund¹⁶);
- Community groups will attempt projects in geographical locations which do not deliver sufficient profits for commercial players to be interested (e.g. Generation Community is currently undergoing a large-scale PV project in Barnsley¹⁷ where solar irradiance levels are around 850 kWh/kWp);
- Most work is done by volunteers, thus projects take a much longer time to develop and build;
- Often community groups need to purchase in expertise to help them complete projects to budget and on time, meaning additional cost; and
- A greater level of community cohesion is required to ensure a successful project, which takes longer and is riskier to achieve.

Community energy projects have found it difficult to raise finance from private investors because of these unique characteristics. Recently, social investors have been able to provide useful support in helping community energy schemes develop through offering appropriate finance unavailable through other private investors, as a result of the growth in finance providers in the social investment market (such as BSC). The reduction in the FiT will make it very difficult for any social investors to continue to support community energy schemes and halt growth of community energy through partnerships with social investors just as it's taking off.

¹⁶ See the impact at <http://www.pureleapfrog.org/d3.jsp?id=67>

¹⁷ <https://www.barnsley.gov.uk/news/communities-invited-to-energise-barnsley-launch-event/>

3.3 Minimal cost of support for community energy

The total FiT payments made to date to community energy organisations has been estimated to be £7.4m (based on 38 respondents).¹⁸ This has leveraged over £50m private investment, including community shares, social and private loans and commercial loans. In addition, this has generated over £40m revenue to the economies local to the projects. Compared with FiT payments to other renewable energy providers, FiT payments are very small but providing substantial additional value to community and country.

3.4 Conflict with other Government policies

Government has already indicated its intention to support community energy, through its Community Energy Strategy (2014). The proposals in this consultation would have the effect of making much of this strategy unachievable.

The Government has also supported the localism agenda and through it, the development of a thriving community shares marketplace for individual communities to raise investment from.¹⁹ The majority of community shares investment now is coming from community energy projects, estimated to represent approximately £18m in 2014 from 30 share offers with average investment size of £600,000. Without appropriate community energy projects, this market would wither.

In addition, this measure would also conflict with other priority Government policies. Government has made a stated commitment to developing the social investment market.²⁰ This has included a landmark social investment tax relief (SITR), for which it deliberately made community energy schemes eligible to use as it transitioned them from the Enterprise Investment Scheme (EIS). Raising investment through SITR for community energy was expected to be one of the most significant uses of SITR in the next five years. With these proposals, it is expected that only very limited amounts of investment in community energy through SITR may be able to be raised.

¹⁸ Community Energy England's recent member survey: <http://communityenergyengland.org/wp-content/uploads/2015/10/CEE-Survey-2015.pdf>

¹⁹ See Community Shares – Inside the Market, June 2015
http://communityshares.org.uk/sites/default/files/resources/community_shares_-_inside_the_market_report_-_june_2015.pdf

²⁰ See Growing the social investment market: 2014 progress update
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321483/2014_Social_Investment_Strategy.pdf

4 **Designing the community FiT**

As described in Part 2, community energy provides many positive impacts including regeneration of communities, addressing fuel poverty and improving environmental sustainability, in addition to providing energy for the UK. As described in Part 3, the current proposals in the consultation will make most community energy schemes unviable and will mean that social investors, such as BSC, will find it very difficult to support these organisations to deliver greater impact, in conflict with a range of Government policies. We therefore advocate that support for community energy continue and this Part 4 describes our thoughts of how this could work.

We acknowledge Government’s motivations for this consultation and likely concerns about the potential abuse of any continued initiative. Therefore, we propose that for the immediate period, support for genuine community energy schemes continues through the Feed-in-Tariff, and we suggest the key terms for this continuation below.²¹

The three principles of the Community FiT scheme should be:

- (1) Focus on genuine community energy initiatives;
- (2) Provide level of support and processes appropriate for community energy; and
- (3) Impose appropriate limits to keep prices down and encourage transition to sustainability.

Below describes how these principles could be implemented in practice through a set of key terms. Note that whilst we suggest that most terms may need the force of law, others may simply require Government to encourage best practice behaviour (these are shaded in grey). Further details about the final exact terms would be required to be discussed and considered in final policy and legislation, which we are happy to contribute to, if helpful.

Term	Proposal	Explanation
(1) Eligible community energy initiatives		
Community	Individuals resident within same local authority as the location of the energy asset	Definition is needed for purposes of ownership both by value and volume, as well as governance (discussed below).
Legal structure of eligible organisation	Charity (or subsidiary of Charity), Community Interest Company (CLG and CLS) or Community Benefit Society	Tight definition is needed to ensure eligible organisations have a public purpose and (at least some) restrictions on private gain (through form of asset locks). Cooperatives do not meet these tests without a strict social mission, therefore are excluded. Community Interest Companies limited by shares have been established explicitly to exist for the community benefit, but also provide the opportunity to achieve greater scale and impact of their activities through taking different type of external investment – for this reason they are an attractive vehicle for social entrepreneurs with over 11,000 CICs registered as of 2015). We understand that there have been recent concerns about the use of CIC CLS structures by investors that may not be committed to community benefit. This is why we have proposed additional safeguards to ensure that the community is engaged in the ownership and governance of the organisation, which will drive greater community accountability as well as profits towards the community. ²²

²¹ If in the long-run that FiTs need substantial change, the principles of this policy and terms set out can form the basis of a new scheme.

²² We understand that this definition will also encompass many of the school-based energy schemes as well.

		This definition is also consistent with definition used for the Social Investment Tax Relief, and therefore has the benefit of precedent in existing law and consistency will make it easier for individual investors to support development of community energy initiatives through SITR.
Size	50 or less employees	This should again encourage the development of smaller more community based schemes.
Role of eligible organisations	Eligible organisation(s) must control the energy asset	The eligible community organisation must maintain control over the energy asset in order that its rights and interests cannot be subverted by other structures or external investors.
Technology	Solar Photovoltaic (PV), Wind, Hydro, Anaerobic Digestion, Micro CHP	These are consistent with current Ofgem definitions. ²³
Generation size	Up to 5MW per asset	This is the likely maximum level that community energy groups will use and also consistent with current FiT requirements.
Ownership – Volume	Where the legal structure of an eligible organisation has share capital (CIC CLS, BenCom), it must have a minimum of 20 members resident in the community (as defined above), and individual shareholders must hold at least 50% of the total number of shares.	<p>The eligible organisation should have a minimum level of members from the local community to demonstrate community acceptance of the project and a minimum level of continuous communication with the community.</p> <p>Individuals should also hold the majority of shares by number, such that one organisation does not hold a majority of shares. This works to reduce the risk of abuse.</p> <p>Note, we have not suggested minimum requirements on the % <i>local</i> ownership of the community organisation, because many community energy organisations are supported by individual members from across the country, and it is important to maintain this flexibility.</p>
Ownership - Value	Where the legal structure of an eligible organisation has share capital (CIC CLS, BenCom), individual shareholders must hold at least 50% of the total value of shares.	We recognise the need for flexibility around allowing community organisations to partner with professional developers to complete projects. We value the shared ownership model, however believe the majority of the value of community energy projects should reside with the community.
Transition to community ownership	Transition period of 2 years from FiT eligibility date into community ownership where developed by community external energy provider	Some energy schemes, particularly larger schemes, will require specific expertise and large amount of finance to develop to their final state. Therefore they may often need to be developed by an expert external community energy developer (e.g. Energy4All, Communities for Renewables, Bath & West Community Energy, Low Carbon Hub, etc.). This provider will be crucial in developing the project but then subsequently sell the energy assets into community ownership through a community shares issue. Including a transition period is important to enable this type of developer-led community energy to occur, provided that

²³ See <https://www.ofgem.gov.uk/environmental-programmes/feed-tariff-fit-scheme/applying-feed-tariff-fit-scheme> Note that the vast majority of community energy initiatives remain in Solar PV, Wind and Hydro.

		there is certainty that the asset will be within community organisation control within a defined period. ²⁴
Governance	Majority of directors/trustees must be resident in community	Control of the governance of the board/trustees of the eligible organisation is vital to ensuring local legitimacy to galvanise community support, as well as to ensure decisions are made in the community interest, notwithstanding any external investment. Note, we have suggested only a majority of directors/trustees must be resident in community, but have not mandated the size of the board or the nature of the other directors/trustees. We do expect that many organisations will want external directors/trustees from outside the community to help advise on technical and strategic issues with the technology.
Profit distribution	No explicit legal requirement needed.	As a result of the assets locks and governance requirements described above, the community will have control over the decisions to distribute profits in accordance with the community mission. Note there remains a concern that external contractors or investors could still extract unreasonable fees and compensation through other means, such as higher interest rate payments, excessive consultancy fees or unreasonable remuneration. This concern could be addressed by the governance proposals above, in that the majority of directors must agree to these payments. Another option for Government is to consider to establish another schedule to the articles of association, which provides for specific matters to be reserved matters for decision by the community directors, such as material payments or remuneration decisions. ²⁵
Geography	England, Scotland, Wales	Maintain existing coverage across the UK.
Consultation with community	No explicit legal requirement needed. Government should encourage best practice for engagement with communities, including pre and during development of a project and an on ongoing basis during its life.	Ongoing communication with communities is essential to the successful delivery of a community energy project and ensuring that the community is positively impacted. Government can encourage in communication and transparency with reference to established expert and representative bodies, such as Community Energy England. Such good practice guidelines already exists. ²⁶

²⁴ In terms of process, this could be checked through a requirement for a declaration to be submitted by the external energy provider on transition, or at the very latest, within two years' time. If the declaration is not made, the FiT can be clawed back.

²⁵ CIC CLS model already has established multiple schedules of draft articles of association that can be adopted depending on the particular circumstance.

²⁶ <http://www.regensw.co.uk/advisory-service/decc-community-benefit-and-engagement-best-practice-guidance-for-wind-energy/>
https://consult.scotland.gov.uk/energy-and-climate-change-directorate/principles-for-shared-ownership-of-o/user_uploads/good-practice-principles-for-shared-ownership-of-onshore-renewable-energy-developments-consultation-paper.pdf
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/364244/FINAL_-_Community_engagement_guidance_-06-10-14.pdf

(2) Support (Community Contribution)		
Feed-in-Tariff link	Generation of electricity	For certainty, continue to link the payment of Feed-in-Tariff to the energy generated.
Feed-in-Tariff rate	Same as current Feed-in-Tariff rate (as at October 2015)	For certainty, the Feed-in-Tariff rate should continue to be the same as previous. We note that the Energy Savings Trust (EST) has produced modelling that suggests that a tariff of 5.25p/kWh could be applied to homes and produce sustainable delivery of household energy generation. We would in principle be supportive of reducing the rate of the community FiT to this same level as suggested by EST if further modelling suggests this will produce sustainable business models for community energy.
Digression	Degression should be linked to a predictable and steady declining rate to 2021.	Community energy projects will find it difficult to find investment if revenue streams are uncertain, particularly given the uncertainty in the sector at the moment. Defining a predictable digression pattern unlinked to generation will allow more investment to flow to these projects.
Payers	Payable by all those on grid, not just those in local areas. ²⁷	For certainty, continue to link payments to all those on grid. Note that preliminary modelling (by Energy Savings Trust) shows that in case of significant take-up by residential homes up to 3GW capacity, this would only raise prices by 24 pence per year per household. This increase would not make a material difference, even to those in fuel poverty.
Pre-registration and pre-accreditation	Pre-registration and pre-accreditation, as defined in the FiT order, should be reintroduced for community energy schemes.	Community energy projects take much longer to develop and have greater uncertainty given the number of volunteers and external advisors required. This also affects investors who are less able to provide financing without that certainty of final returns when investing.
Transparency	Government agencies and larger energy companies should be encouraged in their own energy-related communications to highlight where community energy projects exist in a neighbouring area.	This communication will encourage other individuals in nearby communities to consider developing their own community projects, through a peer reference point.
(3) Limits		
Term of scheme	5 years	This sunset clause will help ensure that projects still transition away from reliance on FiTs towards sustainability. By giving the sector a predictable end date, sufficiently far away, the Government can encourage the sector to innovate new ways to make renewable energy viable in a post-subsidy world.

²⁷ An alternative would be to reallocate funding from any existing pots, such as the Green Deal. Currently, only £4m of the £125m the Government made available for new boilers and extra insulation has been applied for, helping 1,200 homes to have energy measures installed 18 months after the policy was launched against a target of 10,000 in year 1. This remaining £101m of funding would provide a significant support to the

Caps	Up to 3 GW total generation capacity ²⁸ over lifetime	This is consistent with the Community Energy Strategy (2014) and provides another safeguard against the abuse of the scheme. Modelling by Energy Savings Trust has described that energy generation up to this limit purely from residential homes energy generation would have a relatively small impact on household energy bills (24 pence per year). Detailed modelling would be needed to ascertain the true cost of this scheme, but an overall price or FiT cap at the right level may also be considered.

We also acknowledge that State Aid will need to be considered. We would suggest that the original state aid request for FiT approval “*The beneficiaries of this scheme are non-energy professionals and include for instance households, community groups and schools*” be relied upon to ensure compatibility with State Aid as quickly as possible. Others, such as Pure Energy, have undertaken further detailed study on this issue and we rely on their analysis.

²⁸ This is consistent with the target set in the DECC Community Energy Strategy

Next steps

This response has outlined BSC's experience of investing in community energy, the various positive social and environmental impacts of community energy, the likely effect of the proposals in this consultation and our proposal for a community FiT to ensure this is continued to be supported. We at BSC remain keen to continue to support generation of greater social impact on individuals and communities by community energy through future social investment.

This proposal outlined in our response could be further developed through a specific call for evidence about the nature of the schemes that would fit within this scope of our suggested eligible organisations definitions to ensure that all genuine community energy organisations can be included, conduct of detailed modelling with relevant partners on the most effective applicable Feed-in-Tariff rate, and conduct of pricing forecast to confirm the final cost to the consumer. BSC stands ready to support Government in this exercise, particularly to describe how social investment can help support community energy schemes in the Government's proposal.

Contact

We hope this response has been useful for your consideration of this consultation. We welcome the opportunity to discuss in more detail at your convenience. Please contact:

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