14 August 2015

EST Briefing document on DECC's proposed changes to pre-accreditation under the Feed-in Tariff

In light of the government's consultation on removing pre-accreditation under the feed-in tariff EST has prepared this document to open up debate about the impact on community energy of such a change. We are sending this to various stakeholders to explain the issue and to suggest a possible response to the UK Government's consultation on this issue.

Section 1: Key arguments

The government has launched a consultation on removing pre-accreditation as part of wider moves to cut the costs of the Feed in Tariff (FiT) scheme. EST thinks that's the wrong decision in so far as it applies to community energy initiatives: it's going to damage the community energy sector and in the long term will cost UK citizens. We believe that pre-accreditation should not be removed for schools and community groups and the three key reasons for this are that:

- Community projects **take longer to develop** so communities will be disproportionately impacted as they will experience more degression events during development and build.
- Communities will find it **more difficult to raise funds**, as their projects rely to a large degree on project finance with limited equity/security or share offers. This will be increasingly challenging with a heightened risk profile.
- Communities have **less development experience** than commercial organisations and will be less able to manage increased risk from removal of subsidies.

Community projects, unlike many commercial renewable energy projects, need to secure project finance from an external source, i.e. a bank or other lender. Without pre-accreditation, it is our view that community projects will find it difficult to secure funding from banks as the final rate of return will not be known.

The most damaging implication of the proposed changes is uncertainty. Pre-accreditation doesn't just give confidence to community groups, more importantly it gives lenders confidence to provide a loan to the community, enabling them to accurately predict the return they will get. By taking away the security of a guaranteed rate, it will become even more difficult for communities to secure funding.

DECC already established a clear definition of community projects earlier this year. We believe it would be appropriate to utilise this definition and protect pre-accreditation schemes where these are being undertaken by community groups. This amounts to a small proportion

of the overall renewable energy project pipeline in the UK, but would provide continued security and support to the majority of community energy projects.

Section 2: What is pre-accreditation

The Feed-in Tariff has played a big part in the growth of community energy projects. Combined with falling prices for technologies, FiTs have enabled many community groups to install solar PV, hydro and wind systems. The Feed in Tariff gives a guaranteed income for 20 years. That guaranteed income can be used to pay back the cost of installation, and in the longer term to resource other activities of the community group - eg installing energy efficiency measures.

Since 2011/2012, the level of the FiT has been regularly cut by government. That's a planned part of the subsidy process – as deployment increases, prices for renewable technology should fall, and less subsidy should be needed. The process of those regular cuts is called degression.

But degression means that – unless community groups know when their renewable energy project is going to be completed – it can be hard to know exactly how much FiT income they're going to get. And –as we explore below - uncertainty over returns makes planning and delivering schemes more difficult.

That's why the government allowed preliminary accreditation of small scale renewable energy projects. Pre-accreditation is where a scheme is assured of the level of tariff they are going to get under the FiT after the planning stage, rather than this depending on when their new system is built and commissioned. The pre-accreditation makes it easier to raise investment to pay the upfront costs of the scheme. Even with pre-accreditation the commissioning still has to happen within a certain timescale, for example six months for solar PV projects, a period known as the "pre-accreditation window".

Pre-accreditation applies to solar PV and wind projects between 50kW and 5MW as well as to all hydro-power up to 5MW and anaerobic digestion (AD) projects. Pre accreditation applies to all projects of this scale regardless of who delivers them. But the government have put in place additional protections for projects delivered by community groups and schools:

- Pre-accreditation is also available for community groups and schools with solar PV installations under 50kW. This smaller-scale process is known as pre-registration
- Community groups and schools have an additional 6 months pre-accreditation window to complete their projects

The government has also indicated that – if pre-accreditation is removed - it may consider re-introducing pre-accreditation or pre-registration for appropriate groups or sectors at a later date.

Section 3: Why EST believes retaining pre-accreditation is important

EST would strongly argue that pre-accreditation should not be removed for community groups because community projects take longer to develop, communities will find it more difficult to raise funds and because communities have less development experience than commercial organisations and will be less able to manage increased risk from removal of subsidies.

Rather than being reintroduced at a later date, we believe that communities must continue to receive the support currently in place. Any inconsistency and hiatus in pre-accreditation will impact a number of projects directly, rendering them unviable. It is our opinion that these projects should not be unfairly impacted, and that pre-accreditation should remain in place for community organisations.

Recent research found that community energy projects are distinct from commercial developments because they are more variable in costs, have higher pre-planning costs and take longer to complete than those in other sectors, largely because they take much longer to get to planning.

These findings are corroborated with the Energy Saving Trust's experience through involvement with CARES projects in Scotland and Ynni'r Fro in Wales, which have shown that communities need high levels of support to progress quickly and smoothly through the early stages of development. This combination of variability, relatively high costs and delays can be self-perpetuating, and much has been done over recent years to support the sector and prevent projects from stalling.

The consultation document recognises that the changes to FiT pre-accreditation will affect community projects. However, the changes will not just impact upon communities, but disproportionately so compared to commercial projects, and unfortunately in a negative reciprocal cycle.

Pre-accreditation gives confidence to both the community group itself and also to lenders, enabling them to accurately predict the return they will get. This security of a guaranteed rate is vital for communities to secure funding. Removing this will also seriously affect community share issues as local people will be unwilling to individually invest without having reasonable certainty over likely returns. Where banks are interested in projects, they may engage in discussions and explore opportunities, but it will be extremely difficult to reach financial close in advance of build. At best this will add even further delays to community projects, resulting in lower FiT payments, and at worst, a community may completely fail to find funding for their project.

This unfortunate cycle of increased delays and difficulties securing funding will prove debilitating for some projects, and it is possibly that many well-sited, locally-supported projects will be unable to progress. For those community projects which do go ahead without pre-accreditation, the projects will be overtaken to commissioning by commercial projects – which will mean that higher FiT payments could be given to commercial companies, with local community groups receiving lower rates and less income for their community needs and objectives.

The most damaging implication of the proposed changes is uncertainty. By removing pre-accreditation, even with the possibility of reintroduction at a later date, the funding

community will be understandably wary about further involvement in community energy projects.

As such we believe that since the definition of community has been explicitly drawn out by DECC earlier this year, it would be appropriate to utilise this distinction and protect communities as defined from the forthcoming proposed changes. As community energy projects represent a small proportion of renewable energy projects maintaining pre-accreditation will not cost much yet scrapping it could have a very large impact on in what is a growing, exciting and active sector.

Section 4: EST's proposed response to the consultation

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

We do not agree that it is appropriate to remove the ability to pre-accredit from the FIT scheme in so far as it concerns community energy projects **The ability for communities to pre-accredit should not be removed.** The three key reasons for this are:

1. Community projects **take longer to develop** so communities will be disproportionately impacted as they will experience more degression events during development and build.
2. Communities will find it **more difficult to raise funds**, as their projects rely to a large degree on project finance with limited equity/security or share offers. This will be increasingly challenging with a heightened risk profile.
3. Communities have **less development experience** than commercial organisations and will be less able to manage increased risk from removal of subsidies.

Community projects take longer to develop

- In March 2015 DECC recognised that community energy projects need more time to raise funds and engage the local community. The democratic and collaborative nature of communities mean decision making is slower and in recognition of this DECC increased the pre-accreditation period by six months across all renewable technologies.
- Evidence from the ClimateXChange comparative costs of community and commercial renewable energy projects in Scotland[1] is that community projects typically take significantly longer to submit a planning application, often incurring

[1] http://www.climatexchange.org.uk/reducing-emissions/comparative-costs-community-and-commercial-renewable-energy-projects-scotland/

increased costs in this process. Furthermore, development timelines and pre-planning costs are more variable than for commercial projects.

Communities will therefore be disproportionately affected by degression events as community projects will inevitably be overtaken by commercial equivalents.

More difficult to raise funds

- In our experience, community projects generally do not have financial reserves, a track record of project development, or other securities so will seek commercial project finance. **This will be considerably harder to attract without the surety of income stream that comes with pre-accreditation.**

- Projects will find it harder to raise funds through share offers as the prospectus will need to outline higher risk profile

While it is recognised that funding may become more difficult for many renewable energy developments, we believe that the impact upon funding for the community sector will be particularly damaging.

Less development experience than commercial organisations

- Included within the rationale for the intervention to remove the preliminary accreditation period is that developers across all sectors are now better placed to handle the risks inherent in the degression mechanism. Our experience is that communities are likely to be developing their first renewable energy project in their community and cannot draw on experience or resources from previous projects.

- Communities do not have established relationships with advisors or supply chain services so are less able to mobilise quickly and less resilient to deal with some of the short-term supply chain issues likely to arise from changes to the wider subsidy regimes.

Communities will therefore be unfairly impacted by the uncertainty in the sector due to their inexperience and non-commercial nature.

<u>We would propose that communities, as defined in the FiT Order, should retain the ability to pre-accredit for the Feed-in Tariff and be awarded the relevant tariff upon the date of accreditation. Communities should continue to have the accreditation periods currently in place.</u> The measures developed to date to support communities and schools through the FiT pre-registration process, and communities through pre-accreditation have been instrumental in deploying small-scale locally owned renewable energy projects, and we believe it is vital that this momentum and support is not lost.

Community energy projects rely on volunteers investing time and effort to build a renewable energy project for their local areas; they progress because local people see an opportunity for a sustainable income for their community, and want to make a positive, long-term impact. These projects can take up to ten years to complete, sometimes even more. But the project teams believe this investment is worth it, because there is an opportunity for real, tangible local change. Confidence and capacity is built, people and organisations work together, and local needs can be identified and met. Navigating a complex commercial process can be

daunting for communities, but we believe that with the right support and commitment, it is possible and profoundly worthwhile.

Other comments in support of shared ownership:

Local Energy Scotland has been working with communities and developers to progress shared ownership projects to reflect UK and Scottish Government ambitions to see communities owning stakes in commercial projects. In our experience, developing such projects can incur increased costs, and often increased delays in development timescales, due to their collaborative nature. We would urge DECC to consider ways of continuing to support these projects where communities and developers have been working in partnership, often for a number of years. Whether the mechanism is through a split ownership 5MW and 5MW FIT tariff, or opening of CfD rounds to projects with significant community ownership.

Local Energy Scotland can provide a list of projects in which we are actively involved and we are happy to engage in further dialogue.

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

We agree with the finding in paragraph 1.11:

> "*As noted above, earlier this year an extended pre-accreditation period was introduced for community projects deploying under the FIT, and we are aware that* ***these changes will have a particular impact upon the community sector*** *[emphasis added]. As part of the later FIT review which will take place later this year, we may consider whether there is a case for reintroducing pre-accreditation and pre-registration for communities or other groups as appropriate."*

We have outlined the impact we believe removing pre-accreditation would have on the community energy sector in the question above.

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

No response.

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

Rather than being reintroduced at a later date, we believe that communities must continue to receive the support currently in place. Any inconsistency and hiatus in pre-accreditation will impact a number of projects directly, rendering them unviable. It is our opinion that these projects should not be unfairly impacted, and that pre-accreditation should remain in place for community organisations.

However we recognise that there might be a procedural requirement to remove the pre-accreditation process across all sectors. Should this be the case, we propose that pre-accreditation for community groups is re-introduced well in advance of any subsequent degression event. A clear statement and timeline of this intent will be absolutely essential to support project progression and minimise potential risk for funders.