



Department
of Energy &
Climate Change

Consultation on support for community energy projects under the Feed-in Tariffs Scheme

Part C – Combining Feed-in Tariffs and grants

URN: 14D/122 May 2014

Department of Energy and Climate Change
3 Whitehall Place
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Website: www.gov.uk/decc

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The consultation can be found on DECC's website:

<https://www.gov.uk/government/consultations/support-for-community-energy-projects-under-the-feed-in-tariffs-scheme>

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General information

Purpose of this consultation

This document is Part C of the wider consultation on support for renewable electricity generation by community energy groups under the Feed-in Tariffs (FITs) Scheme.

This Part C looks on how we might change our policy to enable community energy groups to combine FITs and grants.

Before reading Part C, we advise you to read Part A as this sets out background information on the importance of community energy, the current financial support, costs, interdependencies and State aid issues. Part A also seeks views on our analysis of current community renewable electricity deployment and future potential, plus the impact of the proposed actions on deployment.

The consultation is relevant to community energy groups, renewable electricity generators, electricity suppliers, electricity consumers and their representatives, network operators, Ofgem, financial institutions and other stakeholders with an interest in community energy.

Issued: 13 May 2014

Respond by: 7 July 2014

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Consultation reference:

Consultation on support for community energy projects under the Feed-in Tariffs Scheme - Part C: Combining Feed-in Tariffs and grants - URN 14D/122

Territorial extent:

The Feed-in Tariffs Scheme applies only to Great Britain. Any changes following this consultation will apply in England, Scotland and Wales only.

How to respond:

Please respond using the following templates that are published on the DECC website alongside this consultation document:

- Response to the Consultation on support for community energy projects under the Feed-in Tariffs Scheme;

- Cost evidence for the Consultation on support for community energy projects under the Feed-in Tariffs Scheme.

Your response will most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Responses to the consultation should be in electronic format and sent to the email address above.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at: <https://www.gov.uk/government/consultations/support-for-community-energy-projects-under-the-feed-in-tariffs-scheme>

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on our website at <https://www.gov.uk/government/consultations/support-for-community-energy-projects-under-the-feed-in-tariffs-scheme> . This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the Government's Consultation Principles, which can be found here:

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/Consultation-Principles.pdf>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW

Email: consultation.coordinator@decc.gsi.gov.uk

1. Executive summary

Background

- 1.1 Background information on the importance of community energy, the current financial support, costs, interdependencies and State aid issues is set out in Part A of the consultation. Part A also seeks views on current and future community renewable electricity deployment, and the impact of the proposed actions on that deployment.

Purpose of the consultation

- 1.2 This part C of the consultation is looking at how we might change our policy to enable community energy groups to combine Feed-in Tariffs (FITs) for renewable electricity generation and grants. This follows on from the commitment set out in the Community Energy Strategy.

Government cost control

- 1.3 There is no new funding available to support any additional net renewable electricity generation that might come forward as a result of the new policies proposed in this document. Affordability will therefore be a key consideration before deciding whether or not we could proceed with implementing these proposals.

Summary of proposals

Proposal 1 – To expand the definition of “reasonable additional costs” associated with purchasing or installing an installation

- 1.4 This seeks information on reasonable additional installation costs that community energy groups face that are significantly greater than the standardised costs on which FITs rates are calculated. Provided there is sufficiently clear and robust information on these additional costs, the proposal is to allow community energy groups to receive grants for these costs for new projects without it affecting their eligibility to receive the FITs payment.

Proposal 2 - To allow existing FITs-accredited community energy projects to receive reinstated grants under the expanded definition of “reasonable additional costs”

- 1.5 A number of community energy groups were affected by the change to the FITs rules in 2011 and found out after installation that they were unable to claim both FITs payments and grants. Some existing FITs-accredited projects had previously received a grant that covered activities which would be permitted under proposal 1, but they had returned that grant, or converted it to a commercial rate loan, in order to be able to claim FITs under the existing rules. The proposal is to allow them to reclaim the grant without that affecting their FITs eligibility in the future. This would be dependent on the grant provider being willing and able to reinstate the grant. Details of previous grant providers are requested so that the feasibility of this proposal can be tested.

Proposal 3 - Eligible technologies

- 1.6 The proposal is that proposals 1 and 2 above should apply to all technologies which are currently included in the FITs scheme, that is, anaerobic digestion (AD), hydro, solar PV (both standalone and non-standalone), onshore wind and fossil fuel derived micro CHP plant.

Proposal 4 - Eligible capacity

- 1.7 The proposal is that proposals 1 and 2 should apply only to projects up to 5MW.

Timing and Next Steps

- 1.8 The consultation closes on 7 July 2014 and we intend to publish the Government response later in 2014, setting out our final policy decisions. Subject to the outcome of this consultation, it is our intention to bring into force the necessary revisions to secondary FITs legislation. However, as explained in Part A of this consultation and section 2 below, decisions on whether to proceed with implementation will depend on affordability.

2. Introduction

Structure of this consultation

- 2.1 This document is Part C of the wider consultation on support for renewable electricity generation by community energy groups under the Feed-in Tariffs Scheme. Part C looks at how we might change our policy to enable community energy groups to combine Feed-in Tariffs (FITs) for renewable electricity generation with grants.
- 2.2 Before reading Part C, we advise you to read Part A¹ of the consultation as this sets out background information on the importance of community energy, the current financial support, costs, interdependencies and State aid issues. Part A also seeks views on our assessment of current community renewable electricity deployment and future potential, plus the impact of the proposed actions on deployment.

Commitment under the Community Energy Strategy

- 2.3 The Community Energy Strategy set out the main barriers to community energy activity and the actions that needed to be taken to help realise its potential (further information on this is in Part A of this consultation). Paragraph 187 of the Strategy said:

“We are aware that many community energy groups face particular difficulties in finding the professional skills and financial resources to take energy projects forward. We are therefore looking into how we might improve our guidance and change our policy to enable community energy groups to combine grants with FITs and RHI, consistent with EU State Aid rules, to help ensure worthwhile projects can reach fruition.”

Improving the guidance for applicants to the FITs

- 2.4 As the administrators of the FITs scheme, Ofgem issues guidance which gives an overview of the scheme and its eligibility criteria, and explains the process for seeking accreditation and preliminary accreditation. Work on how we might improve this guidance is being taken forward separately by DECC and Ofgem. It does not form part of this consultation, although we may seek to discuss the issues informally with some community representatives. We are looking to provide greater clarity on the type of activities that are not associated with purchasing or installing renewable energy equipment, and so can be supported by publicly funded grants without affecting eligibility for FITs payments under the current rules. We are aiming to complete this work in summer 2014.

Looking at changes of policy for the FITs scheme

- 2.5 The second part of the commitment at paragraph 2.3 above, that is, to look at how we might change our policy to enable community energy groups to combine FITs and grants, is the subject of this Part C consultation document. The issues and our proposed way forward are set out in Section 3 below.

¹ Consultation on support for community energy projects under the Feed-in Tariffs Scheme - Part A: Introduction and estimates of deployment

Community energy group

- 2.6 For the sake of simplicity, we use the general term “community energy group” in this consultation. This means a group that complies with the definition of a “community organisation” as set out in section 4 of Part B² of the consultation.

Government cost control

- 2.7 As with all technologies, it is essential that support for community energy groups under the FITs scheme provides value for money for the energy consumers who pay for the scheme and is delivered in a way that ensures we remain within the Levy Control Framework spending limits³.
- 2.8 There is no new funding available to support any additional net renewable electricity generation that might come forward between 2015 and 2020 as a result of the new policies proposed in this consultation. Affordability will therefore be a key consideration before deciding whether or not we could proceed with implementing these proposals.

² Consultation on support for community energy projects under the Feed-in Tariffs Scheme - Part B: Increasing the maximum specified capacity ceiling for community projects from 5MW to 10MW

³ The Levy Control Framework is a part of the Government's public spending framework. It places limits on the aggregate amount levied from consumers by energy suppliers to implement Government policy. In effect, it specifies the maximum allowable spending on levy-funded policies and thereby helps protect energy consumers from excessive levies on their energy bills.

3. Changing the policy on combining FITs and grants for community energy groups

Current rules on combining FITs and grants

3.1 A key aim of the Feed-in Tariffs (FITs) scheme is to replace grants from public funds as a means of encouraging the growth of small scale renewable generation.

Definition of grants from public funds

3.2 The term “grant from public funds” is defined in the legislation for the FITs scheme as “a grant made by a public authority or by any person distributing funds on behalf of a public authority”. This includes, but is not limited to, funds distributed by:

- UK Government departments (such as DECC, the Department for Environment, Food and Rural Affairs (Defra), the Department for Business, Innovation and Skills (BIS) etc);
- The European Commission;
- Local and regional councils;
- Organisations distributing money on behalf of the Government and the European Commission, such as Energy Saving Trust; and
- The National Lottery.

Eligible grants from public funds

3.3 The existing terms of the European Commission’s State aid approval for the FITs scheme allows grants from public funds to be combined with FITs payments only where the grant is in respect of costs which are significantly greater than the standardised costs on which the FITs rates were calculated.

3.4 The current rules of the scheme therefore allow grants from public funds to be combined with Feed-in Tariffs only if:

- The grant was **NOT** made for the purpose of purchasing or installing the installation; or
- The grant was made in respect of reasonable additional costs that **are** associated with purchasing or installing an installation, provided that the grant was only for costs to avoid or mitigate environmental harm and that the grant did not exceed the total amount of these costs.

3.5 Applicants in receipt of other grants from public funds must repay the money to the issuing body, or convert the grant to a commercial rate loan, before they can apply for FITs payments.

3.6 Full details on eligibility under the FITs scheme are set out in Ofgem’s guidance “Feed-in Tariff: Guidance for renewable installations (Version 6) October 2013”⁴.

Costs not associated with purchasing or installing an installation

3.7 Table 1 below provides some examples of costs that would **not** be considered to be part of purchasing or installing an installation for the purposes of the FITs scheme. Grants from public funds in respect of these costs can therefore be combined with FITs payments without affecting eligibility under the scheme. (The work to improve the existing guidance, as described in paragraph 2.4 above, is looking to clarify what is meant by the term “Pre-design feasibility studies”.)

Table 1: Examples of costs not associated with an installation

Technology	Example of costs that are not part of the installation for the purposes of the FITs scheme
Anaerobic digestion (AD)	<ul style="list-style-type: none"> • Pre-design feasibility studies • Infrastructure for transmitting electricity/heat generated by AD plant, e.g. to neighbouring buildings • Local electricity grid reinforcement/upgrades • Transforming digestate into different products, e.g. dewatering to create dry compost as opposed to a low dry matter liquid. • Secondary gas treatment/use • Educational facilities associated with the AD plant, e.g. visitor centre. <p>Large scale:</p> <ul style="list-style-type: none"> • Secondary feedstock pre-treatment <p>Small scale:</p> <ul style="list-style-type: none"> • Slurry/maize storage
Hydro	<ul style="list-style-type: none"> • Pre-design feasibility studies • Local electricity grid reinforcement/upgrades
Solar PV	<ul style="list-style-type: none"> • Pre-design feasibility studies • Local electricity grid reinforcement/upgrades
Wind	<ul style="list-style-type: none"> • Pre-design feasibility studies • Local electricity grid reinforcement/upgrades
Micro CHP	<ul style="list-style-type: none"> • Pre-design feasibility studies • Local electricity grid reinforcement/upgrades

⁴ Ofgem’s guidance “Feed-in Tariff: Guidance for renewable installations (Version 6) October 2013” is at: <https://www.ofgem.gov.uk/publications-and-updates/feed-tariff-guidance-renewable-installations-version-6-october-2013>

Reasonable additional costs associated with purchasing or installing an installation

- 3.8 In addition to the above costs that are **not** associated with purchasing or installing an installation, community energy groups can receive grants in respect of “reasonable additional costs” that **are** associated with purchasing or installing an installation, provided such costs are not covered by the FITs payments. Such grants can be combined with FITs payments without affecting eligibility under the scheme.
- 3.9 Currently, grants can only be made in respect of the reasonable additional costs of an installation **to avoid or mitigate environmental harm**. This may include measures to protect fish and other wildlife in small hydro schemes. The costs associated with solar PV, wind and CHP are relatively standard and these technologies are unlikely to have costs associated with avoiding or mitigating environmental harm.

Proposals for policy changes to the FITs scheme

Proposal 1 – To expand the definition of “reasonable additional costs” associated with purchasing or installing an installation

- 3.10 Anecdotal evidence collected in response to DECC’s call for evidence on the Community Energy Strategy last year, and in subsequent discussions with community stakeholders, suggests that, relative to their size, small-scale community-owned renewable energy schemes face higher installation and running costs than individual householders or private companies. These are separate costs to those to avoid or mitigate environmental harm, as described in paragraph 3.9 above.
- 3.11 Provided that:
- Detailed cost information is available for new reasonable additional costs; and
 - That information shows that the costs are significantly greater than the standardised costs on which FITs rates are calculated;

it would be possible to allow community energy groups to receive grants for these reasonable additional costs without it affecting their eligibility to receive the FITs payment.

Consultation Question

- | | |
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| C1. | Do you agree that we should seek to expand the definition of “reasonable additional costs” to cover additional installation costs that community energy groups face that are not covered by the FITs payments, so that new community energy projects could combine grants for these costs with their FITs payments? |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

- 3.12 However, at present, we do not have sufficiently clear and robust information on these reasonable additional costs to justify implementing this proposal. If we took action in the absence of a clear justification, we would be in breach of the FITs scheme’s State aid approval. We are therefore seeking detailed information from the community sector on the full cost of setting up a community energy project.

Consultation Question

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| C2. | Do you have any information on the development, installation and operating costs of specific community energy projects up to 5MW?
Please provide this information in the accompanying cost evidence template published on the DECC website alongside this consultation document. |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Proposal 2 - To allow existing FITs-accredited community energy projects to receive reinstated grants under the expanded definition of “reasonable additional costs”

- 3.13 We have explored the situation for those who applied in the early days of the FITs scheme and were affected by the 2011 change in the rules. We are aware of a number of projects who had thought they would be able to claim both FITs and grants but found out after they had installed the renewable energy project that they were unable to do this. Some say that their advisers or their grant provider had not warned them about the change in the rules. Community energy groups affected by the changes had the option of foregoing FITs payments altogether or, if they wished to continue receiving FITs payments, they could return the grant to the grant provider, or convert the grant into a commercial rate loan. Some projects are reported to be experiencing on-going problems as a result of this.
- 3.14 It is not possible to make changes to the FITs scheme with retrospective effect (i.e. to change what the legal obligations were on applicants during a block of time in the past). However, there is some flexibility in managing a transition to a new set of rules. Where FITs-accredited projects had previously received a grant that covered activities which would be permitted under proposal 1, but they had returned that grant, or converted it to a commercial rate loan, in order to be able to claim FITs under the existing rules, it would be possible to allow them to reclaim the grant without that affecting their FITs eligibility in the future.
- 3.15 Community energy groups received grants from a variety of schemes, most of which are now closed. However, there may be some that are willing and able to re-instate repaid grants or to convert loans back to grants. **It is important to note that this would merely be an option that would be available to the grant provider. It would be entirely at the grant provider’s discretion as to whether they wished to take up this option. There would be no requirement on them to reinstate any grant, regardless of whether or not the original grant scheme was still in operation.**
- 3.16 **It is also important to note that this option would apply only to grants that meet the reasonable additional costs requirements identified under proposal 1 above.** It would **not** be permitted to reinstate grants that covered the same costs as those which are taken into account in the calculation of the FITs rates. To allow such double subsidy would be in breach of the Scheme’s State aid approval.

Consultation Question

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| C3. | Do you agree that existing, FITs-accredited community energy projects should be able to receive reinstated grants that would qualify under the expanded definition of reasonable additional costs under proposal 1 above? |
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- 3.17 In order to test the feasibility of this proposal, we need to know what bodies have given grants to community energy projects in the past. We are therefore seeking information from community energy groups on the source of public grants received for their renewable energy project.

Consultation Question

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|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| C4. | Do you have any information on the source of public grants received by community energy projects?
Please provide this information in the accompanying response template published on the DECC website alongside this consultation document. |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Proposal 3 - Eligible technologies

- 3.18 We propose that the changes for proposals 1 and 2 above will apply to all the technologies which are currently included in the FITs scheme, that is, anaerobic digestion (AD), hydro, solar PV (both standalone and non-standalone), onshore wind and fossil fuel derived micro CHP plant. Although our analysis suggests that most community energy projects are for onshore wind and solar PV, there are a few hydro plants and evidence that some community AD projects are coming through.

Consultation Question

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| C5. | Do you agree that proposals 1 and 2 should be applied to all the technologies currently supported under the FiTs scheme, that is, AD, hydro, solar PV, onshore wind and micro CHP? |
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Proposal 4 - Eligible capacity

- 3.19 Part B of the consultation is looking at increasing the maximum specified capacity ceiling for community energy projects under FITs from 5MW to 10MW. However, we do not propose that projects over 5MW should be able to take advantage of proposals 1 and 2 above. This is because advice from stakeholders suggests that grants are of little importance to projects of this size. To allow them to benefit from the proposals would offer poor value for money as it is likely they would progress anyway, even without this additional support.

Consultation Question

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| C6. | Do you agree that proposals 1 and 2 should be applied only to projects up to and including 5MW? |
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Impact of these proposals on future community energy deployment

- 3.20 Current and future deployment of community energy is explored in detail in Part A of the consultation⁵ and that Part seeks views on:
- Our analysis of the community electricity capacity that is currently operational and in the pipeline;
 - The impact that the proposed changes will have on deployment of community energy under the FITs scheme; and
 - The impact that other initiatives (such as the ‘community right to buy’ policy and other measures set out in the Community Energy Strategy, and the proposed changes to support for solar projects under the RO and FITs) will have on deployment of community energy under the FITs scheme.

Timing and Next Steps

- 3.21 The consultation closes on 7 July 2014 and we intend to publish the Government response later in 2014, setting out our final policy decisions.
- 3.22 Subject to the outcome of this consultation, it is our intention to bring into force the necessary revisions to secondary FITs legislation. However, as explained in Part A of this consultation and section 2 above, decisions on whether to proceed with implementation will depend on affordability.

⁵ “Consultation on support for community energy projects under the Feed-in Tariffs Scheme - Part A: Introduction and estimates of deployment”

Annex A: Catalogue of questions for Part C of the consultation

Consultation Question	
C1.	Do you agree that we should seek to expand the definition of “reasonable additional costs” to cover additional installation costs that community energy groups face that are not covered by the FITs payments, so that new community energy projects could combine grants for these costs with their FITs payments?
Consultation Question	
C2.	Do you have any information on the development, installation and operating costs of specific community energy projects up to 5MW? Please provide this information in the accompanying cost evidence template published on the DECC website alongside this consultation document.
Consultation Question	
C3.	Do you agree that existing, FITs-accredited community energy projects should be able to receive reinstated grants that would qualify under the expanded definition of reasonable additional costs under proposal 1?
Consultation Question	
C4.	Do you have any information on the source of public grants received by community energy projects? Please provide this information in the accompanying response template published on the DECC website alongside this consultation document.
Consultation Question	
C5.	Do you agree that proposals 1 and 2 should be applied to all the technologies currently supported under the FITs scheme, that is, AD, hydro, solar PV, onshore wind and micro CHP?
Consultation Question	
C6.	Do you agree that proposals 1 and 2 should be applied only to projects up to and including 5MW?

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