Department of Energy & Climate Change

Government response to the Shared Ownership Taskforce

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Ministerial Foreword

The United Kingdom's energy landscape is being transformed. As we move toward a cleaner, more climate friendly mix of energy sources, the opportunities for people to take control of their energy use – and indeed for generating energy themselves – are increasing. This is good for energy security because the less we are dependent on one type of energy generation or one supply line, particularly by boosting home-grown resources, the less exposed we are to the volatile global fossil fuel markets. And this is good for local communities too. Communities who come together to produce their own energy or to put in place energy saving schemes benefit by keeping investment local, jobs local, and can often cut bills for local people too.

These are exciting times. We are seeing a revolution in the way energy is generated. From wind to solar, hydro to energy from waste, small scale energy projects making energy for the community, in the community, and owned by the community are now increasingly viable as business propositions.

In January last year I launched the Government's first ever Community Energy Strategy[1]. Central to this vision is ensuring that local communities get the greatest benefit out of renewable projects taking place on their doorsteps. The shared ownership model is such an important part of this process – giving communities a real stake in the energy produced on their doorstep – building from the bottom up – with green growth being visible at community level. The Strategy set out a process by which shared ownership could become commonplace.

The Shared Ownership Taskforce[2], a truly exceptional collaboration between the renewable industry and the community energy sector, has been consulting widely and in November 2014 published a pragmatic and flexible Shared Ownership Framework[3]. I have never favoured a one-size-fits-all approach because this restricts innovation and entrepreneurial spirit. I have always preferred to achieve shared ownership through a voluntary means, allowing a case by case approach to encourage fresh models to come forward. And that is exactly what this Framework embraces. I am particularly pleased to see an emphasis on early dialogue between the developer and the local community to find a model that works for everyone involved.

This document sets out our formal Government Response to the Shared Ownership Framework, and includes how Government will support its implementation. I would like to thank the Shared Ownership Taskforce for all their hard work and their continued efforts to implement the Framework and increase the offer of shared ownership of renewables. We now look to developers and communities to work together to implement this Framework on the ground, to work within the spirit of this framework. I look forward to hearing about meaningful shared ownership offers being made which are tailored to the local needs of both developers and communities.

It is the start, not the end, of this journey. But by working together we can change the way people approach their energy needs – and in doing so we can increase energy security, lower carbon emissions, and boost the prospects for local communities at the same time.

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

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[1] https://www.gov.uk/government/publications/community-energy-strategy

[2] https://www.gov.uk/government/groups/shared-ownership-taskforce

[3] http://www.renewableuk.com/en/utilities/document-summary.cfm?docid=CB5A9C2C-FA70-46CE-83757D293D992E3E

1. Executive summary

1.1 The Government's first ever Community Energy Strategy[4] was published in January 2014 and sets out how Government intends to boost the community energy sector. It includes a stretching and ambitious goal for community shared ownership; that from 2015 it will be the norm for communities to be offered the opportunity of some level of ownership of new commercially developed onshore renewable projects.

1.2 To achieve this, the Strategy includes a commitment from the renewables industry 'to facilitate a substantial increase in the shared ownership of new, commercial onshore renewables developments'. The Shared Ownership Taskforce was convened in February 2014 to achieve this and report back to Government with a robust Framework and timetable for implementation.

1.3 The Taskforce published their report in November 2014[5]. It includes a guide to the offer of shared ownership for renewable developers and communities, measures for monitoring and implementation, and recommendations for Government on how to support shared ownership.

1.4 This document sets out the Government response to the Shared Ownership Taskforce's report. The Government supports the Taskforce's guide for increasing the offer of shared ownership to local communities. We now expect all relevant renewable energy developers to be engaging with this and discussing shared ownership opportunities with local communities.

1.5 A number of Government recommendations for the Taskforce are included within Section 3 of this document. These should be taken into account during the twelve month review that the Taskforce will be undertaking in order to evaluate and report on progress. The Government recommendations are in relation to the types of renewable energy developments falling within the scope of the Taskforce's Framework and which should therefore offer interested communities shared ownership opportunities. We recommend that the Taskforce validates as part of their twelve month review: i) the proposed £2.5 million project size threshold; ii) whether the Framework should cover shared ownership for renewable heat projects; iii) the sliding scale of 5-25% of project costs for the recommended size of stake to be offered to a community; and iv) whether any further guidance can be provided on the minimum level of investment required from the community in order for an offer to go ahead. After twelve months of implementation, we expect there to be further evidence available, including examples of shared ownership models and practices that can inform these aspects of the Framework.

1.6 As set out in the Community Energy Strategy, the Government will be undertaking a progress review in 2015. It will focus on the extent to which relevant renewable developers are discussing shared ownership opportunities with the local community and whether meaningful shared ownership offers are being made. The findings from the Taskforce's reviews will feed into this.

1.7 If progress is limited, then the Government will consider requiring commercial renewable electricity developers in Great Britain to offer the opportunity of a shared ownership to communities. To enable us to do this, we have taken legislative powers through Parliament; these are known as the Community Electricity Right and are included within the Infrastructure Act 2015[6].

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[4] https://www.gov.uk/government/publications/community-energy-strategy

[5] http://www.renewableuk.com/en/utilities/document-summary.cfm?docid=CB5A9C2C-FA70-46CE-83757D293D992E3E

[6] https://www.gov.uk/government/publications/infrastructure-bill-the-community-electricity-right

1.8 Our strong preference is to achieve a substantial increase in the offer of shared ownership of renewable schemes through a voluntary means. As such, these powers would only be exercised if the voluntary approach, being led by the Taskforce, is not successful and only then following a formal consultation where the views of stakeholders and lessons from the voluntary approach could be taken into account.

2. Introduction

Background

2.1 The Government's first ever Community Energy Strategy[7] was published in January 2014. It sets out how Government intends to boost the community energy sector and empower more local communities to take control of their energy; whether that's generating energy, reducing energy, managing energy demand or purchasing energy.

2.2 Shared ownership, where communities buy a stake in new commercial renewable projects being developed locally, represents an opportunity for communities to get involved in energy generation taking place on their doorstep. It can represent new ways for communities and industry to work collaboratively and constructively together on the ground to the benefit of both.

2.3 By partnering with renewable developers, local communities can benefit from the investment opportunities and share in the commercial expertise and know-how of developers. A community stake in a renewable scheme can also help to create a sense of ownership that can lead to increased acceptance and support at a local level, which is critical for the future growth of the renewables industry.

2.4 Communities involved in generating renewable electricity – whether through fully community-owned projects or shared ownership of larger commercial projects – can contribute to our goals of decarbonising and diversifying the power sector and help to meet the UK's 15% renewable energy target.

2.5 The Community Energy Strategy sets a stretching and ambitious goal for shared ownership. It includes a vision that from 2015 it will be the norm for communities to be offered the opportunity of some level of ownership of new commercially developed onshore renewables projects. To achieve this, the Strategy includes a commitment from the renewables industry "to facilitate a substantial increase in the shared ownership of new, commercial onshore renewables developments". It proposes that an industry-led Taskforce works to identify measures to increase community ownership of new commercial developments and reports back to the Secretary of State with a robust framework and a timetable for implementation. The Shared Ownership Taskforce[8] ("the Taskforce") was convened to deliver this commitment.

2.6 The Taskforce is comprised of representatives from the renewables industry and the community energy sector. They launched the Shared Ownership Framework ('the Framework') in November 2014[9] to guide the offer of shared ownership.

2.7 The Community Energy Strategy also states that there will be a review of progress in 2015 to assess the success of this voluntary approach to increasing shared ownership. If progress is limited, then the Government will consider requiring all developers in Great Britain to offer the opportunity of a shared ownership element to communities. As such, the Government has legislated to create reserve powers within the Infrastructure Act 2015 that, if exercised, would require developers in Great Britain to offer communities the chance to invest in new commercial renewable electricity schemes being developed in their area. The powers would only be used if the voluntary approach, being led by the Taskforce, is not successful and only then following a

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7 https://www.gov.uk/government/publications/community-energy-strategy

8 https://www.gov.uk/government/groups/shared-ownership-taskforce

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

formal consultation where the views of stakeholders and lessons from the voluntary approach would be taken into account.

Purpose and scope of this document

2.8 This document provides an overview of the Government's position on shared ownership of renewable schemes across the UK (Section 2), sets out the Government's response to the Shared Ownership Taskforce's Framework (Sections 3 and 4) and their recommendations to Government in order to support the successful implementation of the Framework (Section 5). The final section of this document (Section 6) describes the link between the Government's voluntary and legislative approach to increasing the offer of community shared ownership.

Shared ownership across the UK

2.9 The principle of greater community involvement and investment in renewable energy is supported across the UK. In order to ensure that best practices and lessons are shared, the Department of Energy and Climate Change (DECC) has established a working group with officials from the Scottish, Welsh and Northern Irish Governments specifically to drive forward the work on shared ownership. This working group will meet every three months. It will provide a forum through which updates on progress under the Taskforce's Framework can be provided and information on shared ownership support and development in the different parts of the UK can be shared.

2.10 Parts of the energy system are devolved to different extents in Wales, Scotland and Northern Ireland, hence policy measures within this report apply differently in each territory. All of the Devolved Administrations have been engaged in developing this report, but retain the right to develop policies for devolved areas, including good practice guidance to reflect those policy priorities. Further detail on how shared ownership is being progressed by the Scottish, Welsh and Northern Irish Governments is summarised below.

Scotland

2.11 The Scottish Government has supported community energy development for over a decade, and has recently set out its ambitions for shared ownership of renewables in its new Programme for Government which includes new capital funding building on current support schemes, and a forthcoming annex to its current "Good Practice Principles for Community Benefits from Onshore Renewable Energy Developments[10]".

2.12 More information is at **Annex A**, including links to support available to shared ownership projects through the Scottish Government's Community and Renewable Energy Scheme (CARES)[11].

Wales

2.13 The Welsh Government supports the generation of energy from Wales' considerable renewable resources in a way that is sustainable and integrated within local development plans. This approach enables the necessary elements of both public support and planning consent to be achieved. The Welsh Government welcomes the development of an agreement to support shared ownership of renewable energy installations as an early step in this process.

[10] http://www.gov.scot/Publications/2013/11/8279/1

[11] http://www.gov.scot/Topics/Business-Industry/Energy/Energy-sources/19185/Communities/CRES

2.14 Over the last five years, the Welsh Government has supported communities to develop renewable energy projects through the Ynni'r Fro programme[12], and some of these developments have been taken forward in partnership with commercial developers. The Ynni'r Fro scheme has provided advice and support to community groups through a network of Technical Development Officers (TDOs) allied with access to development grants and capital finance. The TDO network has successfully advised communities on ownership models and approaches to raising finance.

2.15 The Ynni'r Fro programme has been instrumental in the establishment of new social enterprises to deliver the benefits from renewable energy schemes to communities. As at January 2015, 48 projects are currently in construction or development across Wales as a result of support from the Ynni'r Fro scheme.

2.16 The Welsh Government is currently developing a successor programme to support the continuing development of small and medium scale renewable energy projects. As part of this programme, it intends to provide support to communities to work with developers and increase their participation in renewable energy developments.

Northern Ireland

2.17 The Department of Enterprise, Trade and Investment (DETI) is leading on the preparation of the first Northern Ireland cross-Departmental Community Energy Action Plan for consultation by mid-2015. DETI notes the Shared Ownership Taskforce's report and this Government response and will continue to engage with DECC and the other Devolved Administrations through the Working Group and take this into account as work on the draft Plan progresses.

Community Shared Ownership schemes

2.18 Many of the Taskforce members have practical experience of developing shared ownership schemes and this informed the development of their Framework. To date, Government is aware of at least seven shared ownership schemes in England (five operational and two in the planning process[13]). The five operational schemes have a total installed capacity of 21.9MW.

2.19 In Scotland there are currently 12 operational commercial renewable energy projects with some form of community or individual investment. Seven of these involve local development organisations, and the remaining five involve co-operatives. Taken together, these projects account for just over 21 MW of current operational Scottish community renewables capacity[14].

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[12] http://wales.gov.uk/topics/environmentcountryside/energy/renewable/communitygeneration/?lang=en

[13] Operational (all onshore wind): Harlock Hill; Haverigg II; Fens Coop; High Down; Great Dunkilns
Planned: Berwick Solar Farm and Braydon Manor Farm solar array

[14] http://www.scotland.gov.uk/Publications/2014/08/1223/5

3. The Shared Ownership Framework

3.1 The Shared Ownership Taskforce[15] was convened in February 2014 and includes representation from project developers, trade bodies, community energy groups and Government. Maria McCaffrey at RenewableUK is the Chair of the Taskforce and Becky Willis, representing the community energy sector, was appointed the Vice-Chair[16]. The full list of Taskforce members is included in **Annex B**.

3.2 The Taskforce met five times during 2014 to consider how to facilitate industry-community models of shared ownership for new, commercial onshore renewable developments and to develop a robust Framework to identify measures to increase the offer of shared ownership.

3.3 The Taskforce published a draft report for consultation in June and their final report in November 2014[17]. This forms the basis of the voluntary industry-led approach to substantially increase the shared ownership of renewables from 2015, an objective that was first set out in the Government's Community Energy Strategy[18]. The report includes principles to guide the way that the shared ownership process is developed, the Taskforce's Framework for the offer of shared ownership, the implementation and monitoring process, and recommendations for Government to support the successful implementation of the Framework.

3.4 The Government response to the main elements of the Framework is set out below. In summary, the Government supports the work of the Taskforce and their Framework for increasing the offer of shared ownership to communities. We have provided a number of recommendations for the Shared Ownership Taskforce highlighted in **bold**, which aim to ensure that the parameters of the Framework are validated in their twelve month review when further evidence of shared ownership offers is available. The Government response to other aspects of the Framework is set out in Section 4 (Implementation and Monitoring) and Section 5 (The Policy Environment).

A voluntary Framework

3.5 The Government recognises that shared ownership is a developing area and, in line with the Taskforce's recommendation, we agree that the emphasis should be on renewable energy developers engaging with an interested community to explore what might be possible in terms of a shared ownership offer.

3.6 The Framework is not intended to be prescriptive; developers and communities should be engaging with the spirit of the Framework and are expected to implement it in good faith. We encourage developers to enter into early dialogue with a community as part of their existing community consultation process and consider a genuine proposal for shared ownership made by an interested community, where it meets the guiding principles referred to in the Taskforce's report. We would therefore expect a shared ownership offer to be tailored to the needs of both developers and communities.

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[15] https://www.gov.uk/government/groups/shared-ownership-taskforce

[16] Following the launch of the Shared Ownership Framework the Vice-Chair of the Taskforce is now Philip Wolfe, Chairman, Community Energy England

[17] http://www.renewableuk.com/en/utilities/document-summary.cfm?docid=CB5A9C2C-FA70-46CE-83757D293D992E3E

[18] https://www.gov.uk/government/publications/community-energy-strategy

3.7 Furthermore, we would not encourage or expect a developer to make a shared ownership offer to a local community that they cannot deliver.

The level of ambition

3.8 The Framework applies to all relevant renewables projects submitted into planning after the publication of the Framework (November 2014). We therefore expect all developers that are covered by the scope of this Framework to be engaging with it and exploring shared ownership opportunities with local communities.

3.9 We do not wish to exclude developers who are at a more advanced development stage in the project process and encourage them to consider an offer of shared ownership to the local community where possible. However, we do understand that they will face greater barriers, and are therefore not expected to do so.

The offer of shared ownership

3.10 The Government agrees with the Taskforce that the focus at this early stage should be on increasing the offer of shared ownership to local communities rather than the level of take-up of these offers and the deployment of shared ownership schemes on the ground. We want to see the offer of shared ownership becoming the norm for all renewable projects covered by the scope of this Framework (as set out below).

3.11 Once offers are being made we can then look more closely at whether these are being taken up by the community, and how we may be able to play a role in encouraging community uptake. We would take on board recommendations from the Shared Ownership Taskforce when considering this.

3.12 In line with the Taskforce, we recognise that the uptake of a shared ownership offer by all communities will not be possible or preferable in all circumstances, and that this should not reflect negatively on either the developer or the community in question.

3.13 It is worth noting that the Scottish Government has put financial and technical support in place specifically to encourage the take-up of shared ownership offers through the Renewable Energy Investment Fund (REIF)[19] and the Community and Renewable Energy Scheme (CARES)[20]. Furthermore, forthcoming good practice guidance to be produced by the Scottish Government will aim to maximise the take-up of shared ownership offers where possible (see **Annex A** for further details).

The scope of the Framework

3.14 The renewable energy projects falling within the scope of the Taskforce's Framework and which should therefore offer interested communities shared ownership opportunities are those that are i) taken forward by a commercial project developer, ii) exceed £2.5 million in project costs, and iii) are for the primary purpose of exporting energy into a public network. Each of these elements is considered further below.

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19 http://news.scotland.gov.uk/News/Millions-for-renewable-energy-projects-cb4.aspx

20 http://www.gov.scot/Topics/Business-Industry/Energy/Energy-sources/19185/Communities/CRES

i) Commercial project developer

3.15 The Government supports the Taskforce's focus on commercial project developers. We would, however, encourage all developers to consider opportunities for shared ownership with a local community. This includes for example Local Authorities who have the potential to play an important role in this process.

ii) £2.5 million threshold

3.16 Government recognises that some of the costs of making shared ownership offers are likely to be fixed and could fall disproportionately on smaller developers. In order to avoid this, we agree with the Taskforce that there should be a minimum project size threshold, below which a developer would not be expected to make a shared ownership offer. At this early stage there is limited evidence of the costs associated with a shared ownership offer and taking this forward with a community. Based on this, we view a £2.5 million project size threshold, as proposed by the Taskforce, as a sensible starting point. We would, however, encourage all renewable developers to consider shared ownership opportunities for new projects, but those below a project size of £2.5 million are not expected to do so.

3.17 **Since there is limited evidence to support this threshold we recommend that it is validated by the Taskforce as part of their twelve month review when further evidence is available.**

3.18 In practice, the £2.5 million threshold will mean the Framework applies to different project sizes (in MW) depending on the technology and the installation type. For example, for one scheme on a single site it is likely that the £2.5 million project development cost threshold will apply to solar projects at approximately 3MW and onshore wind projects at approximately 1-2MW[21] . It is important to recognise, however, that actual project development costs will be determined by site specific factors and these project sizes should be used as a guide only.

3.19 As set out in **Annex A**, the Scottish Government has a range of support measures in place to encourage the consideration of shared ownership at all scales above micro-generation, including on farms and estates. As best practice, the Scottish Government would therefore encourage shared ownership offers in Scotland to extend to projects smaller than the £2.5 million threshold.

iii) Energy exporter

3.20 The scope of the Framework applies to projects for which 75% or more of the energy production is destined for supply via an electricity or gas public distribution network. This is in order to exclude on-site renewable energy schemes that are primarily being developed to meet their own energy demands. In these circumstances the Taskforce did not view it to be

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[21] For solar, this is based on DECC (2013): Electricity Generation Costs (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269888/131217_Electricity_Generation_costs_report_December_2013_Final.pdf) and the Solar PV Update (2012): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43083/5381-solar-pv-cost-update.pdf, and for onshore it is based on Electricity Generation Costs (2013) and the Update of Non-PV Data for Feed in Tariff (2012): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/42912/5900-update-of-nonpv-data-for-feed-in-tariff-.pdf.

appropriate for developers to offer a share to the local community. The Government understands this rationale but would not wish to preclude those developing self-supply projects from offering a stake where they wish to do so.

3.21 By defining the scope of the Framework by the amount of energy production that is exported, the Taskforce has effectively excluded many renewable heat projects. This is because renewable heat projects are typically developed and sized to deliver heat to a single building (or group of buildings via a privately run heat network) and do not tend to export to a publicly accessible network, except in the case of a heat network project.

3.22 The Government asked the Taskforce to consider opportunities for community shared ownership of both renewable heat and electricity projects. We do, however, recognise that many larger Local Authority-led heat networks are currently struggling to attract private investment due to low rates of return, which it could be argued may be compounded by third party community ownership issues. Deployment rates for smaller heat networks projects are also relatively low at present, meaning there is little opportunity for community involvement, but they are rising as private developers start to use heat networks as a way to meet more stringent energy performance building regulations and a small proportion of these may have project development costs that exceed £2.5m.

3.23 **We therefore recommend that during the 12 month review the Taskforce considers whether renewable heat projects should be included within the scope of the Framework.**

The timing of the offer

3.24 The Government fully supports the Taskforce's view that initial discussions between developers and the local community should take place at the earliest practical point in project development but that the actual offer of shared ownership may not be made until the project is under construction or is operational, when the scheme typically becomes less risky.

The size of stake

3.25 Government recognises that, at present, there is limited evidence for the typical size of stake offered to the local community and a range of between 5-25%, as proposed by the Taskforce, would cover the majority of offers that have been made to date. As such, we agree that this level of investment is a sensible starting point.

3.26 **We do, however, recommend that the Taskforce validates this aspect of the Framework within their twelve month review, taking into account emerging shared ownership models and practices.**

Shared ownership models

3.27 The Framework explains that there can be a variety of ways in which communities can share the ownership of projects and these are covered by the Framework. It lists the three currently most common types of community shared ownership models. These are **split ownership**, **shared revenue** and **joint venture** (JV). A more detailed description of these models is included within **Annex C**. Furthermore, the Taskforce clarifies that in some cases, a debt-based funding option to individuals may be the most suited to a community's needs. The

Taskforce are clear that developers should not solely offer bonds or debentures to individuals where a community group or community enterprise is keen to engage in any of the three community shared ownership models listed above.

3.28 We support the flexibility of the Framework and the position that the Taskforce has taken in relation to the types of offer that can be made and to whom. The benefit of a voluntary approach to shared ownership is the ability to encourage new and innovative models to come forward. While we would not want offers from developers to coalesce around debt-based instruments to individuals, as we recognise that these types of investment typically offer less ownership and control to communities than the three models listed above, we do recognise that in some circumstances this may be the most preferable option for both the community and the developer.

The minimum level of investment

3.29 Government is mindful that enabling the local community to buy a stake in a renewable energy project may have some upfront costs and, as proposed by the Taskforce, it may therefore be sensible to set a minimum threshold for investment, below which the shared ownership offer does not go ahead. We would, however, encourage developers to consider other ways in which to meet the minimum level of investment if there is insufficient interest in the local area, for example by expanding the offer to a larger geographical area.

3.30 **We recommend that the Taskforce considers whether any further guidance could be established on the minimum level of investment within their twelve month review, based on successful shared ownership offers coming forward.**

The pricing of a stake

3.31 We agree with the Taskforce that the offer of shared ownership should be made at fair market value. The Government is clear that an offer of shared ownership should represent an investment opportunity with financial returns reflecting the stage at which the investment is made, including the level of risk taken by both parties. It is not the intention that communities have to be 'gifted' a stake or must be able to buy a stake at a discounted rate, though developers may of course choose to do so.

3.32 In some cases we are aware that developers have chosen to absorb the administration costs associated with a shared ownership offer. This is a decision for each individual developer to make.

3.33 The offer of shared ownership is separate from the community benefits package that is gifted by the developer to the community. We would expect the offer of shared ownership to be over and above any community benefits package, which is consistent with the guiding principles set out in Section 3 of the Taskforce's report.

3.34 That is not to say that we wouldn't encourage communities to choose to use their community benefits fund to buy a stake in a project where they wish to do so.

4. Implementation and monitoring of the Shared Ownership Framework

4.1 The launch of the Shared Ownership Framework represents a strong starting point from which to achieve a substantial increase in the offer of shared ownership from 2015. Government recognises that the successful implementation of the Framework will be dependent on it being widely promoted across the renewables industry. The Taskforce has set out an approach for implementing and monitoring the Shared Ownership Framework and some comments on this part of the Framework are set out below.

The monitoring and review process

4.2 The Taskforce has set up a monitoring group to ensure that progress associated with implementing the Framework is monitored and reported. Government will provide support to this monitoring group.

4.3 The Taskforce will undertake a light-touch six month review in April 2015 which will determine the parameters for a more comprehensive twelve month review in November 2015. The six month review is likely to focus on i) the extent to which developers and communities are exploring shared ownership offers, ii) how many shared ownership offers have been made, iii) whether or not these have been taken up by the community, and iv) if not, why not. The Taskforce will report the findings of these progress reviews to DECC. Following this, Government has agreed with the Taskforce that they will then provide annual reviews and report to DECC at the end of each year.

4.4 We recognise that the scope of each review will be determined by the Taskforce. This may change over time as shared ownership offers become commonplace and the focus moves from encouraging the offer of shared ownership by developers to encouraging the uptake of shared ownership by communities.

Establishing a shared ownership database

4.5 The developer should record information on shared ownership discussions and offers in order to ensure this information is taken into account by the Taskforce as part of their review process. A number of options are set out below:

i. Developers can complete an online form[22] on the 'shared community ownership of renewable energy systems' (SCO-RES) website developed jointly by Community Energy England and Local Energy Scotland.

ii. In England there is also the online Register of Community Benefits and Engagement for onshore wind that was launched in November 2014[23], where there is now a dedicated Section on shared ownership for all technologies;

iii. In Scotland, completed shared ownership schemes will be recorded on the Scottish Community Benefits Register[24] . In addition offers and discussions with the community on shared ownership can be logged in the Scottish Partnership Portal[25].

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[22] http://sco-res.uk/Protocol/Register/index.html
[23] www.Communitybenefitsregister.org
[24] www.localenergyscotland.org/register
[25] http://www.localenergyscotland.org/partnershipportal

4.6 We expect developers to enter information about how shared ownership opportunities were approached with the community, provide confirmation of whether any shared ownership offers were made, and if so, whether these were taken up by the community. The Taskforce monitoring group will then verify this information during their review process.

The Government's review of the voluntary approach

4.7 As set out in the Community Energy Strategy[26], the Government will conduct a review at the end of 2015 to evaluate the initial success of the voluntary approach to increasing shared ownership. The findings from the Taskforce's progress reviews will feed into this and will be an important consideration in determining whether the voluntary approach has been successful. The conclusions of the Government review will then inform whether there is a need to consult on exercising the Community Electricity Right backstop powers, which would require developers to offer local communities the opportunity to invest in new commercial renewable electricity developments. Further information on the Community Electricity Right is set out in Section 6.

Guidance on shared ownership

4.8 Since the launch of the Taskforce report, a number of organisations have produced guidance for both communities and developers on the offer of shared ownership. For example, there is guidance on the SCO-RES website[27], the RenewableUK website[28] and the Local Energy Scotland website[29].

4.9 In addition, Government is producing guidance clarifying how different ownership models are accommodated within the Feed in Tariff (FIT) scheme. We are also in the process of developing the Community Energy Support and Advice Resource (CESAR)[30] in England, which will signpost existing guidance and case studies highlighting good practice on community energy and shared ownership.

4.10 The Scottish Government is currently developing a Shared Ownership annex to the "Good Practice Principles for Community Benefits from Onshore Renewable Energy Developments[31]". This annex will detail good practice for developers delivering shared ownership projects, as well as outlining expectations and guidance for communities and Local Authorities. This document has been developed to date through input from a Scottish industry working group, and by building on the experience gathered through the CARES[32] programme, and will be published for public consultation in spring 2015.

Membership of the Taskforce

4.11 Government has received feedback from the Shared Ownership Taskforce that there may be some benefit in expanding the areas that are represented by their members. Government

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[26] https://www.gov.uk/government/publications/community-energy-strategy

[27] http://sco-res.uk/index.html

[28] http://www.renewableuk.com/en/renewable-energy/communities-and-energy/shared-ownership/

[29] http://www.localenergyscotland.org/shared-ownership/

[30] https://www.gov.uk/government/publications/community-energy-support-and-advice-resource-call-for-proposals

[31] http://www.gov.scot/Publications/2013/11/8279/1

[32] http://www.gov.scot/Topics/Business-Industry/Energy/Energy-sources/19185/Communities/CRES

would like to encourage the contribution of a wide range of views to this developing area. As such, we propose that the Chair and the Vice-Chair of the Taskforce review membership and agree any new members with DECC, recognising that there needs to be a balance between the number of Taskforce members and the effective functioning of the group.

5. The Policy Environment

5.1 The Shared Ownership Taskforce's report proposes a number of policy recommendations to ensure successful implementation of the Framework. The full list of recommendations is included in **Annex D** for information. The Government response to these recommendations is set out below and grouped into the following topics:

Planning
Local Authorities
Finance
Financial support mechanisms and further guidance for communities
Support for community energy groups

5.2 It should also be noted that Government will be publishing a sector-wide community energy update in March. This will include a response to the Community Energy Working Group reports on grid connection, hydro, planning and finance. These Working Groups were set up following the launch of the Community Energy Strategy to consider how best to tackle key issues facing community energy groups. Some of the recommendations included within the Working Group reports cover aspects relating to shared ownership.

Planning

5.3 The National Planning Policy Framework for England[33] sets out a clear expectation that local councils should support community-led initiatives for renewable and low carbon energy. This recognises the particular challenges that community proposals can face. The planning practice guidance accompanying the Framework provides further advice on how local councils can support such initiatives. The advice is not exhaustive and there will be other ways that local councils working with local communities can help secure the success of community energy projects.

5.4 We recognise that there are a variety of possible shared ownership models and agree that shared ownership projects can generate positive social and economic impacts in an area. Some of these projects may represent community-led initiatives (for example, a community element of a split ownership scheme where communities typically have high levels of control and ownership) and, where this is the case, these schemes will be treated as such within the planning system. Where a community is involved in the project from an early stage, and helped shape it, this is something that a developer may wish to make clear in their proposal.

5.5 Following on from publication of the Scottish Planning Policy in June 2014[34], the Scottish Government is in the process of developing further guidance for planning authorities on achieving net economic benefit from the planning system, and is exploring how shared ownership can be considered as part of this.

5.6 The Welsh Government is seeking to ensure that communities are further actively engaged in projects which might affect them and will be bringing forward legislation to ensure that pre-

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[33] https://www.gov.uk/government/publications/national-planning-policy-framework--2

[34] http://www.gov.scot/Resource/0045/00453827.pdf

application consultation is mandatory. Planning policy Wales (PPW)[35] recognises that community scale development might need special attention and this is specifically referenced in PPW. The social and economic issues associated with development should be factored into the decision making process. However, the Welsh Government is clear that planning decisions need to be made on planning grounds irrespective of who the applicant is.

5.7 Reflecting the Taskforce's recommendation, we agree that there are advantages in developers exploring shared ownership opportunities as part of this early engagement and shaping of proposals. For instance, DECC published best practice on community engagement for onshore wind in England in October 2014 which includes the consideration of shared ownership[36].

Local Authorities

5.8 The Taskforce report recognises the important role for Local Authorities in scaling up community and shared ownership of energy.

5.9 Government encourages Local Authorities to work with their communities to lead the transition towards a more distributed and diverse energy system. This includes getting actively involved with shared ownership schemes in a variety of ways. For example, as a direct partner working with a local community to develop a shared ownership scheme, supporting community groups, and providing loans to community groups to help raise finance for these schemes. There is huge untapped potential for Local Authorities to create value from distributed energy systems in their locality. Further information on the Government's progress and actions to increase Local Authority participation in the community energy sector will be set out in our sector-wide update.

5.10 In relation to shared ownership specifically, we are aware of some innovative models coming forward that involve Local Authorities. For example:

i. Oxford City Council has provided a £2.3 million loan[37] to local social enterprise the Low Carbon Hub[38]. This funding has enabled the Low Carbon Hub to develop a pipeline of rooftop solar projects for schools and businesses. A recent community share offer raised over £1.7 million to pay back part of this loan and fund a future pipeline of projects[39]. The Low Carbon Hub is actively looking to partner with developers to explore community shared ownership opportunities.

ii. Plymouth City Council has provided a loan of £500,000 to Plymouth Energy Community (PEC) Renewables Ltd, which is a registered Community Benefit Society set up by the Plymouth Energy Community. Its aim is to deliver a range of renewable energy projects on local schools and commercial and community buildings in Plymouth. PEC Renewables Ltd raised a further £600,000 of funds in its first share offer, with over 50% of this investment coming from local Plymouth residents[40]. In total, 21 schools and community buildings have now received solar panels for free and receive discounted electricity. PEC Renewables benefit from

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[35] http://wales.gov.uk/topics/planning/policy/ppw/?lang=en

[37] http://www.oxford.gov.uk/PageRender/decN/newsarticle.htm?newsarticle_itemid=54785
[38] http://www.lowcarbonhub.org/
[39] http://www.lowcarbonhub.org/invest/
[40] http://www.plymouthenergycommunity.com/invest/solar-share-scheme

the Feed-in Tariff income, which will be re-invested in climate change reduction, fuel poverty and energy efficiency programmes in Plymouth.

Finance

5.11 Following the launch of the Community Energy Strategy, the Community Energy Finance Roundtable (CEFR) was asked to develop recommendations and potential solutions to the issues which limit access to, and/or availability of, finance for community energy projects. The CEFR reported to Government in July[41] and some of their recommendations were applicable to both wholly-owned community energy schemes and community shared ownership schemes. Government will be responding to the CEFR recommendations within the sector-wide community energy update.

5.12 The Taskforce raised a number of points in relation to finance including: i) raising external finance for shared ownership schemes; ii) the tax incentives available for investment in shared ownership schemes; and, iii) FCA authorisation and the financial promotion rules. These are discussed in further detail below.

i) Raising finance for shared ownership schemes

5.13 There are a number of options for raising finance for the community element of a shared ownership scheme and some examples are set out below.

Community share offers

5.14 Community share offers issued by co-operatives or community benefit societies are not only a popular form of community ownership model (for renewable energy schemes that are wholly-owned or part-owned by the community) they can also be used to raise finance.

5.15 The offer of community shares, specifically in the form of withdrawable, non-transferable shares issued by societies registered under the Co-operative Societies and Community Benefit Societies Act[42], is not a regulated activity and so falls outside the scope of the Financial Services and Markets Act 2000[43].The Community Shares Unit (a Government supported organisation) develops and promotes standards of good practice for community share offers as part of its commitment to encourage voluntary self-regulation[44].

5.16 Voluntary regulation places a responsibility on societies to be open and transparent about their activities. The Community Shares Unit sets out the legal duties to disclose information about the membership and financial performance of a society, and provides guidance on how the principles of openness and transparency can be extended to the fundraising activities of a society. As part of this work, the Community Shares Unit is introducing a Compliance Mark[45] in spring 2015 for share offer documents that comply with the guidance contained in the Community Shares Handbook[46].

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[41] http://www.cse.org.uk/downloads/file/CEFRoundtable_report_to_DECC-CO_140729.pdf

[42] http://www.legislation.gov.uk/ukpga/2014/14/contents

[43] http://www.legislation.gov.uk/ukpga/2000/8/contents

[44] http://communityshares.org.uk/

[45] http://communityshares.org.uk/further-support/community-shares-mark

[46] http://communityshares.org.uk/resources/handbook

5.17 Shared ownership schemes that have raised finance in this way include many of the examples provided in the Shared Ownership Taskforce report, such as the Falck / Energy4All projects that have involved the formation of a community enterprise in the form of a co-operative.

5.18 The Financial Conduct Authority[47] (FCA) is the registering authority for mutual societies, including co-operative and community benefit societies and has the power to investigate mutual societies registered by it where it believes that the business of the society has been conducted with an intention to defraud creditors or for unlawful purposes.

5.19 The FCA recently consulted[48] on guidance in relation to the exercise of its functions as the registering authority. As a result there are now more stringent criteria in place associated with the registration of these societies. For example, for the registration of new co-operatives, the FCA requires the society to demonstrate unique member benefits, a transactional form of participation in the business at the time of registration and that it has not been set up purely as an investment vehicle. This emphasis on a transactional form of member participation can be challenging for registering renewable energy co-operatives to demonstrate. Those who are motivated by community benefit but whose business models might not be appropriate for a co-operative could consider registering as a community benefit society or a community interest company (CIC) where there is no requirement that members must participate in the society's or CIC's business. It is worth noting that CICs[49] are not registered by the FCA and cannot issue withdrawable shares. The shares they issue are controlled investments, so are subject to the Financial Promotions Order. DECC hope to produce further guidance on this shortly.

Loans

5.20 Communities can apply for a loan to help them raise the finance for a shared ownership scheme. Examples include Resonance[50], the FSE Group[51] and the REIF[52] fund in Scotland and further details are provided below.

5.21 Resonance, through its community lending arm, Community Land & Finance (CLF) manages the Community Share Underwriting Fund (CSU). This Fund can intervene to help local communities raising community investment in three different ways. Depending on the stage at which it is used, it can help to build confidence in a share offer before it launches, add momentum to an offer which is already underway, or bridge the gap that might emerge at the end of an offer, which has not quite reached its target. In all cases the impact is to make it easier for local people to make local projects happen, and to keep more of the ownership within the community.

5.22 Resonance, through its Ventures division, is currently working with the Low Carbon Hub, Oxford City Council and Oxfordshire County Council to establish a revolving fund to develop major renewable energy projects in the local area. This is an example of corporate partners, the public sector and communities coming together to support the deployment of renewable energy.

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[47] http://www.fca.org.uk/

[48] http://www.fca.org.uk/static/documents/consultation-papers/cp1422.pdf

[49] https://www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies

[50] http://www.resonance.ltd.uk/about-us/

[51] http://www.thefsegroup.com/social-impact-funding/community-generation-fund

[52] http://news.scotland.gov.uk/News/Millions-for-renewable-energy-projects-cb4.aspx

The first phase of the Fund will leverage investment for renewable installations on the public estate and underwrite start-up funding for shared ownership and community energy schemes[53].

5.23 The FSE Group run the Community Generation Fund, which is a UK-wide fund designed to assist communities seeking to develop renewable energy generation infrastructure that will create renewable energy, social engagement and a long term income source to be recycled by the community into relevant social impact initiatives. It provides commercial but creative loan funding for communities at the pre-planning (development) stage of their projects, as well as the construction (post-planning) stage. This Fund is open to supporting communities to enable them to purchase a stake in a project offered by a developer. Other criteria such as the type of entity and the need to see commitments to delivering social impact with project profits would still apply.

5.24 In Scotland, REIF, a £103 million fund operated on behalf of the Scottish Government by Scottish Enterprise, provides a capital support mechanism offering loans and equity to renewables developers at market rates. Supporting community energy, including community investment in commercial schemes, is one of REIF's priorities. In 2015/16, REIF will be piloting a new strategic approach whereby it will invest in commercial wind and hydro schemes on behalf of local communities who will then have more time and support to consider buying back equity. Any residual funds not taken up by the community will be held in a new Local Energy Investment Fund to be deployed on community energy and on the mitigation of fuel poverty.

Debentures or bonds

5.25 Another way in which finance can be raised is by individuals buying debentures in a project through, for example, a regulated investment platform. This type of investment is regulated by the FCA and provides an investment vehicle that is designed to keep the market accessible to ordinary people while limiting their exposure to risk. This type of investment vehicle can enable very low levels of investment (e.g. as low as £5) making it very accessible to the broader community, offers fixed or variable returns on investment, and is transferable to another party.

5.26 The Government will also consult in the future on whether to extend ISA eligibility to debentures listed on regulated crowd funding investment platforms, which should increase the accessibility of shared ownership schemes.

5.27 This type of investment was used by Resilience Centre working with Abundance[54] to finance the Great Dunkilns project. This involved a 20 year Debenture with a minimum investment of £5. In total, 412 members of the public invested in this scheme which offered a variable return that paid capital back in equal instalments over the investment term.

ii) Tax incentives for shared ownership

5.28 There have been some recent changes to tax relief for investment in community energy schemes. These are set out below, along with how the different shared ownership models may be affected.

5.29 The tax-advantaged Venture Capital Trusts (VCTs) and Social Investment Tax Relief (SITR) encourage investment into higher risk small and growing businesses/organisations with a social purpose which would otherwise struggle to access finance. These are used by a wide

[53] http://oxfutures.org/projects/

[54] https://www.abundancegeneration.com/about/developers/shared-ownership

range of sectors, including some community energy organisations. Following a Government consultation[55], the Autumn Statement[56] confirmed that all community energy generation undertaken by qualifying organisations[57] will be eligible for SITR with effect from the date of the expansion of SITR, at which point it will cease to be eligible for the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and VCTs.

5.30 Investment in community energy will remain eligible for tax reliefs provided that the organisation qualifies under SITR. This is in recognition that community energy projects currently face particular challenges, including the smaller-scale nature of the projects and the higher operational costs, and so will ensure that community energy organisations eligible for SITR will continue to benefit from tax-relieved investment. The date of expansion of SITR will depend on EU State aid clearance. This timing will ensure that there is no transition until SITR has a very much higher investment limit. Draft legislation reflecting these changes have been set out in the Finance Bill 2015[58].

5.31 Although co-operatives do not qualify for SITR, co-operatives which have a social purpose and fulfil the other conditions can convert to a community benefit society by free application to the Financial Conduct Authority (FCA). We are seeking further clarity from the FCA on the transition between existing cooperatives and community benefit societies and will be providing an update on this within the sector-wide community energy update.

5.32 In relation to shared ownership schemes specifically, depending on the arrangements in place, a split ownership model may qualify for the tax-advantaged VCTs and SITR. Where the trade is carried on by the community energy organisation, it will continue to qualify for the tax-advantaged VCTs until SITR is enlarged, at which point qualifying organisations will be eligible for SITR. However, where the shared ownership model is one where the commercial partner carries on the trade and takes on the risk, investment will not generally qualify for the tax-advantaged VCT reliefs. As such, a shared revenue or joint venture model is unlikely to qualify.

5.33 Whilst the tax-advantaged venture capital schemes incentivise equity investment, SITR also includes tax reliefs for the lowest ranking debt investment. Depending on the appropriate funding arrangement for each organisation, community energy organisations may be able to use a shared ownership model which subsequently qualifies for one of the tax-advantaged schemes. However, this decision should be made according to the needs of the organisation rather than the availability of the tax relief.

iii) FCA Authorisation and the financial promotion rules

5.34 The Taskforce recommended that the FCA should make it easier for commercial developers to secure FCA authorisation for the purposes of engaging in shared ownership arrangements with community groups, specifically where this may involve some form of financial promotion. In response to this, it is worth noting that the FCA regulates approximately 22,000 firms of different complexities – from consumer credit firms to wholesale investment firms. All of these firms have gone through the same principles-based authorisation process and

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[55] https://www.gov.uk/government/consultations/social-investment-tax-relief-enlarging-the-scheme

[56] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44j95_Accessible.pdf

[57] A guide to the criteria can be found here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378085/se-guide.pdf. The criteria include restrictions on the size of an organisation, the number of employees and a requirement to have a permanent establishment in the UK.

[58] https://www.gov.uk/government/publications/finance-bill-2015-income-tax

have demonstrated and continue to demonstrate that they meet a set of minimum standards (referred to as the "threshold conditions") that are set out in the Financial Services and Markets Act 2000[59] (FSMA). When assessing an application for authorisation, the FCA considers how the threshold conditions apply to each firm's particular business and are required by legislation to only grant an authorisation if these conditions are met. Hence, it is not within the FCA's powers to set easier conditions for authorisation.

5.35 We understand that there is a lack of clarity amongst some developers in relation to FCA authorisation and financial promotions. Developers should be aware that there are two restrictions set in the FSMA that are self-standing and which developers engaging with communities on shared ownership opportunities need to consider. These are:

a) the financial promotions restriction, which prevents the communication of advertisements in certain investments; and

b) the so called "general prohibition", which is the restriction on carrying on regulated activities (e.g. buying and selling shares, making arrangements to buy and sell shares and advising on whether it is a good or bad idea to invest in a particular share) without either being authorised by the FCA or Prudential Regulation Authority[60] (PRA) or being exempt.

5.36 Infringing any of these restrictions is a criminal offence. These are explained in further detail below.

a) Financial Promotion restrictions

5.37 In summary, a person may not communicate an invitation or inducement (advertisements) to buy or sell (or engage in other investment activity) in respect of certain types of investments unless:

1. the person is FCA/PRA authorised; or
2. the communication is approved by someone that is FCA/PRA authorised; or
3. the communication is not regarded as a financial promotion under the "Financial Promotions Order" – (exempt).

5.38 Withdrawable share or debt offers made by societies registered under the Co-operative and Community Benefit Societies Act 2014[61] fall under category 3 above (they are exempt financial promotions) and can therefore be made by any person without having to go through someone who is authorised to approve it.

5.39 Offers in shares or debt in other bodies, which includes CICs, companies and other corporate forms that issue controlled investments or offers in transferable shares in societies registered under the Co-operative and Community Benefit Societies Act 2014, are subject to the financial promotion restriction. Where an offer is subject to the financial promotion restriction, developers can approach any authorised person to have the communication approved and do not necessarily need to secure FCA authorisation themselves.

5.40 The financial promotion rules are in place to ensure that any invitation or inducement (advertisement) to invest in certain financial products that is provided to a community is

[59] http://www.legislation.gov.uk/ukpga/2000/8/contents

[60] http://www.bankofengland.co.uk/pra/Pages/default.aspx

[61] http://www.legislation.gov.uk/ukpga/2014/14/contents

transparent, accurate, fair, clear and not misleading and meets certain minimum standards. The FCA has issued extensive guidance on when the financial promotions regime applies, in Chapter 8 of the Perimeter Guidance Manual (PERG)[62].

b) General Prohibition

5.41 In order to carry on certain financial services (regulated activities) in the UK by way of business, a person (or body corporate) must be FCA/PRA authorised or exempt.
The list of activities that are regulated is very long and is summarised in Chapter 2.7 of the FCA's Perimeter Guidance Manual (PERG)[63].

5.42 In respect of societies registered under the Co-operative and Community Benefit Societies Act 2014, it is worth noting that non-transferable shares in these societies are not "specified investments" so no regulated activity will apply in respect of these types of shares.

5.43 For any other type of investment (including shares in CICs and other corporate forms that issue specified investments) whether authorisation is necessary depends specifically on the activity carried out.

5.44 Whilst there are others that may apply, the most relevant activities for persons engaging in shared ownership arrangements with community groups would be, "making arrangements with a view to transactions in investments" and/ or "dealing in investments (as principal or as agent)" (see the relevant entries in chapter 2.7 of PERG). In this context, a body corporate can sell / issue its own shares and debt without being regarded as carrying out these activities but would need to be authorised if it is dealing or arranging the sale of shares / debt of any third party (including subsidiaries).

5.45 If, after having sought appropriate legal advice, firms are not clear on their position in respect of the regulatory perimeter, it would be open to them to approach the FCA for individual guidance. Whilst such guidance would not bind the Courts, it would express the FCA's views in respect of a particular matter.

Financial support mechanisms

5.46 The recommendations from the Taskforce on financial support mechanisms are addressed in the following four categories: i) the uncertainty in relation to the Feed-in Tariffs (FITs) for community groups; ii) whether communities will be able to receive support under a different mechanism to the commercially owned component on the same site; iii) the treatment of the split ownership model under the three different support mechanisms, and iv) further guidance for communities on the FITs and Contracts for Difference (CfDs).

i) More certainty on FITs

5.47 The Government Response to the consultation on support for community energy projects under FITs published in November 2014[64] provides certainty to community groups on the FITs regime. The Government Response announced that after careful consideration, Government

[62] http://media.fshandbook.info/content/full/PERG/8/36.pdf

[63] http://fshandbook.info/FS/html/handbook/PERG/2/7

[64] Government Response to consultation on support for community energy projects under FITS (November 2014) See: https://www.gov.uk/government/consultations/support-for-community-energy-projects-under-the-feed-in-tariffs-scheme

had decided not to implement the proposal to increase the maximum capacity ceiling for community projects under FITs from 5MW to 10MW.

5.48 Instead we will introduce from 1 April 2015 (subject to Parliament[65]) a package of new measures under the existing FITs scheme which will have a positive effect on the community sector, help tackle some of the key barriers that communities have told us they face in getting projects off the ground and complement our wider policies on encouraging shared ownership. These include:

a) Split sites: Introducing a further exemption to the so called ‘site rule’ to allow two projects to share one grid connection and receive separate tariffs. This will help reduce up-front costs and complexity and make it easier for community groups to own individual assets and receive support under the FITs scheme. This change will help to facilitate the split ownership model under the Shared Ownership Framework, where a scheme is divided into two generating systems, one owned by a community enterprise and another by a commercial developer;

b) Preliminary accreditation: Increasing the length of the current preliminary accreditation validity periods for community projects by six months across all technologies. This will increase the certainty on offer to community energy developers and investors with regard to the available tariff and will give developers more time to engage local communities and to focus on raising the right type of finance locally; and

c) Definition of community organisation: Widening the definition of “community organisation” to include registered charities and the wholly owned trading subsidiaries of charities with no more than 50 employees. This will provide more choice of legal structure and make it possible for a wider range of groups to access the community provisions in the FITs scheme.

ii) Accessing different financial support mechanisms on the same site

5.49 The current arrangements for financial support mechanisms mean that for a scheme where there is only one grid connection, it would not be possible for the community element of a shared ownership scheme to claim a different support mechanism to the commercial developer. The exemption to the site rule that was announced as part of the community FITs consultation applies where both parties share a single grid connection and where both seek support under the FITs scheme. There is currently no provision in the FITs scheme, Renewables Obligation (RO) or CfD legislation for generating capacity that is on the same site and shares a grid connection, to be split across different financial support schemes. The different design and purposes of the schemes means that such provision would be both impractical and undesirable. Any change in this position would involve substantial amendments to legislation and contract drafting.

iii) Sharing a grid connection

5.50 A split ownership model typically involves the development of separately owned physical assets on the same site (by a commercial developer and a community group) which both require a grid connection. As stated earlier, the announcement in the Government response to the community FITs consultation introduces an exemption to the site rule to allow two projects to share one grid connection and receive separate FIT tariffs, provided one project is owned by

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[65] http://www.legislation.gov.uk/id/uksi/2015/35

a community organisation. This will facilitate the deployment of the split ownership model at the FIT scale.

5.51 In terms of how separately owned assets on the same site would be treated under the RO, this would be considered on a case by case basis – with primary consideration being given to electrical connection, planning and grid connections. In broad terms the RO does not allow separately owned physical assets on the same site to be supported by a single grid connection, in order to avoid artificial carve out.

5.52 CfDs do not allow for separately owned physical assets on the same site to be supported by a single grid connection. This is because, amongst other things, the CfD contract defines a facility in relation to the assets (and geographical location of those assets) used to generate electricity which is then to be taken into account by the Generator in determining the Initial Installed Capacity Estimate.

5.53 It is worth noting that split ownership could be facilitated by all three support mechanisms where sites are developed separately by a commercial developer and a community group (i.e. they have separate grid connection, planning permission and metering points) and where the specific rights, obligations and requirements of individual and respective schemes are met.

5.54 Shared revenue and joint venture (JV) projects require only one grid connection and can therefore be supported by all of the financial support mechanisms, subject to meeting the rights, obligations and wider eligibility requirements of the individual schemes.

iv) Further guidance for communities

FITs

5.55 We note that there is some confusion amongst community groups over how different community ownership models (especially JV and split ownership) are treated under the FIT scheme. In addition, community organisations have suggested that in many cases they are likely to be the less well informed party in any discussions with a commercial developer, particularly with regard to setting up JVs or other partnerships and the sharing of FITs payments.

5.56 Government recognises the importance of partnership working to develop successful shared ownership schemes and we will produce guidance to clarify how different ownership models are accommodated within the FIT scheme. We will also provide information and signpost existing guidance and case studies highlighting good practice in partnership working between commercial and community entities. The guidance will be available by the time the legislation enters into force. It will help to empower community groups, improve general understanding, and give communities as much flexibility as possible in relation to the shared ownership model that they wish to pursue.

5.57 We understand that as our wider policies on community ownership evolve – particularly on shared ownership - there may be changes in the ownership models and partnership arrangements used to develop projects. It is important that communities and developers have the flexibility to choose the type of model that works best for both parties and we will review arrangements periodically, for example as part of the regular reviews of the FIT scheme.

CfDs

5.58 We recognise that those involved in community projects at this scale consider that there are barriers to deploying under competitive support schemes. We are aware that key concerns are related to what is seen as the significant administrative burden, costs and risks associated with engaging with the CfD mechanism. In particular, stakeholders have highlighted that the "upfront financial commitment required to prepare for a bid under the auctioning process which may ultimately be unsuccessful, the tight timelines (12 months) for moving from CfD offer to significant financial completion, penalties for contract withdrawal and proposed annual allocation rounds would mean delays before a generator is able to re-apply for a CfD"[66].

5.59 The forthcoming Community Energy Support and Advice Resource[67] (CESAR) will provide a useful forum for signposting communities to relevant guidance and information on CfDs. Furthermore, we have been working to address these concerns through, for example, the introduction of the 'Off taker of Last Resort' mechanism, simplification to auction design, and the introduction of flexibilities in the contract that enable smaller developers to manage any uncertainty they might have about the precise detail of their project at the point at which they apply. Further details on these measures are set out in **Annex E**.

Registration

5.60 Ofgem's Guide to Electricity Distribution Connections Policy[68] provides an overview of the regime which governs grid connections. In addition, individual Distribution Network Operators (DNOs) are able to provide support and guidance about specific local network issues and arrangements. DNOs will treat requests for all shared ownership grid connections within this context. Developers and communities should engage with the DNO to explore their specific circumstances.

5.61 Ofgem will update its guidance, systems and procedures to accommodate the new site exemption arrangements to allow for two FIT facilities to share a single grid connection, as will be provided for within revised regulations governing FIT arrangements.

Support for community energy groups

5.62 The Shared Ownership Taskforce raised concerns about the ability for community energy groups to access funding / finance for the early stages of project development. It is worth noting that Government has put in place measures to help communities at this early and risky stage in the development process. In England, there is a £15m Rural Community Energy Fund[69] (RCEF) for feasibility and pre-planning development work to help projects in rural areas become investment ready. It is comprised of a grant for feasibility analysis and then a loan to support pre-planning development work, planning applications and to develop robust business cases to attract further development. This has already attracted 79 applications and 48 of these have been successful for either a grant or loan[70]. We have also recently launched a £10m Urban

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[66] Government Response to consultation on support for community energy projects under FITS (November 2014) See: https://www.gov.uk/government/consultations/support-for-community-energy-projects-under-the-feed-in-tariffs-scheme

[67] https://www.gov.uk/government/publications/community-energy-support-and-advice-resource-call-for-proposals

[68] https://www.ofgem.gov.uk/ofgem-publications/87259/guideelectricitydistributionconnectionspolicy.pdf

[69] https://www.gov.uk/government/news/15m-fund-for-rural-energy-projects-opens-to-applications

[70] This reflects progress to date in January 2015, see www.wrap.org.uk for further information

Community Energy Fund[71] (UCEF) in England, which provides the same support for projects in non-rural areas.

5.63 The Taskforce recommended that Government should implement a platform where commercial developers can find a potential community partner. Following the launch of the Shared Ownership Framework, Community Energy England (CEE) launched a platform where commercial developers can find a suitable potential community partner[72]. Since the launch of the Framework we are aware of 14 new prospective shared ownership projects in England and 50 community groups have registered interest through the CEE portal for involvement in joint projects.

5.64 In Scotland, The Partnership Portal[73] available on the Local Energy Scotland CARES website serves the same purpose (See **Annex A**). Before submitting information, users must follow the Partnership Portal Terms of Use. This aims to ensure that developers offer reasonable and realistic opportunities.

5.65 The Ynni'r Fro scheme in Wales provides technical support and funding for early stage development. Furthermore, Community Energy Wales will be launching their website in the next couple of months. This will provide guidance to communities who are interested in setting up community energy groups in Wales.

5.66 The Taskforce also recommended that Government should take measures to help scale up and accelerate knowledge transfer. A new and independent Community Energy Support and Advice Resource (CESAR) will be launched by the sector shortly, using DECC seed-funding as announced in the Community Energy Strategy. The resource aims to provide the first truly integrated information sharing and social networking site to support community groups setting out to explore a potential energy project, as well as those that are well established but need specific support and advice. This will include support for community groups and enterprises looking to undertake a partnership or shared ownership project (e.g. with a commercial renewable developer or local authority).

5.67 Further information on Government's progress to boost the community energy sector will be set out in our sector-wide update which will be published in March.

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[71] https://www.gov.uk/urban-community-energy-fund

[72] http://communityenergyengland.org/about/partners/ownership/commercial/

[73] http://www.localenergyscotland.org/partnershipportal

6. The Community Electricity Right

6.1 The Community Energy Strategy[74] committed Government to undertaking a review to evaluate the success of the voluntary approach to increasing shared ownership in 2015. It stated that if progress is limited, then the Government would consider requiring all developers to offer the opportunity of a shared ownership element to communities.

6.2 This has now been brought forward in the form of the Community Electricity Right measures that are included within the Infrastructure Act 2015[75]. These are legislative powers that, if exercised, would require commercial renewable electricity developers in Great Britain to offer communities the opportunity to invest in new commercial renewable electricity schemes being developed in their area.

6.3The powers would only be used if the voluntary approach is not successful, and only then following a formal consultation where the views of stakeholders and lessons from the voluntary approach would be taken into account.

6.4 The powers apply to new commercial renewable electricity projects in Great Britain of 5MW or more in size (and expansions of existing sites above 5MW). This includes solar, hydro, and onshore wind. The types of stake that could be offered by developers to the community include shares, a royalty instrument and a loan. The minimum size of stake that must be offered by developers would be set in secondary legislation, but the power specifies that this could not exceed 5% of total capital costs of the development. These provisions would not apply retrospectively nor apply to projects that have already received planning consent. The Community Electricity Right policy brief[76] provides further information on this.

6.5 The Community Electricity Right powers create a broad enabling framework in primary legislation, leaving the finer details of implementation to be set out in any secondary legislation, if needed. A formal consultation would precede any decision to exercise these powers and would inform the details of secondary legislation. This consultation would allow us to take into account the views of all interested parties, including the Taskforce, industry, the community energy sector and Scottish and Welsh Ministers.

6.6 Government is firmly committed to the work of the Shared Ownership Taskforce and want to achieve a substantial increase in the offer of renewable shared ownership schemes by voluntary means. The earliest point at which these powers could be exercised is 1 June 2016, which allows a minimum of around 18 months for the voluntary approach to take effect. This timeframe will enable both the Taskforce and Government to develop a clear understanding of whether developers and communities are exploring shared ownership opportunities and the extent to which shared ownership offers are being made.

Offshore renewables

6.7 There is scope within the Community Electricity Right provisions to include offshore renewable projects. However, it is our intention that this would be on a longer timescale. The provisions provide us with the flexibility to include these technologies further down the line without needing new primary legislation. However, if Government were ever to consider

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[74] https://www.gov.uk/government/publications/community-energy-strategy

[75] https://www.gov.uk/government/publications/infrastructure-bill-the-community-electricity-right

[76] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/381677/infrastructure_bill_policy_brief.pdf

exercising the powers in relation to offshore technologies, we would conduct a formal consultation and take into account the experiences drawn from other technologies as well as views from relevant stakeholders in respect of offshore renewables.

6.8 Government is clear that if the Community Electricity Right powers were ever exercised, they would apply in the first instance to those onshore renewable technologies that currently form part of the voluntary process led by the Taskforce and only if it is not successful.

6.9 While it is not included under the voluntary process, we would still welcome offshore developments offering local communities the chance to buy a stake in new projects coming forward.

Exercising the powers

6.10 There are several steps that would be taken before deciding whether to exercise the Community Electricity Right powers and these are set out below:

i. The twelve month review of progress conducted by the Taskforce:

The Taskforce will conduct a twelve month progress review on the initial success of the voluntary approach and report this to Government by the end of November 2015. The Taskforce intend to evaluate and report progress to Government annually thereafter.

ii. DECC's progress review:

Government will take into account the findings of the Taskforce's review at the end of 2015 in order to decide whether sufficient progress has been made. If progress is limited, Government will then consider the reasons for this and in particular whether exercising the Community Electricity Right powers would overcome these barriers.

iii. Formal consultation:

Based on the above, Government may decide to consult on whether or not to exercise the Community Electricity Right powers, and on the detail of any secondary regulations (but it would not exercise the powers without such a consultation). This consultation will aim to collect evidence on the areas of the voluntary approach that have been successful and areas that have worked less well. It will also invite views from key stakeholders, such as Taskforce members, the renewables industry, the community energy sector and Devolved Administrations. The outcome of the consultation will inform the Secretary of State's decision on whether or not to exercise the Community Electricity Right powers and the detail of any secondary legislation. The powers could not be exercised before 1 June 2016 at the very earliest.

iv. Secondary Regulations:

If the Secretary of State decides that, based on the outcome of the consultation, the powers should be exercised, draft secondary legislation would be introduced to Parliament. The regulations would need approval from both Houses of Parliament before it became law. The secondary regulations would set out the detailed scope and mechanics for implementing the Community Electricity Right measures, taking on board the findings from the consultation.

Annex A: Further detail on measures in Scotland to support shared ownership

The Scottish Government is currently developing a Shared Ownership annex to the "Good Practice Principles for Community Benefits from Onshore Renewable Energy Developments[77]". This annex will detail good practice for developers delivering shared ownership projects, as well as outlining expectations and guidance for communities and Local Authorities. This document has been developed to date through input from an industry working group, and by building on the experience gathered through the CARES programme[78], and will be published for public consultation in spring 2015.

The existing package of support available to shared ownership projects through the Scottish Government's Community and Renewable Energy Scheme (CARES) programme is as follows:

- **The Partnership Portal** and **The Partnership Portal Terms of Use:** The Partnership Portal is a tool to allow communities or developers to publically post information regarding possible shared ownership opportunities. This will also allow communities to partner with other communities in distal areas of Scotland. Before submitting information, users must follow the Partnership Portal Terms of Use. This aims to ensure that developers offer reasonable and realistic opportunities.
- **Informational Leaflet for developers and communities**: This short leaflet has been designed to inform both developers and communities about the benefits of shared ownership and some suggested starting points.
- **Start-up grant of up to £20,000:** This grant is designed to help communities streamline the early stages of the shared ownership process. With a short application form and turnaround time, communities can quickly and easily access funds for initial legal and financial professional advice.
- **Framework contractors:** To support communities in appointing professional services, Local Energy Scotland has three sets of framework contractors – legal, financial and project management.
- **CARES Pre-planning loan**: Up to £150,000 is available for community organisations for pre-capital costs in a shared ownership project.
- **Development officer network**: Bespoke advice and support is available from the Local Energy Scotland development officer network
- **CARES Toolkit Community Investor Module**: This online module provides information on shared ownership projects and links to further sources of support.
- **CARES Toolkit Finance Model:** The interactive Finance Model allows community groups to enter details about the proposed project and see potential likely returns.
- **Case studies:** Information on live developments provides inspiration to communities who may be considering undertaking a project.

Further resources available outside CARES:

- **Renewable Energy Investment Fund (REIF)[79]**: REIF offers post-planning loans to communities developing shared ownership projects. REIF works closely with projects following planning approval.

[77] https://www.gov.uk/government/publications/community-energy-strategy

[78] http://www.gov.scot/Topics/Business-Industry/Energy/Energy-sources/19185/Communities/CRES

[79] http://news.scotland.gov.uk/News/Millions-for-renewable-energy-projects-cb4.aspx

- **Local Energy Investment Fund[80] (LEIF)**: LEIF will make early investment in energy projects on behalf of communities, who will then have time and support to consider buying in. This reconciles the conflicting commercial/community timescales.

[80] http://www.gov.scot/Publications/2014/11/6336/4

Annex B: Membership of the Shared Ownership Taskforce

1. Maria McCaffery MBE, Chief Executive, RenewableUK (Chair)
2. Philip Wolfe, Chairman, Chairman, Community Energy England (Vice-Chair)
3. Rebecca Willis, Energy Specialist, Cooperatives UK and Pure Leapfrog (former Vice Chair)
4. Gemma Grimes, Director of Onshore Renewables, RenewableUK (Secretary)
5. Dr Nina Skorupska, Chief Executive, Renewable Energy Association
6. Gaynor Hartnell, Community Engagement Advisor, Renewable Energy Association
7. Leonie Greene, Lead External Affairs & Policy, Solar Trade Association
8. Matt Hindle, Policy Manager, Anaerobic Digestion and Biogas Association
9. Zoisa Walton, Head of International Community Engagement, Eneco Wind Ltd
10. Charles Williams, Development Director, Falck Renewables
11. Bonnie Priest, Managing Director, Carbon Free Developments
12. Mike Child, Development Manager, LarkEnergy
13. Pete Capener, Co-Founder and Executive Chair, Bath and West Community Energy
14. Dr Robert Rabinowitz, Chief Executive, Pure Leapfrog
15. Chris Church, Chair, Low Carbon Community Network
16. Mike Smyth, Chair, Energy4All
17. Will Dawson, Head of Energy, Forum for the Future (as secretariat to the Community Energy Coalition)
18. Merlin Hyman, Chief Executive, Regen South West
19. Pauline Gallacher, Neilston Development Trust
20. Simon Hamlyn, Chief Executive, British Hydro Association
21. Meg Roper, Policy Manager, Combined Heat & Power Association
22. Patrick Devine-Wright, Professor, University of Exeter

Annex C: Shared ownership models (extract from Shared Ownership Taskforce report published in November 2014)

The Taskforce describes the three broad categories that shared ownership models have fallen into to date as:

i. Split ownership, in which a legally-constituted community enterprise buys a proportion of the development's physical assets, for example, one wind turbine or 30 PV panels.

ii. Shared revenue, in which a legally-constituted community enterprise buys the rights to a future virtual revenue stream which will be calculated on the basis of a specified proportion of the output of an energy production plant less agreed operating costs and generally less virtual debt service – calculated as if the community had acquired the underlying infrastructure.

iii. Joint venture, in which a commercial operator and legally-constituted community enterprise work together to create a joint venture to develop, own and manage a project.

The Taskforce notes that there will also be further ways in which communities can share the ownership of projects and these are not excluded from this protocol.

In addition to the above, debt-based debentures and bonds have recently become a popular way for project developers to engage local people in renewable energy projects. The Taskforce encourages this. Some communities may find these approaches more suited to their needs.

Annex D: Policy recommendations (extract from Shared Ownership Taskforce report published in November 2014)

“6) The policy environment: What is needed for shared ownership to succeed

Shared Ownership is a new development in the UK, and will need cross-government support if it is to succeed. Below the Taskforce has set out its views on areas where policy changes are needed in order to ensure the successful implementation of this framework. There have been other working groups emerging from the Community Energy Strategy, on grid issues, planning, hydropower and finance for community energy, and in many cases, the recommendations of these working groups would also benefit shared ownership.

When the Taskforce conducts its review of this Protocol, it will also consider whether the policy environment is working to facilitate shared ownership schemes.

Planning

An increased likelihood of gaining planning consent for projects through a shared ownership approach is a key driver for commercial developers and is a key principle of shared ownership within this report. The planning system does not currently establish a strong enough link between local community support and planning consent. We believe this link needs to be made clearer and supported further through the planning system.

Some support is provided through national planning policies and guidance. For example, the National Planning Policy Framework for England asks planning authorities to “support community-led initiatives for renewable and low-carbon energy”. However, this aspect of policy is often given little weight in planning decisions - at the local level and at appeal. No weight is currently accorded in law.

In addition, the process itself, the levels of complexity and cost required to progress renewables applications (often including large environmental impact assessments) can act as a barrier to entry for some communities.

In order to facilitate the successful development of more shared ownership of renewable energy projects stronger policy levers for such projects need to be developed within the planning system. Local planning officers and committee members, inspectors and judges will also need to be made aware of how to apply such policy levers.

In addition, greater support should be provided by local authorities to communities seeking to develop a community or shared ownership renewable energy scheme. There may be opportunity, for example, to treat discussions regarding shared ownership applications in a similar way to discussions with residential applicants on a residential proposal (i.e. providing greater officer support).

Local Authorities

As stated in the Community Energy Strategy, Local Authorities can play a vital role in facilitating the deployment of renewable energy and the adoption of community and shared ownership. They may do this through developing their own projects, supporting community groups, linking developers and community groups, or by buying into renewables schemes themselves, for example. We encourage central government to support those Local Authorities who are working in these areas.

Finance

There is currently limited experience of bank and investor funding of shared ownership renewable energy schemes. Banks and other financiers can be very cautious in offering finance to either community groups or commercial developers within a shared ownership arrangement.

This caution has been further heightened in response to recent negative political coverage of onshore renewable energy developments and a range of current policy uncertainties. This caution is now impacting investment in all renewable energy types and scales. It is also important that shared ownership schemes do not disincentivise traditional sources of finance as this would be counter to the key principle of helping deployment.

In order to increase the uptake of shared ownership among community groups it will be necessary for banks and other financiers to become more flexible in their approach to the financing of shared ownership schemes - both for communities and the commercial developers involved in a project. However, to facilitate this flexibility, it will be necessary for the Government to stabilise the current policy environment for renewables and put an end to its negative politicisation of renewable energy development.

There is also a need to ensure that the tax incentives available for investment in community schemes are available to individuals investing in shared ownership schemes such as Enterprise Investment Scheme (EIS) eligibility.

Support mechanisms

The financial support mechanisms for renewable energy generation are currently in a state of flux. The Feed-in Tariff currently operates for technologies up to 5MW capacity, while the Renewables Obligation primarily operates for renewable energy schemes above this threshold. However, DECC is currently consulting on increasing the Feed-in Tariff for community energy schemes while the Renewables Obligation is due to be replaced by a new support system in 2017. These regulatory changes are a source of current uncertainty in the renewables sector - both for community groups and commercial developers – and they are compounded by the constrained budget set aside to fund these support mechanisms.

The Feed-in Tariff may be extended to cater for community renewables projects up to a capacity of 10MW. However, this could put pressure on all projects that seek finance through the existing Feed-in Tariff system if the funds available are not increased to accommodate additional projects between 5 and 10MW capacity. In addition, the degression thresholds under the existing tariff structure - and also as proposed in the current consultation are both frequent and steep. As a result, applicants will experience significant uncertainty as to the level of support their project will receive under the Feed-in Tariff should it be approved in planning and built. This uncertainty and financial risk can be particularly difficult for community groups to accommodate.

The Renewables Obligation is being phased out and will close in 2017. However, while many commercial developers will shortly be able to choose whether they apply under the Renewables Obligation or the new Contract for Difference (CfD) regime, it may be some time before commercial developers and financiers are sufficiently comfortable with the new support mechanism to prefer it over the Renewables Obligation. Large scale solar projects have already had this choice removed and are restricted to applying under the Contract for Difference mechanism.

There is a further complication for shared ownership projects seeking support as it is currently unclear as to whether communities will be able to receive support under a different mechanism to the commercially owned component, or whether there will be a further provision designed to cater specifically for shared ownership schemes.
In order to facilitate the uptake of shared ownership, therefore, there will be a need for greater clarity as to the type(s) and level of support available to both community groups and commercial developers when applying for support as part of a shared ownership arrangement. This issue is closely linked to issues of grid connection and the way in which such projects are treated by distribution network operators and Ofgem. These interactions require detailed consideration by government in order for shared ownership to succeed in practice.

Registration

Ofgem’s registration procedures have been developed primarily with individual commercial projects in mind. There is a danger that this may inhibit the registration of shared ownership projects, particularly those with split ownership.

The accreditation system for the Feed-in Tariffs and the Renewables Obligation may not recognise co-located or neighbouring plants. Ofgem's guidance for the Feed-in Tariff has been developed specifically to prevent possible gaming by splitting up a large project into several smaller ones. As presently written, this could prevent the commercial plant and the community plant being registered as two separate stations under the Feed-in Tariff.

The regulations for the Renewables Obligation are rather different and would probably satisfactorily recognise a split ownership scheme as being two discrete plants provided that each has its own connection. However, it is unclear how Ofgem would deal with two neighbouring plants which shared a connection.

In some split ownership schemes the community may apply to register its part of the project under the Feed-in Tariff and the developer may apply for the other part to be registered under the Renewables Obligation / Contract for Difference.

These issues point to the need for Ofgem to engage early to ensure that projects in shared ownership, particularly where the site is split, are not disadvantaged through the registration process.

The administrative burden

The efforts required of commercial developers in offering shared ownership options to communities are not insignificant. Such costs will need to be minimised and offset within the wider project costs if we are to realise a significant increase in the shared ownership of renewable energy infrastructure.

There are a number of possible ways in which the Government could help facilitate shared ownership of renewable energy projects by reducing the administrative costs associated with establishing shared ownership provisions and their ongoing management arrangements:

1. Make it easier for renewable energy projects to secure planning permission where a community demonstrates support for the project and has been offered an opportunity to

invest in it through shared ownership (reducing the costs associated with long planning delays and planning appeals).

2. Make it easier for commercial developers to secure Financial Conduct Authority (FCA) accreditation for the purposes of engaging in shared ownership arrangements with community groups (if required).
3. Make it easier and less expensive for developers and communities to secure bank finance for shared ownership schemes.
4. Make it easier for developers to integrate shared ownership approaches and monitoring arrangements within their existing project development processes
5. Enable the Green Investment Bank to provide low cost finance to community energy groups so that they can rapidly undertake the early stages of project development and ‘catch up’ with a commercial developer’s timetable;
6. Require Distribution Network Operators to offer separate connection facilities, when called on to do so, to enable a community group to enter a split ownership scheme;
7. Resource a body / bodies to, for example:
    - Implement a platform where commercial developers can find suitable potential community partners;
    - Develop peer mentoring programmes to scale up and accelerate knowledge transfer into new community energy groups;
    - Develop template contracts to help community groups engage rapidly in shared ownership schemes. “

Annex E: Further guidance for communities on CfDs

The CfD Regulations and the Allocation Framework provide the structure which governs how larger-scale renewable projects can receive CfDs. In the course of establishing key aspects of this structure, Government held numerous consultations. The Government has also held stakeholder events and published presentations explaining key concepts and processes relating to the CfD for firms and communities seeking to secure CfDs to build low carbon generation[81] [82].

In choosing its allocation mechanisms, the Government has selected approaches which would be more accessible to smaller, independent and community projects. The pay-as-clear auction mechanism chosen reduces barriers to entry for newer participants such as community projects. This is because projects can focus on bidding in line with their costs rather than attempting to guess the clearing price. Larger firms tend to be more effective at guessing clearing prices and bidding accordingly so using a pay-as-clear approach instead promotes competition and new entry into the market.

Smaller generators and communities have in the past suggested they would appreciate practical explanations of how competitive allocation processes for the CfD operate. In response to this, Government published CfD Auction guidance[83]. This document focusses on the processes following National Grid's determination of application eligibility and is designed to assist applicants in their understanding of the CfD auction process. This includes explanations of the trigger for constrained allocation, the submission of sealed bids and the auction mechanism.

National Grid has also published guidance relating to the allocation of CfDs of which communities may wish to be aware[84]:

- The Contracts for Difference User Guide[85] aims to assist participants in developing an understanding of the CfD scheme by providing a high-level overview of the processes that is relevant to both generators and suppliers.
- The CfD application guide explains what information participants need to enter in the various sections of the CfD application form, outlines any supporting evidence which must be provided and provides step by step guidance on how to upload a CfD application onto National Grid's system. It also states how the secure system through which messages relating to CfD applications are sent works.

A full list of the Delivery Body's guidance relating to applying for CfDs is available on their EMR portal website[86].

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[81] CfD generator journey presentation from Low Carbon Contracts Company/DECC stakeholder event" available at http://www.energy-uk.org.uk/policy/electricity-market-reform.html

[82] A wider range of guidance publications relating to CfDs is available at: https://www.gov.uk/government/publications/electricity-market-reform-contracts-for-difference

[83] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/358132/Auction_guidance_Final.pdf

[84] National Grid guidance must be read in conjunction with the Contracts for Difference (Allocation) Regulations 2014 ("the Allocation Regulations"), the Contracts for Difference (Definition of Eligible Generator) Regulations 2014 (the "Eligibility Regulations"), the Contracts for Difference Allocation Framework (the "Allocation Framework"), the Standard Terms and Conditions of the CFD Agreement, and the Contracts for Difference (Standard Terms) Regulations 2014 (the "Standard Terms Regulations"): failure to do so may result in failure to qualify or to be awarded a Contract for Difference in the CFD Auction.

[85] https://www.emrdeliverybody.com/Shared%20Documents/CFD%20User%20Guide%20ISSUE%202%20Final.pdf

[86] https://www.emrdeliverybody.com/Pages/AnnouncementAllItems.aspx

To help independent generators obtain finance to develop their projects, the Government has put in place an Offtaker of Last Resort Mechanism (OLR), which guarantees a route to market for all renewable CfD holders in the event that better commercial arrangements are not available. The mechanism ensures that there will always be an offtaker that will take their power, and specifies that this will be paid for at a discount of £25 to the CfD Market Reference Price. Combined with the CfD top-up payment, this gives generators a fixed minimum price for their power which can be used for debt-sizing purposes. However, we do not expect that generators are likely to access the OLR as we expect that commercial arrangements will be available at better rates. These could be short-term Power Purchase Agreements (PPAs), which are typically offered at better rates than long-term PPAs, which would be required by banks in the absence of the OLR. This should increase competition in the PPA market potentially leading to more innovative products being offered, at potentially better rates.

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