

## Briefing: Energy Bill Second Reading, Tuesday 9<sup>th</sup> May Community Energy Enabling Clauses 272 and 273

### Summary

In the midst of an energy price crisis when cheap, clean, home-produced energy has never been more vital, there is huge potential nationwide for growth in small-scale renewable energy generation – especially by community groups that provide cheaper, greener power and distribute the benefits locally.

Community energy schemes – community-owned and run renewable energy generation projects – currently generate a mere 0.5% of the UK's electricity. This could grow twentyfold in ten years, according to studies. These schemes have seen almost no growth for six years, despite renewable technologies being cheaper than ever. This is largely due to the prohibitive costs they face in accessing markets to sell their electricity.

The problem is well recognised, with 318 MPs from all parties, including 125 Conservatives, backing the **Local Electricity Bill**, aimed at enabling community groups to sell electricity to local customers. It is also supported by over 110 principal councils and over 80 national organisations including the National Trust, the Church of England, CPRE, the Energy Saving Trust, RSPB, WWF, Greenpeace and Friends of the Earth.

This Energy Bill takes the ideas of that Bill forward:

- Clause 272 sets up an export guarantee scheme for smaller-scale sites that generate low carbon electricity to export it to an existing larger electricity supplier on fair terms, and
- Clause 273 sets up a supplier services scheme, requiring existing larger suppliers to work with community schemes to sell the power they generate to local customers.

Ministers have said repeatedly, over several years, that they want growth in community energy generation. But the Government opposes these clauses and have so far proposed no workable alternatives. We have always maintained that we are open to alternatives that would realise the huge growth potential.

***We ask Members to attend the Energy Bill's Second Reading and speak in favour of these clauses.***

### The Potential of Community Energy ... and the Blockages

The community energy sector could grow by 12-20 times by 2030, powering 2.2 million homes and saving 2.5 million tonnes of CO<sub>2</sub> emissions every year.<sup>1</sup> If achieved, this would take community-owned and run renewable energy generation to 10% of UK electricity generation (around 6,000 megawatts).

However, community energy has seen minimal growth in recent years, accounting for less than 0.5% of total UK electricity generation capacity (331 megawatts in 2022).<sup>2</sup> The reason is not the price of generating technology, which has fallen rapidly in this period, but largely current energy market and licensing rules.

Community energy schemes face insurmountable costs when it comes to selling the electricity they generate to local customers. Estimates of financial, technical and operational requirements involved in becoming a licensed supplier put initial costs in excess of £1 million.<sup>3</sup>

The barriers mean that not one single community energy scheme sells their power directly to local customers. To make matters worse, community energy schemes receive no guaranteed price certainty for the electricity they generate. Previously, schemes could plan knowing the income they would receive from OFGEM's Feed-in Tariffs. When that scheme closed to new applicants in April 2019, many planned community energy generation projects were scrapped and there has since been a collapse in growth.

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<sup>1</sup> Environmental Audit Committee; 2021 – <https://committees.parliament.uk/call-for-evidence/406/>

<sup>2</sup> Community Energy England, 'Community Energy State of the Sector Report'; 2022

<sup>3</sup> IPPR, 'Community and Local Energy'; 2016 [https://www.ippr.org/files/publications/pdf/community-energy\\_June2016.pdf](https://www.ippr.org/files/publications/pdf/community-energy_June2016.pdf)

Other Government interventions have been attempted but have failed to reverse the slump in new projects. Not a single community scheme has used the “License Lite” route to market due to a failure to place reasonable limits on its costs and fully licensed energy utilities being under no obligation to partner with community groups wishing to become License Lite suppliers. The more recent “Smart Export Guarantee”, which places a requirement on larger existing electricity suppliers to purchase power from small schemes, has no guaranteed purchase price or length of contract, making community investment almost impossible.

## The Solution

Small-scale renewable energy generators need to receive a guaranteed, fair price for the electricity that they contribute to an energy system in desperate need of homegrown energy. Community energy schemes in particular should also be enabled to sell their power to local households and businesses in order to ensure they can realise their huge growth potential and unleash considerable community benefits.

Clause 272 sets up a **Community and Smaller-scale Electricity Export Guarantee Scheme**. This would provide a guaranteed income for the electricity from small-scale renewable energy generators (capacity below 5 megawatts). This would mean communities are properly remunerated for their contribution to the energy system and thus could raise funds to expand existing projects or establish new ones. The guaranteed price would be set annually by OFGEM, and the initial contract guaranteed for at least 5 years.

All small-scale generation sites, whether community owned or built by a small business or landowner, would get this guaranteed price. With dramatically rising energy prices and an energy system so heavily reliant on fossil fuel imports, all new local, secure, low carbon generation is highly desirable.

Community energy sites will be separately registered and progress monitored by OFGEM, with annual reporting, to ensure the mechanism is delivering on the huge potential there is for such schemes.

Clause 273 sets up a **Community and Smaller-scale Electricity Suppliers Services Scheme**. Community schemes registered under clause 272 may also use this to sell the electricity they generate locally. There is no requirement to do this – schemes may simply operate using the proceeds of the Export Guarantee set up by clause 272. For some, such returns may be sufficient to encourage local people to invest in a new scheme, as was the case with community schemes set up when the Feed-in Tariff scheme was operational.

However, if a community energy group wants to sell the electricity it generates directly to the local community – perhaps as an additional incentive to local people to invest in further capacity or because it believes it can offer a lower tariff to help the less well off in the community – this clause allows it to do so in conjunction with an existing licenced supplier that is buying electricity from the site. An agreed ‘community energy tariff’ can then be offered to consumers local to the site.

The licensed supplier would manage consumer metering and billing and would be able to charge the community energy scheme a reasonable fee for these services. Any profit from the sale of the electricity would be returned to the community energy group. The total amount of electricity sold would be equivalent to the amount generated by the site. As with clause 272, OFGEM will monitor and report annually on the success of this scheme and how it might be improved to encourage community generation.

## Benefits of Community Energy

**Job creation:** In 2021 community energy groups across the UK had 3,325 volunteers and 644 full time staff, with around 30% of groups employing no paid staff.<sup>4</sup> This equates to roughly five volunteers for every paid staff member. At a ten-fold increase, and with the professionalisation of the sector that the access to local markets would create, more than 33,000 jobs could be created.<sup>5</sup> Almost all constituencies would benefit from this, due to the distributed nature of community energy schemes.

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<sup>4</sup> Community Energy England, ‘Community Energy State of the Sector Report’; 2022

<sup>5</sup> The Poverty and Environment Trust, ‘The Call for A Level Playing Field’; December 2021

**Energy security:** Enabling the supply of locally-generated electricity would reduce dependence on imported energy, increasing the resilience of domestic energy supply. Community energy groups tend to create investment amongst local people in smaller installations not likely to be built by larger developers.

**Cheaper prices and warmer homes:** By ploughing profits back into the local area, community energy can help people cut their bills. In 2021, community energy groups spent £510,160 on energy efficiency upgrades, helping 20,843 people reduce their energy bills and stay warm. An additional 57,600 individuals were engaged in energy efficiency initiatives. The efforts of community energy groups saved £3.35 million on consumer energy bills in 2021.<sup>6</sup> At a tenfold increase in community energy, £90 million could be saved on consumer bills due to the expansion of energy efficiency initiatives,<sup>7</sup> helping 830,000 people.

**Climate change:** If community energy generation was enabled to grow to 3,000 megawatts – a tenfold increase – around 1.5 million tonnes of greenhouse gas emissions could be saved each year. This is roughly equivalent to the emissions of all UK domestic flights.<sup>8</sup>

**Public appetite for Net Zero:** Community energy is a vital foundation stone of the sustainable economy we are striving to create and can drive public acceptance and an appetite for change. It enables people to see tangible benefits in their area: a friend is employed by the community energy company, the local sports centre is refurbished from the community energy fund – these can create profound perception benefits.

## Support

The Local Electricity Bill, which is directly reflected in the wording of these amendments, is sponsored by David Johnston, Peter Aldous, Hilary Benn, Sir Graham Brady, Alan Brown, Simon Fell, Wera Hobhouse, Ben Lake, Clive Lewis, Selaine Saxby, Mick Whitley and Sir Jeremy Wright. 125 Conservative MPs support it, as part of 318 MPs from all major parties.

The Local Electricity Bill is also supported by 113 Local Authorities and County Councils and 88 national organisations including the National Trust, the Church of England, CPRE, the Energy Saving Trust, RSPB, WWF, Greenpeace and Friends of the Earth (full list at [powerforpeople.org.uk](http://powerforpeople.org.uk)). In addition, four of the six Distribution Network Operators (the UK's regional energy grid monopolies) – Electricity North West, SP Energy Networks, UK Power Networks and Western Power Distribution – are supportive.

Furthermore, the recent Net Zero Review, commissioned by the Government and authored by Rt Hon Chris Skidmore, recommends that, "Government should commit to the Local Electricity Bill," (pg. 210) explaining that, "Current regulations in the energy market mean that community energy projects cannot directly supply local communities, an issue which the Local Electricity Bill seeks to address. Community-owned projects can also face disadvantages in accessing government or private finance." (pg. 212)

## The Government Position

For three years, in debates organised by sponsors of the Local Electricity Bill, Ministers have said repeatedly that they want to see more community energy generation. Despite these statements of support, Ministers oppose these clauses, saying that they amount to a subsidy.

The clauses establish a market solution, not a subsidy. They would give community energy schemes fair access to the market, so that they can sell their power at a fair price. This will make them viable and create growth. The clauses do not say what that price is – clause 272 says it would be for Ministers to determine on advice from OFGEM – and also establishes monitoring of the process to allow adjustments in that set price over time. These adjustments could be price increases or reductions, depending on growth levels.

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<sup>6</sup> Community Energy England, 'Community Energy State of the Sector Report'; 2022

<sup>7</sup> WPI Economics for SP Energy Networks, 'The Future of Community Energy'; January 2020; <http://wpieconomics.com/site/wp-content/uploads/2020/01/Future-of-Community-Energy-20200129-Web-Spreads.pdf>

<sup>8</sup> Ibid

Ministers would have a fair point in saying that the clauses would create a subsidy if the guaranteed price was many times the price of other sources. But that is not what the clauses do. Setting the price will be in Ministers' hands, following OFGEM advice. Experts have suggested a rate of around 5-10p per unit.

When we turn on our kettle at home, we pay about 30p a unit. Under the Government's Contracts for Difference schemes, which sets a fixed price for larger low carbon generation, prices for onshore wind are guaranteed at around 4p a unit, whilst we are seeing a guaranteed 4.6p a unit for commercial solar and 17.8p for tidal. The Hinkley Point nuclear power station is guaranteed 11.7p a unit.<sup>9</sup> The guaranteed price for community energy that these clauses would set will be comparable or lower than these other sources.

The numbers tell the story – Government has not delivered the growth in community energy it claims to want to see. In 2017 community energy scheme capacity accounted for 249 megawatts. This had only risen to 331 megawatts in 2022 – a mere 0.5% of UK generating capacity.

Ministers either need to abandon years of claiming community energy is a good thing to have more of and be straight – tell people they do not really value it and will not help it grow, or deliver new mechanisms that will help it grow. Currently they claim they want more while doing nothing that increases its provision.

Imagine we applied the same terms to the corner shops which operate alongside supermarkets. Local shops have an important role in our towns and cities, offering convenient access to food etc.. But if someone wanting to open a new local shop had to go through the usual planning application and also everything required of companies like Tesco when opening a new supermarket, e.g. traffic surveys, Section 106 grants, improvements to the public realm, that would be totally unreasonable. The result would be no small shops.

But with small shops we do not require this. And we do not say it is a "subsidy" for start-up costs to be less for small shops than supermarkets. We simply want the same for small energy generators.

In pressing for this basic principle to be applied, we and supportive MPs have been very flexible. Peter Aldous, in his original version of the Local Electricity Bill, tried to make the legal costs of selling energy proportionate to the size of the generator, but Ministers rebuffed this on the grounds that the licensing and standards were too complex. So now David Johnston has tried to piggy-back this process onto existing larger licensed energy suppliers with his improved wording, which is directly reflected in the clauses 272 and 273.

This approach does mean fixing a price. This is no different in principle to the Government's Contracts for Difference scheme that so much of our new generating capacity is built under. Ministers also often claim that new nuclear power is not subsidised but, rather, has been guaranteed a price for the energy produced.

We have been clear that if Ministers have a better way to deliver, we are fully open to it. But it has now been three years since Ministers first promised more community energy and next to nothing has happened. And nothing in this debate so far suggests that if Ministers are not pressed further on this issue, we will see the growth in this sector that they have long promised but never delivered.

### **About Power for People**

This briefing was prepared by Power for People, an organisation that aims to accelerate the UK's transition to renewable energy and ensure that local communities benefit. It leads the campaign to enable community energy growth and is the secretariat of the Community Energy All-Party Parliamentary Group.

**Contact:** Steve Shaw, Director of Power for People  
07788 646 933, [steve.shaw@powerforpeople.org.uk](mailto:steve.shaw@powerforpeople.org.uk)

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<sup>9</sup> BEIS, 'Contracts for Difference: Methodology used to set Administrative Strike Prices for CfD Allocation Round 4'; 2021