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Mike Hedges AM  
Chair of the Climate Change, Environment and Rural Affairs Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

7 March 2018

Dear Mike

### Community Energy Projects

Thank you for your letter of 7 February 2018 on behalf of the Climate Change, Environment and Rural Affairs Committee. I am pleased to set out what the Welsh Government is doing to support community energy projects.

As noted by the Committee, for there is excellent work being delivered by the Welsh Government Local Energy Service (Ynni Lleol). Over the eight years Welsh Government has been delivering services on local energy, we have supported over 200 communities to scope out projects. Our services have provided advice and support from experienced local delivery officers, grant funding for scheme development and access to capital construction funds from the Local Energy Loan Fund. Since 2010, 16 projects have been built as a result of the support given by the Welsh Government's renewable energy schemes. This has resulted in an increase of 8.5 MW of installed capacity in community ownership. Our commitment to continue supporting community energy is set out in "**Taking Wales Forward**", the Programme for Government.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

## **1. Scaling up support for locally owned energy**

The Local Energy Service was launched in January 2016 in recognition of the need for community groups, SMEs and social enterprises to work together to realise the full benefits from local energy. The service provided an online mechanism to develop cross sector projects and Development Officers from the service have been instrumental in bringing partnerships together. However, there is more to be done, which is why I set ambitious targets for locally owned electricity and for local ownership within large developments. I have recently published a call for evidence to inform our approach to supporting delivery of these targets. We held two events last month to discuss the call for evidence, which closes at the end of March. Following this we will analyse responses and consider the Welsh Government's position.

The need for co-operation between Local Authorities and the communities they support is clear. There are some excellent examples of Local Authorities enabling community energy, including the Swansea Community Energy and Enterprise Scheme (SCEES) led by the City and County of Swansea, which has now handed over a 200 kilowatt solar array on the public estate to the community. We need more of these joint initiatives.

Last year we worked with those receiving support from the Local Energy and Green Growth Wales services to establish how current provision could more effectively meet future needs. As a result of this feedback we have procured a service bringing together our support for these sectors, which will be launched shortly. The current Local Energy service will transition into the Welsh Government Energy Service in the next few months. We intend this support to have a greater focus on bringing together participants to support the right developments within the places they live.

## **2. Access to finance**

I have spoken frequently about the impact of UK Government's decisions in 2015 to exclude onshore wind and solar technologies from 'Contracts for Difference' auctions and to reduce levels of Feed in Tariffs, which have caused a dramatic reduction in the viability of projects. I wrote again on this to the UK Government last November, setting out a common position on support for renewable energy in Wales, signed by a range of Welsh stakeholders. This position was co-ordinated through my Brexit Ministerial Roundtable. The statement set out our collective view of the economic, social and environmental benefits from enabling the continued deployment of onshore wind and solar developments in Wales and strongly urged restoring this support. I will shortly be writing again in connection with the current consultation on the Contracts for Difference mechanism and will continue to press the UK Government to restore support for the most affordable technologies, providing a route to market for more renewables and minimising the costs to bill payers.

Our Local Energy Loan Fund was established to provide funding for projects supported by the Local Energy Service, to increase community owned generation capacity and support other associated local energy outcomes. The Development Bank for Wales (DBW) manages the fund and decisions are made by the fund's Investment Panel based on the mutually agreed Investment Strategy and Guidelines. The fund currently provides loans at market rates in order both to enable the funds to be compatible with UK Government funding and to comply with State Aid requirements.

I consider it important to minimise the cost of finance for communities in order to retain more benefit locally. My officials are currently working to identify ways to provide lower cost finance within current regulations. However, the higher level of risk inherent in funding the construction stages of projects makes this challenging. Our Local Energy service helps groups find finance at a lower rate after construction. I have recently provided additional funds to the Local Energy Service, to work with the Wales Council for Voluntary Action to use Social Investment Cymru (SIC) to create a community energy loan fund (CELF). This work is piloting re-financing a community's construction loan with lower cost finance, raised from third parties as lower return social investment. If successful, this could be rolled out more widely, leveraging more lower cost finance into the sector.

At the end of 2015 HM Treasury decided to exclude community energy projects from Social Investment Tax Relief (SITR), considering this to be double funding for projects in receipt of Feed in Tariffs. At the time the decision took government and the sector by surprise. Since then the sector has lobbied Treasury to include community energy schemes within SITR. This campaign has been led by Community Energy England, supported by Community Energy Wales. This does not appear to be a major obstacle as since 2015, the sector in Wales has continued to be successful in attracting private investment to community energy projects through share offers. However, we agree qualification for SITR could benefit the sector and continue to support their campaign to Treasury.

I am interested in the Committee's observation regarding Welsh Government and local authorities becoming the 'buyer of choice for community generated energy throughout Wales'. As you are aware, all electricity bought for public services in Wales by the National Procurement Service (NPS) has been from renewable sources by 2017, with an aspiration for it to be wholly from Welsh sources.

We are also exploring ways the public sector can help to stimulate new developments by lowering the development risks. This could include using the combined purchasing power of the public sector to demonstrate a long term income. Our initial work has identified complex challenges around state aid and procurement law needing detailed investigation before a scheme can be designed. We are continuing work to build understanding and resolve these issues. However, both communities and public sector developers need to achieve the best possible price for their generation. Finding organisations willing to pay a premium for clean energy will continue to be a challenge for our support services.

### **3. Planning guidance to support community energy projects**

I have recently launched a consultation on an entirely revised version of Planning Policy Wales (PPW), in light of the Well-Being of Future Generations Act, which will make matters clearer for those making decisions. The revised text takes a more integrated approach to energy policy, emphasising decarbonisation as the driver for planning choices. The policy has also been updated to clarify the expectation of local planning authorities in considering appropriate renewable and low carbon energy generation in their development plans. A link to the consultation, which runs from 12 February to 18 May 2018, is below:  
<https://consultations.gov.wales/consultations/planning-policy-wales-edition-10>.

I am also planning to make it easier for renewable developments to be constructed without planning permission. There are currently extensive permitted development rights for microgeneration renewable energy installations and I will be consulting in the spring on potential further changes. The consultation will propose removing the need to apply for planning permission for non-domestic rooftop solar installations of any size and small scale, low risk hydropower developments.

I recognise local and community renewable energy projects do need assistance when navigating the planning system and we have in recent years written to local planning authorities asking for them to be as accommodating as possible when dealing with community projects. In 2016, we commissioned the Energy Saving Trust to undertake training on community renewable energy projects. The training brought community group representatives and local authority planning officers together to develop a shared understanding and highlight ways in which community renewable energy projects can more easily navigate through the planning system. Training was also provided to local authority Members. Six training sessions were held across Wales, with a total of 63 people attending. We anticipate the Welsh Government Energy Service providing further opportunities for increased shared understanding of community energy development

#### **4. Business rates and valuations applied to community energy projects**

We will be putting a new, permanent Small Business Rates Relief (SBRR) scheme in place from 1 April 2018, following the consultation in the autumn of last year. The consultation invited views on whether additional support should be provided to certain types of business which support wider Welsh Government objectives, giving the decarbonisation agenda as an example.

The current SBRR scheme, which has been extended until 31 March 2018, provides 100% relief to eligible business with a rateable value of up to £6,000 and tapered relief for those valued between £6,001 and £12,000. This scheme provides relief to over 70% of ratepayers in Wales, with over 50% paying no rates at all. In order to enable us to target relief more effectively, the new scheme will maintain these eligibility criteria but limit the number of properties eligible for small business rates relief to two properties per business in each local authority. This releases approximately £7m which will be reinvested in other areas of relief, including additional support for hydropower projects.

The £10m Transitional Rate Relief scheme, which is fully funded by the Welsh Government, is also assisting businesses whose entitlement to Small Business Rates Relief has been adversely affected by increases in their rateable value following the revaluation. This scheme will assist eligible ratepayers by enabling them to phase in any increases in the amount they have to pay over a three-year period. There is no application process with the relief automatically applied to eligible ratepayers' bills.

In addition to this support, I recently announced the establishment of a grant scheme for hydropower projects with a rateable value of up to £50,000. This grant scheme will provide 100% rate relief to community hydro projects to ensure they are able to retain the maximum possible benefit for the local area. In addition to this, the scheme will provide support sufficient to cap the increase in rates for other small-scale developments to 10% or £1,000 where there was no previous liability.

The new grant scheme will be application based, although the process will place as light an administrative burden on small organisations as possible. Under the scheme, owners of hydropower developments with a rateable value of less than £50,000 will be able to apply to Welsh Government for a grant towards their 2017/18 and 2018/19 non-domestic rates liabilities. This grant scheme will provide greater support to hydropower developers in Wales than available in the rest of the UK.

I met with the Cabinet Secretary for Finance in September last year to discuss ways to mitigate the impact of rate relief on the community sector. The scheme we have announced was developed on the basis hydropower has a particularly high up front capital cost and appears to have been significantly affected by the non-domestic rates revaluation. The hydropower grant scheme has been developed and agreed jointly with the Cabinet Secretary for Finance, and in consultation with British Hydropower Association and Community Energy Wales.

Welsh Government is looking to develop a longer term solution to the question raised by the hydropower sector on business rates. I am in the process of commissioning independent advice on the causes and potential remedial actions for hydropower and district heating developments to inform future policy.

## **5. Targets for generating energy locally**

I am encouraged to hear Committee has received feedback suggesting the target of generating 1GW of locally owned renewables by 2030 is realistic and attainable. I do agree support and facilitation will be necessary to help bring forward and develop projects. The call for evidence on local ownership will inform our approach to delivering the 1GW local energy target. I believe encouraging projects to come forward on a shared ownership basis has a number of potential advantages in terms of building local support and securing the benefits of renewable energy at a local level.

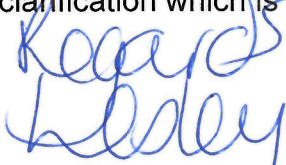
In December last year, I published the Energy Generation in Wales survey, containing information on the levels of renewable energy generated in Wales and the proportion generated from community assets. In total, at the end of 2016 there were 62,420 locally owned projects, 93 per cent of all renewable energy installations. The total installed capacity of locally owned energy was 575 MW, made up of 397 MW of electricity and 177 MW of heat. This is a 40 per cent increase since 2014. Locally owned renewable energy capacity made up 17% of total renewable energy capacity and 5% of overall energy capacity.

The planning system has an important role to help ensure the delivery of the renewable energy targets. To assist in the achievement of these targets, local authorities must take an active, leadership approach at the local level. The revised version of Planning Policy Wales (PPW) proposes to introduce a requirement for local planning authorities to identify targets for renewable energy in their development plans. This will include consideration of the infrastructure requirements as well as the generation itself. We see the National Development Framework playing an important integration role in this process.

We are currently working with Natural Resources Wales to inform their approach to developing Area Statements for Wales. These will provide an evidence base to facilitate implementation of the Natural Resources Policy, including the national priority to increase renewable energy, to inform the location of the right projects in the right place.

We have committed to developing an Energy Atlas for Wales and are in discussions about the scope and purpose of this work. It could include a means of integrating information on current generation, energy consumption, potential resources and future demand, to provide place based evidence for developing generation and matching it with demand. We have been supporting the development of such a tool, along with Bridgend County Borough Council and the Energy Systems Catapult through our Smart Living programme, which will enable Bridgend to produce an Energy Strategy focused on decarbonisation. I am aware of other work in this area such as the Institute of Welsh Affairs' work alongside the Swansea Bay City Region work. We envisage the Energy Atlas for Wales will prove a useful tool in developing more coherent approaches to local energy.

I hope the Committee finds this information useful. I would be happy to provide any further clarification which is needed at the Committee scrutiny session on 22 March.



**Lesley Griffiths AC/AM**

Ysgrifennydd y Cabinet dros Ynni, Cynllunio a Materion Gwledig  
Cabinet Secretary for Energy, Planning and Rural Affairs