

Ofgem Discussion paper

Non-traditional business models: Supporting transformative change in the energy market

Response from Morecambe Bay Community Renewables (MORE Renewables)

About Us

MORE Renewables is a Lancaster-based community energy organisation set up in 2011 to raise finance through community share issues to install renewable energy in the local area. To date we have successfully run three share offers (all over-subscribed) and installed three PV schemes and two renewable heat systems, which are registered for FITs or RHI.

We are a co-operative with 46 members, and are in the process of converting to a Community Benefit Society (as a result of the FCA's recent changes). We have paid share interest to our members for the last two years and allocate a proportion of our operating surplus to supporting another local organisation in their work on fuel poverty. We are one of the longest-established community energy organisations in the North West and are currently mentoring seven other groups. The comments below come from a combination of our own experiences and those of groups we work with.

More information on our group and activities is on www.morerenewables.co.uk

We would be happy to discuss this response in more detail by phone or email. Please contact:

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Our Comments

CHAPTER: One

- What is your view on our definition of non-traditional business models?

Business models offering new products or services, or new ways of delivering these, that are different to those traditionally provided in the existing energy market. Those offering such services have diverse motivations (technological, social and environmental as well as financial) and ownership arrangements, and operate at various scales. Over time NTBMs have the potential to transform the existing energy system.

Your definition captures the wide range of new and emerging organisations, including ones such as MORE. It is useful to include the issue of motivations in the definition, as this is a key differentiator between organisations such as ours and most of the major energy suppliers. We agree that we collectively have the potential to transform the energy system, and are aiming to contribute to doing this.

- How we can engage with NTBMs more effectively in the future?

One of the key aspects in engaging with organisations such as ours is to understand our motivations and our structures.

- We are set up to provide local solutions that benefit local people and organisations.
- We do not expect to compete with the major energy suppliers on their scale, but would like to be able to compete with them for the supply of energy to a relatively small number of properties within our area.
- We are managed by volunteers, although this is not to say that we are not professional in our approach.
- We prefer to take an open-book approach in our dealings with other organisations.
- We are very aware that other people have entrusted us with their money and therefore we need to reduce and carefully manage the risks and costs associated with projects.

The best way to help us is to avoid making life difficult – and ideally to specifically try to make life easier for community energy organisations. This encompasses both large-scale regulation and small-scale irritations, e.g.:

- The recent changes to FITs allowing a single grid connection for solar farms with shared ownership where one organisation is a community energy group, will open up an opportunity for us to invest in these schemes.
- The RHI website and application procedure is needlessly convoluted and time-consuming for smaller schemes.

The best way to engage with us is:

- Directly – we're happy to speak to you or respond to emails
- Via our common organisations such as Community Energy England and Co-operatives UK – although be aware that they may be one step removed from the on-the-ground issues.

CHAPTER: Two

- We would like to hear your views on the drivers for market entry. Do you think there are other important drivers?

The **low carbon energy transition** is significant, but why no mention of climate change, which is one of the main drivers of this agenda? It appears that this subject has become embarrassing for government organisations in recent years.

Technological innovations such as smart metering will be important for us if they enable mechanisms to allow us to sell electricity to consumers without having a direct grid connection or requiring us to become a registered supplier.

Consumer Trust – community energy organisations have to rely on trust to a large extent, from our investors and the owners of sites with potential for renewable energy. This trust has been damaged by regular announcement of changes in government policy that affect our schemes and the ensuing uncertainty in the markets (especially over FITs and tax reliefs).

Affordability and supporting vulnerable consumers – although a key driver, we aim to do this mainly through our community benefit contribution and to a lesser

extent through lower energy prices for the properties we supply, although we can guarantee prices will only rise with inflation. There is insufficient margin within small-scale systems such as PV and biomass boilers to offer significant energy costs reductions, and so far we have concluded that doing installations on individual domestic properties is not viable for us.

Other important drivers are financial:

- A lack of trust in the finance industry, and interest in other savings opportunities, particularly those that demonstrate additional local social benefits. We expect the finance available for investment in community energy to increase significantly with the recent changes to pension regulations - most community energy schemes offer a reasonable return over a long period, suitable for pension investment.
- A desire to retain the value of people's savings and energy bills within the local economy.

CHAPTER: Three

Have we accurately described the NTBM environment? Have we missed something?

Yes the description is fairly comprehensive. It may be useful to note that there is a level of ongoing discussion on partnerships, which will cross over the groups you have defined e.g. community energy and local authorities, community energy and private developers.

We'd like to learn more about organisations using NTBMs. If you are prepared to discuss this, please contact us (see Appendix 1 for contact details).

Yes we'd be happy to discuss our business model – see details at the start.

CHAPTER: Four

Our main focus in this paper is on regulatory issues arising from future energy market transformation, but we recognise that there are relevant issues within current regulation. Please let us know if there are any other issues?

This section causes major problems for organisations such as ours. It is written in the language of the regulators and large generators, and demonstrates that for all the discussion of motivations, values and alternative scales in the previous chapters, you are unable to translate your issues into a comprehensible format for smaller generators. It does not address the issues relevant to small generators in terms that they would understand. We do not propose to try to translate this section for you, but suggest that you do try, and then re-issue it.

Regulatory issues relevant to small-scale community energy projects are:

- The inability to sell our electricity to any consumer other than one directly connected to our system: although we can get export payments under FITs, our business model depends on being able to sell a proportion of the electricity generated at a rate higher than the export rate but lower than typical customer bills (e.g. 7-8p/kWh). This limits our ability to install large numbers of small PV systems for example on community buildings, churches,

schools etc that may not be using electricity during our peak generating times (summer days). There are huge numbers of roofs owned by organisations likely to be in them for a long time, which would be technically suitable for community-owned PV, but are not economically viable.

- The inability for a community energy organisation to claim domestic RHI, even though this option is open to local authorities and registered housing providers. Community energy organisations could finance large scale deployment of renewable heating systems in individual homes if we were allowed to claim RHI for properties where we do not own the building but do own the heating kit.
- Overly time-consuming procedures set up by yourselves. For example, we have recently been trying to register a very small (2kW) non-domestic solar thermal system on the Non-domestic RHI. We already have an account, we had already provided bank and ID references for that but are required to repeat this. We are asked to provide information and schematics on issues that may be relevant for a large biomass system, but are over the top for a small solar thermal scheme. We are sent anonymous emails from the RHI Team which could be sorted with a quick phone call but we have no-one designated to talk to about it, and it can take 3 weeks for you to reply if at all. This level of bureaucracy is ridiculous for a scheme of this size owned by anyone, let alone for a voluntary director of a community energy organisation. (Rant over, but please sort it out).
- Policy wobbles, announcements and frequent changes - e.g. Eric Pickles declaring no new onshore wind, and Amber Rudd being unsupportive of solar farms. Although not technically regulatory issues, these affect potential projects and the confidence of investors, who we are asking to invest for a long time during which there will be many changes to the supporting regime. We are very aware that the money we invest is not our own but belongs to our members, so tend to apply more caution than a private company.
- Grid connections: mostly covered in your notes
- Financial regulation regime: not your area but a major issues for co-operative community energy organisations - the FCA has been limiting registrations and imposing new and unjustified conditions on community energy organisations: a typical example of the left hand of government (FCA) not understanding what the right hand (DECC) is doing in promoting community energy.

CHAPTER: Five

- What are the benefits of different NTBMs to energy consumers?

Mostly covered in your table but missing a key financial benefit for our members: the opportunity to invest in community projects that providing a financial return and social benefits, as well as avoiding supporting the traditional financial services industry.

- Are these benefits experienced by all energy consumers or only those directly receiving the NTBM's services?

Most of the benefits are experienced by people other than those directly receiving the energy: investment opportunities, supporting local jobs, community participation in something local and transformative, reduction in carbon emissions.

- Are there additional wider benefits to the energy system and beyond it?

To some extent, community energy is not really about the energy system: that is just a means to deliver wider benefits.

Which of these benefits should be taken account of in regulatory policy-making and decision-taking and why?

Good question: could we avoid getting involved with the energy regulatory system at all? For smaller generators this would be a massive benefit. Would it be possible to have a system similar to the financial regulation of co-operatives, which are “registered with but not regulated by” the FCA, provided their rules meet the standard.

Are there energy system costs or risks from any of the NTBMs? How might these be addressed?

The energy system risks include:

- Loss of near-monopoly of the “big six”
- Loss of centralised power/control to a mass of small local operators
- A requirement for the network operators to become much more responsive, flexible and imaginative to be able to deal with varying local supplies.
- More investment in responsive grids at the local level.

None of the above seem like a “bad thing” to us.

How will NTBMs help to drive innovation within the energy system?

We are already doing so, but would like to be able to do more.

- We would really appreciate the introduction of a mechanism that would allow us to offer external investment in energy efficiency measures. At present there is no simple means for us to raise community share finance to improve the energy performance of a building and get a return on that investment, unless we can “tag it on” to a renewable energy scheme. It should be possible for community energy organisation to offer energy efficiency in the way that the Green Deal was designed to. We are all aware of the failure of this programme, and we largely interpret that as down to the high cost of capital. The current system incentivises renewable energy generation, possibly at the expense of energy efficiency.
- We are well-positioned to install many small systems, and particularly on community buildings, but these are not really viable when the building occupant doesn’t use enough of the energy generated (e.g. a church hall roof). So our choices are to either turn these down (and we and other organisations we know have had to do that in many cases) or get a share of a large-scale project such as a solar farm, to allow us to cross-subsidise these community projects. We need to find an alternative mechanism that works for these smaller projects.

How could NTBMs potentially transform the energy market and what fundamental challenges to regulatory arrangements could this entail?

We want to be able to amalgamate dispersed small amount of energy generation and sell it to a small number of customers.

- How could regulatory arrangements change to accommodate NTBMs?

Have a long hard think about how much regulation is actually needed – it may be less than you expect and less difficult. (See comments on co-operatives & FCA above).

- What role do NTBMs and other parties have in managing energy market transformation and regulatory change?

We would like a voice: to allow us to help design a system that suits small generators and the other NTBMs.