

PRACTITIONER COMMENT

Local Energy Collaboration: The role of local authorities in community energy

Jez Tweed

Environmental Management, Calderdale Council

Abstract

The UK Government's Community Energy Strategy promotes a community approach that is claimed by both government and grassroots to be able to lead to a step change in the deployment of renewable technology and local empowerment. However research into community energy innovations suggests that, on their own, 'grassroots' projects face barriers to their deployment and an ability to make a significant impact on UK energy generation. In 2012 the House of Commons Energy and Climate Change Committee published a critical report on the Energy Bill and practitioners are reporting that the current energy supply and distribution model is no longer fit for purpose. With evidence that some Local Authorities are looking to develop energy strategies for local generation and supply, could collaboration between Local Authorities and the Community sector deliver local, low carbon energy generation and supply that is able to meet the demands of a changing energy landscape? Using evidence from the stakeholder survey conducted by the Association for Public Service Excellence (APSE), this paper investigates the opportunities and barriers to delivering local energy generation and supply and proposes a new approach in local energy strategies.

Keywords: Local Authority Energy; Municipal Energy; Local Energy Policy; Community Energy; Local Energy Strategy; municipal power companies.

Since the nationalisation of energy supply in 1947, then the privatisation in the 1990s of the electricity and gas industries there has been little motivation for local energy planning, leaving local communities with limited experience and capacity in this area. UK energy policy is highly centralised with limited input from sub-national organisations (Bale *et al.*, 2012). As Keirstead and Schulz (2010) reported after conducting interviews with key stakeholders in London, Local Authorities felt that energy security was a national concern and was not 'their business'. However a move towards local energy strategies has now been provoked by the politics of localism, and through a Memorandum of Understanding with the Department of Energy and Climate Change,

the Local Government Association (LGA) has carved out a role for local authorities in district greenhouse gas emission reductions (DECC, 2011). What has followed is a series of UK Government policies enabling some Local Authorities to view energy as a local strategic priority. Such policy changes include the lifting of the historic ban on Local Authorities selling energy to the National Grid (DECC, 2010) and establishment of the Heat Networks Delivery Unit to specifically encourage Local Authorities in developing their own heat energy distribution infrastructure (DECC, 2014a).

Despite this crack in the policy door, in the United Kingdom municipal power companies are very rare (Nottingham City Council being the only recent example) and local authorities have had little involvement in energy provision (Bale *et al.*, 2012). To find out what is holding UK Local Authorities back the Association for Public Service Excellence's (APSE) new energy unit embarked on survey of Energy, Asset and Sustainability Managers from 60 authorities. The results are a clear indicator that UK Local Authorities are hamstrung by an uncertain policy landscape with 96 per cent of respondents stating that they had encountered problems in delivering local energy action due to changes in policy. Respondents reported that other barriers to change included issues around state aid (60 per cent), European procurement rules (53 per cent) and financial constraints (56 per cent). Skills are also clearly an issue with 66 per cent citing a lack of knowledge or expertise to develop energy strategies. Fundamentally, energy strategy was not a priority for the majority of Local Authorities surveyed with 71 per cent reporting that it was not a key ambition. Further to this 29 per cent said that their authority did not understand the benefits or the risks of developing local energy strategies. This lack of ability to take advantage of new and developing opportunities is a key barrier to moving to local energy strategies.

On the other hand, the UK community energy sector may have the drive to take advantage of opportunity. The UK Government's *Community Energy Strategy* (DECC, 2014) promotes a community approach to energy strategy that is claimed by both government and grassroots to be able to lead to a step change in the deployment of renewable technology and local empowerment. However research into community energy innovations suggests that, on their own, 'grassroots' projects face barriers to their deployment and an ability to make a significant impact on UK energy generation. One of the most significant barriers to community energy is market entry and connection (Hain *et al.*, 2005). The relatively small scale of installation fails to acquire the attention from Distribution Network Operators (Walker, 2008). There are also significant costs involved in trading (Walker, 2008) which do not benefit small scale enterprises. These community groups, working alongside large energy companies have inherent tensions and vulnerabilities, which limit how much these groups can achieve on their own (Seyfang *et al.*, 2013).

Bringing together the drive and opportunities exhibited by local community energy, and the scale, credibility and administrative skill of local authorities could be a way to move towards meeting some of the demands of the 21st century. Community projects are more effective with intermediary support and there are several examples of community energy intermediaries including the Centre for Sustainable Energy and Community Energy Scotland (Hargreaves *et al.*, 2013). Alongside community enterprises Blackshaw Head Environment Trust and the Alternative Technology Centre, Calderdale Council has founded a community energy co-operative with the task of establishing community energy projects across the district. Enabling, scaling up and even partnering community projects are a clear opportunity for local authorities. And there are several other examples of Local Authorities working with the community energy sector. Successful share offers have been made by Bath and West Community Energy who have raised nearly £5m for local energy projects with expected returns of seven per cent (BWCE, 2014). The group works closely with Bath and North East

Somerset Council and have signed a co-operation agreement to aid this (BathNES, 2014). Experience from Plymouth on Local Authority and community group partnerships is that projects can be delivered faster and at lower cost (Ox Futures, 2014) and that it is a fantastic way for Local Authorities to engage with their communities. In the Plymouth model the Local Authority carried out the ground work for Plymouth Energy and then transferred ownership to the community. There is a role for Local Authorities, and other bodies, to help find funding to establish community groups as well as providing developmental funding by tapping into public sector loans or anchoring European and public sector funding. This was the case for Carmarthen Energy Ltd who benefited from a multi-agency grant pot and are delivering wind and schools' solar PV projects (Ox Futures, 2014). It was important here however that groups get themselves going before approaching the Local Authority. We can see that the catalyst for community energy development depends much on the policy (or lack of) practised by the local authority. In Plymouth the city council has presented the community with an offer of resources, whereas in Carmarthen the community sector has presented the local council with an opportunity to invest.

The cases outlined above are clear indicators that some Local Authorities are now engaging in local energy strategies, with several developing local heat networks such as Sheffield, Leeds and Bradford. However none except Nottingham City Council has made the landmark leap of investing in a supply licence. Through combining power from its own Energy from Waste facility with community projects, Nottingham City Council has found the confidence to provide energy to its residents (U Switch, 2014). As a condition of having a supply licence, the holder must also be a signatory to designated industry codes such as the Balancing and Settlement Code (BSC) (Ofgem, 2014a). The BSC rules are complex, and the required meter registration systems can be expensive. To address some of these issues and to improve market access for distributed generation schemes, the Department of Energy and Climate Change introduced the Licence Lite' supply regime in 2009 (Ofgem, 2014b). This was specifically designed to allow a generator who wished to supply customers locally to use an established supplier to manage its interface at the heart of the BSC. With Licence Lite, a local tariff would be introduced to customers by 'junior' suppliers including communities and local authorities. The viability of Licence Lite arrangements in terms of the market and the regulator is under investigation by the Greater London Authority and Ofgem (GLA, 2014). The GLA sees this as an opportunity to improve the viability of local energy projects in London and spark an investment boom in the capital's low carbon energy infrastructure. Twelve boroughs already have schemes which could benefit. Together they are capable of generating around 76 megawatts of electricity (GLA, 2014). License Lite has yet to evidence the ability to meet the requirements of the market or the regulator and the five years of development suggests the levels of complexity are significant. For example there is uncertainty in what terms should appear in the contract between the junior and established supplier. In addition there is no real obligation on existing larger suppliers to offer such services to a small supplier (Walker Morris, 2014).

With the complexity and cost of a full or 'lite' licence, the scale of operation and risk means it is unlikely to prevail throughout the country, particularly for smaller authorities. There are alternatives, however. Energy companies that have already obtained their licence to supply, but to date have a minimal share of the energy market, are looking at partnership opportunities with community groups and Local Authorities to deliver energy through a local company. Being smaller has advantages in flexibility and risk taking that the 'Big 6'¹ would find difficult to emulate. For example, similar to the 'white label' model that has allowed supermarkets to offer energy tariffs to their customers (Walker Morris, 2014), OVO Energy, an established licenced energy supplier, is planning to launch a partnership with Plymouth Energy Company (OVO,

2014). Plymouth Energy Company (PEC) is a not for profit co-operative created with funding from Plymouth City Council with the remit of delivering energy that benefits local residents in terms of cost, suitability and service. Through the partnership the need for PEC to obtain a full or 'lite' version of the supply licence is negated as the energy is sold by the licenced supplier OVO Energy. Local and unique energy tariffs are agreed by the partnership and submitted for approval by Ofgem. Once in place Plymouth will become the first city in the UK to be offered energy by a local community energy company. There could be benefits in terms of community investment on the traditional 'white label' model used by supermarkets, although this is dependent on the profit margins of the licenced energy company and the competitiveness of the local tariffs (PCC, 2014). However this model could be further improved. OVO Energy and others such as Good Energy are positioning themselves to purchase energy from small community schemes producing as little as 100kW. If community or Local Authority generators can use their energy to supply local users through the partnership model seen in Plymouth then constraints over profit margins and competitiveness are more relaxed. For example, a community hydroelectric scheme becomes considerably more viable if the electricity is sold via an energy supply company as opposed to the default national grid rate. The energy can be wholesaled at a rate that delivers a competitive local tariff. Profits can either be recycled within the community or if the community generator sells the electricity at a discounted value, a discount tariff can be established to help tackle fuel poverty. There is clearly a risk for energy companies, but if the trend towards local energy strategies gains momentum, then it could be a gap in the energy market worth exploiting.

Ultimately we are seeing the need to develop renewables to tackle both climate change and energy security. Domestic consumers are also calling for a better and more transparent service from their suppliers. These demands can be met by taking the level at which energy policy is delivered from the national view point down to the local level. There will be many and varied limitations on the potential for this approach. These limitations are dependent on factors such as the availability and viability of community energy projects as well as the capacity within a community to enter a partnership with the Local Authority. The degree of government commitment to growing the community energy sector is fundamental. The Rural Community Energy Fund has recently been joined by its urban counterpart and offers financial and organisational support to developing community projects. However government approach appears to be that the long term financial viability of community projects does not require additional support. This assumption can be demonstrated by looking at the government backed Feed in Tariffs (FITs) and Renewable Heat Incentive (RHI) which are significant financial incentives for many energy projects. The FIT and RHI value reduction is a major barrier to community energy due to a relatively slow development period compared to commercial projects. However the Government has stated that it will not meet Community Energy England's call to insulate community projects from depression (DECC, 2014c). This indicates that Government is not willing to provide additional support to community energy at this time. Reaction from the 'Big 6' energy companies to the new partnership models presented by fringe companies such as OVO Energy has yet to be identified. The experiences large utilities have had with public sector partnerships on demand-side measures have been affected by the Energy Company Obligation and Green Deal programmes. These partnerships have produced mixed results and might lead to the 'Big 6' sitting out of local energy partnerships until the government's policies become more consistent. For the community energy sector, fringe energy companies and Local Authorities there is still much to gain from generating and supplying local clean energy. With the innovative will of the community coupled with the strengths of Local Authorities and the best of the energy sector we might see something small and beautiful.

Notes

1 Britain's six largest energy suppliers, with over 90% share of domestic customers: Centrica-owned [British Gas](#), [EDF Energy](#), NPower, E.ON, [Scottish Power](#), and [SSE](#).

* Correspondence address: Jez Tweed, Environmental Management Officer, Calderdale Council, Northgate House, Halifax, HX1 1UN. Email: jez.tweed@calderdale.gov.uk

References

- BWCE (2014) *Bath and West Community Energy website*. Available at <http://www.bwce.coop/> (Accessed: 09.11.14).
- BathNES (2014) *Bath and North East Somerset Council*. Available at <http://www.bathnes.gov.uk/services/environment> (Accessed: 09.11.14).
- Bale, C., Foxon, T., Hannon, M. and Gale, W. (2012) Strategic Energy Planning within Local Authorities in the UK: a Study of the City of Leeds. *Energy Policy*, 48, 242–251.
- Cofely (2011) *Birmingham District Energy; Delivering Low Carbon Energy*. Crawly: COFELY GDF SUEZ.
- DECC (2010) "Councils-red-tape-cut-as-4-700-whitehall-targets-slashed" DECC, London <https://www.gov.uk/government/news/councils-red-tape-cut-as-4-700-whitehall-targets-slashed> (Accessed: 09.11.14).
- DECC (2011) *Memorandum of Understanding Between the LG Group and the Department of Energy and Climate Change*. London: DECC.
- DECC (2014) *Community Energy Strategy*. Available at www.gov.uk/government/publications/community-energy-strategy (Accessed 09.11.14).
- DECC (2014b) *Heat Networks Delivery Unit*. Available at <https://www.gov.uk/government/publications/heat-networks-funding-stream-application-and-guidance-pack> (Accessed: 09.11.14).
- DECC (2014c) *Support for community energy projects under the Feed-in Tariffs Scheme: Consultation Outcome*. Available at <https://www.gov.uk/government/consultations/support-for-community-energy-projects-under-the-feed-in-tariffs-scheme> (Accessed: 13.11.14).
- HM Government (2012) *Energy Act*. HSMO, London. Available at <http://services.parliament.uk/bills/2012-13/energy.html> (Accessed 09.11.14)
- GLA (2014) *Greater London Authority press release*. Available at <https://www.london.gov.uk/priorities/environment/tackling-climate-change/energy-supply/licence-lite> (Accessed: 09.11.14).
- Hain, J.J., Ault, G.W., Galloway, S.J., Cruden, A. and McDonald, J.R. (2005) Additional renewable energy growth through small-scale community orientated policies. *Energy Policy*, 33, 9, 1199–1212.
- HoC (2011) *House of Commons Select committee on Climate Change Fourth Report Electricity Market Reform*. <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmenergy/742/74202.htm> (Accessed: 09.11.14).
- HoC (2012) *House of Commons Select committee on Climate Change Draft First Report: Energy Bill Pre-legislative Scrutiny*. Available at <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmenergy/275/27502.htm> (Accessed: 09.11.14).
- HoC (2012a) *House of Commons Select Committee - "Treasury has made energy policy unworkable" say MPs.* Available from:

- <http://www.parliament.uk/business/committees/committees-a-z/commons-select/energy-and-climate-change-committee/news/energy-bill-report-published/> (Accessed: 09.11.14).
- Keirstead, J. and Schulz, N.B. (2010) London and beyond: taking a closer look at urban energy policy. *Energy Policy*, 38, 4870–4879.
- King, M. and Shaw, R. (2010) *Community Energy: Planning, Development and Delivery*. CHPA, TCPA & LDA Design.
- Loring, J.M. (2007) Wind energy planning in England, Wales and Denmark: factors influencing project success. *Energy Policy*, 35, 2648–2660.
- Ofgem (2014) *State of the Market report 2014*. Available at <https://www.ofgem.gov.uk/ofgem-publications/86804/assessmentdocumentpublished.pdf> (Accessed: 09.11.14).
- Ofgem (2014a) *Licence Codes and Standards*. Available at <https://www.ofgem.gov.uk/licences-codes-and-standards/codes/electricity-codes/balancing-and-settlement-code-bsc> (Accessed: 09.11.14).
- Ofgem (2014b) *Licence Lite consultation workshop*. Available at <https://www.ofgem.gov.uk/event/licence-lite-consultation-workshop> (Accessed 09.11.14).
- Ox Futures (2014) *Powering Up Conference Report*. Oxford: Oxford City Council.
- OVO Energy (2014) *Interview with Jessica Lennard, Head of Corporate Affairs 10.11.14*.
- PCC (2014) *Interview with Jenny Coles, Low carbon Officer, Plymouth City Council 10.11.14*.
- Seyfang, G., Park, J. and Smith, A. (2013) A thousand flowers blooming? An examination of community energy in the UK. *Energy Policy*, 61, 977–989.
- Smith, C. (2007) *Making ESCOs Work: Guidance and Advice on Setting Up & Delivering an ESCO*. London: London Energy Partnership.
- Toke, D. (2005) Explaining wind power planning outcomes: some findings from a study in England and Wales. *Energy Policy*, 33, 1527–1539.
- U Switch (2014) *Nottingham-City-Council-looking-to-create-its-own-energy-company*. Available at <http://www.uswitch.com/gas-electricity/news/2014/03/11/nottingham-city-council-looking-to-create-its-own-energy-company> (Accessed: 09.11.14)
- Walker, G.P., Devine-Wright, P. and Evans, B. (2007b) *Community energy initiatives: embedding sustainable technology at a local level*. ESRC End of Award Report. Swindon: ESRC.
- Walker, G. (2008) What are the barriers and incentives for community-owned means of energy production and use. *Energy Policy*, 36, 4401–4405.
- Walker Morris (2014) *Licence Lite: Too Heavy For Most?* Available at <http://www.walkermorris.co.uk/business-insights/licence-lite-too-heavy-most> (Accessed: 09.11.14).