

SE24 Response to the DECC consultation exercise

Background 1: Who we are

SE24 is a recently-established Community Benefit Society aiming to install Solar Panels on Community Buildings in South London appealing to philanthropic local investors to fund the installation and operation of such panels, offering roof-owners/tenants half price electricity and using any excess revenues to support projects aimed at confronting fuel poverty and improving energy efficiency. A stable Feed in Tariff regime is key to our viability. It is also a key to unlocking the potential for Community Building owners and their tenants, through participating with organisations like ours, to become aware of where their power comes from, get engaged in confronting Climate Change and putting energy efficiency and environmental care closer to the heart of local decision making. We understand that a key objective of the FiT scheme is to give people a direct stake in the movement to a low carbon economy.

We have found the best engagement in our area with schools, churches and sports clubs. Earlier this month, on the 5th and 12th July, when we asked our community for its views on locally-backed projects to address climate change and raise awareness of the importance of energy efficiency, we received fulsome support. It is not just the panels that make a difference; it's the increased level of engagement with meeting the challenge of Climate Change through local community involvement.

Background 2: Our plans and our development process for new projects

As a precursor to our responses to your questions it is worthwhile laying out our own plans and the practical development process that we have been going. This is both to establish ourselves and our business proposition and to engage with those Community building owners and tenants that we are targeting and with the variety of other stakeholders that need to be involved to achieve a successful solar installation. We got started about 9 months ago.

In the business plan we put into our applications to become a CBS and set up a bank account we estimated that we might in the course of the coming year invest some £300, 000 in some 300kW of solar panels on a portfolio of 5-6 roofs in South London and generating enough electricity over a year to match the quantity consumed by about 50 households. In those applications we anticipated that we would get to the 300Kw portfolio in 2 steps; the first to set the basic platform for our share issue in late Autumn this year for some 140Kw(matching the annual consumption of 24 householdsmatching our organisation's number!) and the rest to get delivered later.

The development process has several steps, most repeated in respect of each property we look at.

- Registering the CBS for VAT purposes and for tax relief with HMRC
- Opening a bank account and applying for grant funding (which is conditional on having roof owner/tenants interested in our solar investment proposition).
- Confirming with the roof owner/tenant and their governing bodies that they are willing, in principle, to enter into a 20year lease with us in return for half price electricity when the panels are generating
- Conducting a generation survey and feasibility test that establishes a preliminary design layout for the solar panel arrays.
- Confirming with the District Network Operator (in London this is UK Power Networks) that there is sufficient capacity in the local system to take the electricity generated.

- Undertaking roof condition and structural surveys to ensure the roof structure and coverings are suitable for a PV installation with at least a 20 year life.
- Getting a (initially conditional) 20-year lease in place between the Roof Owner/tenant and SE24 to clarify mutual responsibilities and provide a framework to work together to protect the investors' income, secure the low price for the energy the Club consumes and protect the roofs and PV installations.
- Getting a Lawful Development Consent from the Local Authority (Southwark or Lambeth in our case). This plus a grid connection are necessary to apply for a FiT accreditation or pre-registration.
- Becoming accredited or pre-registered and entitled to a particular level of FiT and arrange for appropriate export of electricity with a Power Purchase Agreement to a licensed supplier.
- Raising the required capital through a share offer and getting this approved by the FCA.
- Holding a competitive tender for the installer(s) and awarding a relevant price and performance warranty/contract.
- Instructing the installer(s) and getting the connection(s) commissioned.
- Triggering the insurances and ongoing operation and maintenance arrangements (including meter reading and mechanical performance monitoring, replacement and repair as arises).
- Triggering the administration of arrangements to use excess cash to meet our Community Benefit objectives (tackling fuel poverty, encouraging and taking steps to get improvements in energy efficiency and raising awareness of Climate Change).

In order to get roof owners/tenants to agree to work with us they have to be taken through this process and commit time and energy to seek approvals and consents as necessary. There is a lot of up-front investment in time and money on both sides. The steps forward are progressive and need consistent attention. A lot of hard work has to be put in. For the Community Building owners entering into a 20 year lease is not something to be done lightly and does entail some additional risks associated with the constraints on being able to get access to the roofs and do what may need doing (eg for repair) which can disrupt income and trigger compensation payments. So there needs to be a reliable commercial incentive to get involved as a quid pro quo for entering into a lease. Thus the half price electricity headline.

A key point in the sequence of events in our engagement with roof owners/tenants is the importance of describing a commercial deal at the start which remains robust through the process, till the lease is signed, finance is raised, installers are contracted and commercial operation is achieved. The predictability of the revenue stream with a stable, known FiT tariff is a fundamental component of this predictability. For a community organisation like SE24 where most are part-time and all are volunteers, dealing with Community roof owners/tenants who are not experts this development process takes time and the year's grace provided by pre-accreditation or pre-registration is a vitally important source of stability to the development and negotiation process.

The Government's announcement that it is minded to withdraw pre-accreditation and is also reviewing the level of the FiTs for solar and other technologies over and above the normal digression process **has come as a shock**. It threatens to undermine our ability to say that the FiT system is stable and reliable for our community building owners and tenants and for the potential investors that we have been speaking with. We are going to have to deal with any concerns that your announcement will provoke and most likely ask for the forbearance of our community contacts whilst we wait the outcomes of your reviews. The potential that the future looks very much less reliable than the past

will certainly delay our progress and may lead to at least some of our community roof owners/tenants deciding against going ahead.

Your Questions and Our Answers

Question 1. *Do you agree that, in the context of deployment and spend under the FIT scheme significantly exceeding expectations, it is appropriate to remove the ability to pre-accredit from the FIT scheme*

Answer 1. Our understanding of the reason for the forecast over-spend against the LCF budget(eg the £9. 1 billion now projected compared to the £7. 6 billion) is as follows;

1. Wholesale prices have out-turned lower than expected (key for CfD pay-outs);
2. More projects have come forward under the RO and FiT schemes; and
3. Production volumes per project have been higher than predicted.

It seems to us that;

(1) wholesale prices are, by their nature, unpredictable and are now at very low levels. Consumers will benefit from that price weakness, off-setting the impact of higher CfD payments. Has someone looked at this off-setting impact for consumers?

(2) and (3) combined will mean that less CO2 is being produced than otherwise and that less low-carbon capacity will be required later to meet the targets and should speed up the rate of digression in FiTs according to the methodology that DECC employs. The £9. 2 billion figure we understand has not taken into account these effects...which could be interpreted as good developments for the consumer in the medium term. Has someone looked into these off-setting effects?

We are far from convinced that removal of the pre-accreditation approach represents a balanced long-term solution to the current forecast over-spend especially for community organisations like ours. Rather, let the digression process take its proper course of evolution to lower FiT rates. But don't destroy our capability to attract roof owners and tenants to get into a process where the benefits articulated to them at the start remain robustly available through to the start of commercial operation and through the course of FiT period.

Question 2. *Are the assumptions made above on the impact of removing pre-accreditation reasonable? Please provide robust evidence to support your response*

Answer 2. In our prior statements we make it clear that the state of uncertainty on final FiT rates introduced by removal of pre-accreditation threatens the capability of community organisations to do commercial deals with community building owners and tenants because we won't be able to articulate a specific commercial proposition and then stand by it till when commercial operation commences...perhaps as much as a year later. It is not primarily a question of higher costs of capital...although that may be the main impact for larger commercial organisations.

It might also be worthwhile explaining how we are going about getting deals done with the community interests that we are speaking to and the type of commercial negotiations that are involved.

As articulated above, we start out by offering a very simple deal to the roof-owner/tenant. They get half price electricity, we pay for the procurement of panels, installation and operation and they receive the panels at the end of the FiT period when the lease also expires. When all the costs are better locked down (as the installers are

selected and on-going operations costs are contracted for, such as insurances) we run our financial models to see the pattern of cash flows available and determine that there is enough cash from the FiT revenue-streams (for generation and export) and from the Power sales on site to the community partner tenants at a minimum to cover operating costs and provide the expected (philanthropic) return to investors. We share these results with these community partners as to where the cash flows are going and what surpluses are estimated to be available to pursue our charitable community interests (as referred to earlier), often as not with their participation. It is a completely transparent process. Because the revenue streams are predictable, it is a relatively straightforward conversation.

If we did not know what the relevant FiT rates were until practically at the point of commercial operation we would be having to re-open that commercial debate at that late stage. It could easily unravel as some approval processes may have been conditional on certain levels of commercial benefit. .

Question 3. *Are there additional measures which could achieve the objectives of encouraging deployment under the scheme while ensuring value for money under the LCF*

Answer 3. The current scheme of pre-accreditation and digression in response to deployment and performance has been successful in encouraging Community Organisations like ours to engage with our local community and seek ways to involve them in the path to a low carbon economy. One of the approaches we are adopting is the use of competitive tendering in choice of contractor/installer which we hope will bring downward pressure on costs. We are also wedded to the transparent sharing of financial information with our community partners as a means of ensuring a fair sharing of revenues and benefits. To the extent that the community involvement has the hoped for larger impact of encouraging improved energy efficiency and awareness, this will lower demand and itself make carbon targets more achievable within the LCF.

Question 4. *Are there groups or sectors where it may be appropriate to reintroduce pre-accreditation in the future*

Answer 4. Community organisations like ours need pre-accreditation to provide a framework which allows us to get through the development process successfully and keep the faith of our partners that the deal put on the table at the start on the basis of a pre-accredited FiT rate is a stable platform as we negotiate the final deal...potentially a year later. We don't need pre-accreditation to be re-introduced later. We need it to be maintained now.

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SE24