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Consultation reference: URN 15D/435

Dear Sir/Madam,

We are pleased to enclose our response.

### **About Highlands and Islands Enterprise**

Highlands and Islands Enterprise (HIE) is the Scottish Government's economic and community development agency for an area which covers more than half of Scotland. We work with high growth businesses, social enterprises, communities, public and third sector organisations to build sustainable economic growth across a diverse region which stretches from Shetland to Argyll and from the Outer Hebrides to Moray. We are committed to continuing the development of the Highlands and Islands as a competitive region which is home to strong communities, successful high growth businesses and offers an excellent quality of life.

Within our remit, we represent some 350 community energy schemes including 33MW of operational income generating assets and a further ~400MW of development pipeline

We have taken the lead role in supporting and enabling community –led renewables for over a decade in our region, so that our communities can maximise the opportunities from community benefit or ownership of renewable energy. Communities across the Highlands and Islands have been supported by us to harness the transformational potential of renewable energy and today a significant number of communities enjoy strong income streams from renewables which they invest, in turn strengthening their communities.

Driving our support is the underpinning evidence we have to demonstrate the transformational impact which can be achieved when communities become autonomous with reliable income streams from commercial activities – and go on to acquire assets, create jobs, deliver local

services and grow populations, demonstrably and sustainably strengthening their communities for the long term.

### Consultation response

We have addressed the most relevant questions in the following pages and summarised our response below.

- The Feed in Tariff has had a major beneficial impact on the deployment of renewable energy schemes across the Highlands and Islands. Highlands and Islands Enterprise supports the UK Governments objective that we can, and should be aiming for a largely subsidy free energy system in the near future.
- Cuts as proposed in this consultation will severely compromise the progress to date and render existing schemes unviable. This will make void the investment that has already been made through the FiT and other government incentive schemes.
- We strongly suggest that the government should be more proactive in developing a more impactful revised FiT programme which enables communities and social enterprises to make a smooth transition from FiT to cost effective subsidy free renewable installations, whilst maximising (rather than writing off) the value invested in schemes under development.
- We propose that a more strategic approach is taken with the FiT programme being adjusted to save money for energy consumers but also to ensure that community groups and social enterprises continue to develop low carbon energy generation, recognising the wider strategic outcomes enabled and public sector cost savings which then accrue.
- We specifically propose that the pre-accreditation is reinstated from January 2016.
- We suggest that the government considers a specific allocation for community energy projects to ensure that the remainder of the FiT allocation ensures the best value for money in terms of social and economic return.
- We can demonstrate that ending the Feed In Tariff in 2016 or reducing the amount available to community and local energy schemes would have extensive and exponential (versus FiT saving) adverse economic and social impacts on the both the community and private sector across the UK.
- We strongly suggest when considering any revision to the FiT scheme, the pioneering, work into the future proofing our energy infrastructure, as a result of FiT support, is recognised. The FiT scheme has enabled and supported the development of local energy systems which match demand and supply through deployment of world leading innovation in smart energy systems, low carbon technologies and advanced storage systems
- As a result of these proposed changes to the FiT scheme, 148 community energy pipeline projects across the Highlands and Islands alone would no longer progress, a total of £ 16.3 million of sunk public and private sector development costs would be

written off, as would the opportunity for an annual production of 1.5 million MWhrs of sustainable, low carbon electricity per and displacement of 670,000 tonnes of CO<sub>2</sub>e. Furthermore, and importantly, £151 million in essential income would be lost to the communities sector.

- The energy sector accounts for around 7% of the region's workforce. Employment linked to these sub-sectors is undoubtedly important in the Highlands and Islands and reflects the high number of renewable and low carbon projects that have been taken forward in the region in recent times
- *Question 1- Do you agree or disagree with the proposed generation tariff rates set out in the consultation?*

The new tariff levels '*seek to provide sufficient investment for the deployment of well-sited projects, providing a rate of return appropriate to market conditions*'. Community energy projects are geographically restricted and therefore they are not able to select sites purely on maximum rate of return. Therefore we disagree with the basis for the proposed generation tariff structure and would strongly recommend that additional consideration is needed, together with support a further review of costs specifically for community energy projects.

- *Question 2 - Do you agree or disagree that the updated assumptions produced by Parsons Brinckerhoff are reflective of the current costs of deployment for UK projects in your sector?*

We can evidence that the hurdle rates for community energy projects are higher than for commercial counterparts. Community –led renewable energy schemes are constrained geographically and can very rarely 'cherry pick' the best sites for development. Community projects face longer timeframes for development. Further, across the Highlands and Islands, costs are higher due to increased cost of deployment in more remote areas. To compensate and allow equal market access, this should be fairly reflected in the tariff structure for remote areas across the UK. This could be through a means of uplift for the proposed community tariffs, a less severe degression timeframe or combination of both. This could be reflected in the tariff levels by uplifting the proposed tariffs (for each technology and tariff band) by the difference between the 'standard' hurdle rate and the community hurdle rate.

- *Question 3 - Do you consider the proposed default degression pathways fairly reflect future cost and bill savings assumptions in your sector?*

Firstly, we propose that pre-accreditation be reintroduced for communities, as defined in the FiT order, from January 2016. Community projects take longer to develop and are often reliant on volunteer time and effort. Deployment costs are not likely to reduce at the same rate as commercial counterparts due to the bespoke nature and smaller scale of the developments. The proposed system will render community energy schemes vulnerable to multiple degression incidents. This will compromise the economic viability of sites.

Further, we suggest that quarterly degression will create unnecessary and further uncertainty in the investor market. The investor market has been developing and growing in confidence over the past decade. The move to quarterly degression will be counterproductive to encouraging inward investment in the energy market in the UK.

- *Question 5- Which of the options for changing the export tariff outlined above would best incentivise renewable electricity deployment while controlling costs and enabling the development of the PPA market?*

We do not support withdrawing the export tariff for community energy schemes over 50KW.

Further, we propose that an export tariff to incentivise local energy supply and storage of energy for community energy schemes be brought forward. Grid constraints across the Highlands and Islands (and indeed across Scotland) mean that local energy resources are unable to be connected to the grid until there is further significant investment in the national grid infrastructure. There are over 50 local energy systems in development across the Highlands and Islands and these schemes are a test bed for innovative energy system integration and should be encouraged. The outcomes derived from such schemes exceed energy generation and include deployment of world leading innovation in smart energy systems and low carbon technologies, pioneering demand-side management techniques and advanced energy storage systems. It is these strategic and policy outcomes which should be directly driving changes to the energy environment, mindful of costs, not costs alone.

Further, we propose that any export tariffs structure take full account of geographic variations across the UK in the costs for transmission and distribution, ensuring a level playing field in the market.

- *Question 8 - Do you agree or disagree with the proposal to introduce deployment caps under the FiTs scheme?*
- *Question 9 - Do you agree with the proposed design of the system, (i.e. quarterly deployment caps broken down by technology and degression band)*
- *Question 10 - Do you agree or disagree with the proposed approach to implementing caps?*

We propose that there should be a 'dedicated community energy budget' and a prioritised focus to ensure that the Feed in Tariff is prioritised to enabling projects with wider social benefits to be prioritised with the remaining budget.

The original intention of the FiT was to support domestic and community energy: "The beneficiaries of this scheme are non-energy professionals and include for instance households, community groups and schools". However, the bulk of support to date has gone to domestic installations and commercial developers. Less than 1% of operational FiT projects are community owned (c120MW out of 3.5GW, of which almost 1/3<sup>rd</sup> is from community owned assets in our region). The allocation of support to date clearly fails to recognise community projects provide additional and long term strategic benefits and provide higher value for money for public investment.

There are 148 community FiT scale projects in development pipeline in the Highlands and Islands (See Table 1). £16.3 million of development stage investment will be lost should these projects not proceed. It should be noted that the majority of the investment in the high risk development stages of these projects has been from the public sector. We propose that at least 50% of the remaining allocation of FiT budget is allocated towards community energy projects to maximise this development pipeline.

Without this support, the community sector will lose an estimated £151 million in income directly into the hands of our communities. Realising this income can secure long term policy objectives and strengthen communities to deliver a full range of UK government policy objectives. Allocating this budget would leave a legacy in line with the original aims of the Feed in Tariff order.

**Table 1 - Highlands and Islands region community energy FiT scale projects**

FiT project type	Number	Anticipated energy production (MWhr/annum)	CO <sub>2</sub> e displaced (tonnes/annum)	Sunk development costs (£ million)
Local energy systems (generation, supply and storage)	58	12,001	5,309	5.8
Generation only	90	1,50,4270	65,459	10.5
<b>Total</b>	<b>148</b>	<b>1,516,271</b>	<b>670,768</b>	<b>16.3</b>

Reducing or removing the FiT would mean the loss of a significant level of clean, low carbon energy generation and displacement of 670,000 tonnes of greenhouse gases.

- *Question 11 – If it is not possible to sufficiently control the costs of the scheme at a level that Government considers affordable and sustainable, what would be the impact of ending the provision of a generation tariff for new entrants to the Scheme from January 2016, ahead of the 2018-19 timeframe, or alternatively further reducing the size of the scheme’s remaining budget available for cap?*

We can evidence that ending the Feed In Tariff in 2016 or reducing the amount available to community and local energy schemes will have extensive and exponential (versus FiT saving), adverse economic and social impacts on the both the community and private sector across the UK. These adverse impacts are avoidable, if an innovative approach to ensuring intended policy objectives from this FiT is taken now as an alternative to the proposals put forward.

Further, we can evidence that ending the FiT early will mean a loss of jobs within the sector. We are currently witnessing significant job losses in the industry as a result of the early closure of the Renewable Obligation (RO). This impact is likely to be further compounded by the reduction or early closure of the FiT scheme and will be especially significant in more remote and peripheral areas of the UK such as the Highlands and Islands.

Research undertaken by HIE in 2013 found that there were over 15,000 jobs in the Highlands and Islands related to energy – including renewable energy, oil and gas, nuclear decommissioning and transmission and distribution. The total employment base across all sectors of the Highlands and Islands economy in 2013 was c. 200,000. Therefore, the energy sector accounts for around 7% of the region’s workforce. Employment linked to these sub-sectors is undoubtedly important in the Highlands and Islands and reflects the high number of renewable and low carbon projects that have been taken forward in the region in recent times.

Removing the FiT scheme without a compensatory scheme for the added benefits would severely compromise the supply chain industry. Our region has a well-established energy sector

– through large scale hydro projects, exploration and recovery of the North Sea oil and gas, and supporting on-shore and off-shore wind. In recent years an increasing number of businesses have been diversifying to service the growing renewable and wider low carbon energy sector, particularly marine and community renewables. These supply chain companies provide essential employment opportunities across the region and throughout Scotland.

Moreover, the economic and social consequences arising from the proposals would require mitigation from the public sector and the identification of much greater budgets (than savings proposed) in order to achieve the same lasting and sustainable outcomes for communities. In short, these proposals will increase the costs to the public purse in the long term.

With the drive to achieve the lowest cost of energy possible and reduced subsidy support, it can be a real challenge for the region's supply chain companies to offer attractive and competitive proposals against other, more established UK and European competitors. The proposed changes to the onshore wind support mechanisms in particular (including this FIT review, the removal of the pre-accreditation for FITs, the early closure of RO and uncertainty around the future CfDs) will have a disproportionately negative impact on the region's supply chain – resulting in the loss of local supply chain opportunities and associated employment and income losses in the region.

Reducing or removing the FiT scheme for community energy schemes will have a negative social and environmental impact across the Highlands and Islands. Community energy schemes help rural communities capitalise on the natural resources around them, and using them to develop cost effective, environmentally beneficial energy solutions for their residents. They support community capacity building, enabling communities to work together to address shared challenges and exploit shared opportunities. They create cost savings for businesses as a result of reduced energy consumption, support the long term environmental sustainability of the region by reducing dependence on fossil fuels and enhance the region's reputation for a having a clean and high quality environment. Income from community owned renewables enable communities to reinvest, creating jobs, delivering local services, enhancing the attractiveness of their communities as places to live and in turn, increasing population. Macro policy outcomes are demonstrably achieved with the catalyst of community owned renewables, the benefits from which, in addition to clean energy generation, will be lost if these proposals to amend FiTs are implemented. Short, medium and long term cost increases will be incurred across other public sector budgets necessarily, greatly in excess of FIT savings, in order to achieve the intended policy objectives.

*Question 12 – what would be the impact of pausing applications to FiTs for new generators for a short specified period to allow full implementation of the cost control mechanism?*

Pausing applications for the FiT scheme would create a rush of applications in a short timescale and as such is likely to be counterproductive. Importantly, it is also likely to put added pressures on community energy projects to consider whether to take forward the project in light of recent policy signals. In addition, pausing applications would also create further uncertainty in the investor market. Investor confidence has been building up over the years and this would have a very negative impact with investors likely choosing to go elsewhere. This would have a negative impact on the entire sector in the UK. We therefore suggest that DECC consider continuing applications whilst pursuing a clear messaging strategy to increase investor confidence in the sector.

*Question 14 – Do you have any views on the use of competition to prioritise applications within a system of caps? What do you think are the advantages and disadvantages of this approach?*

Competition could be a valuable mechanism if this is designed to maximise social and community level economic return on FiT investment, together with enabling criteria such as promoting equal access to communities and remote communities. Competitive measures which focus solely on cost, rates of return and similar metrics demonstrably disadvantage particular communities where scale of development is limited and opportunities to exploit a variety of technologies are not presented, due to site, land availability or geographic constraints.

We would reiterate the initially intended policy objectives for this FiT should be the outcome in focus of any proposed competition to prioritise applications, i.e. to enable community groups to benefit from the transformational opportunities which renewable energy asset ownership brings, and the securing of prosperity for future generations within fragile communities which the resulting income streams represent.

*Question 15 – Should FiT be focussed on a particular technology or particular group?*

Innovation within the community energy sector has driven some of the most dynamic technical developments across the entire sector - in energy storage, local energy economies and energy use, in recent years.

The UK is recognised and within the UK, the Highlands and Islands region in turn is recognised as a globally known leader and innovator in both the community assets and community-led energy sectors.

We strongly suggest that FiT should be focussed on enabling the continuation of development of innovative renewables schemes, building on the skills and knowledge based accrued with public and private sector investment to date but with due cognisance of the far reaching impact and scalability of new and innovative models which are being originated within the community-led sector, and scaled and exported with national and international benefits accruing.

Similarly, we would strongly recommend an approach to focus FiT preferentially in those areas shown to be experiencing social and/or economic fragility and where the FiT impact will in turn result in greatest social and economic return.

*Question 21 - Do you agree or disagree that the FiTs scheme should be amended to include requirements that help mitigate and limit the impact on grids such as requiring generation to be co-located with demand or storage?*

We disagree that the FiTs scheme should include further requirements to mitigate and limit the impact on grids. To implement further constraints to a scheme which is already facing severe cuts would be counterproductive

As an early investor in the concepts of 'Local Energy Economies', we are clear on the potential which this approach brings for our most remote and rural communities and local grid management. As a result of the FiT and through the development of these local energy economy projects, innovation in demand-side management, active network management and deployment of smart grid management systems has been implemented across our region. Without the FiT

scheme, this may not continue and essential pioneering and world leading work into the innovation of energy systems will be lost.

Further, whilst we appreciate the requirement to help mitigate the impact on grids/undertake energy demand management and to move to integrated/smart energy system solutions including local energy systems, this should not divert from the case for investment into the grid infrastructure, in particular for the Scottish islands. It has been acknowledged by both UK and Scottish Governments that the Scottish islands due to their huge renewable energy resource could make a substantial, cost effective, contribution to the governments' 2020 renewable energy targets and longer-term climate change ambitions. This comes at a cost of investing in grid infrastructure which in turn is predicated by commitments from island developers to invest in projects, including those of small scale. Meanwhile the projects on these islands will face higher transmission charges than their mainland counterparts and whilst work is ongoing to reflect the islands grid issues through the island CfD strike price for larger scale onshore wind projects, any further constraints introduced to the FIT scheme should also be cognisant of these issues.

This concludes our response to the consultation.

As can be shown, our region and our Agency has both assets and experience which we have deployed over time to bring about transformational change for our communities, catalysed by the opportunities within renewable energy ownership.

The proposed FiT changes do not appear to have been considered in terms of the social and economic adverse impacts which will result, not the inevitable increase in public sector spending which will have to occur to mitigate these impacts. Maintaining or redesigning FiT schemes would be a highly cost effective way for Government to powerfully achieve energy, economic and social policy objectives.

We would be very pleased to offer any support, evidence and share data to enable a revised, more impactful and enabling approach.

Yours sincerely



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