

Annex 5: Community and local energy support

Helping our communities to reach net zero

December 2021

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1. Introduction

Customers and stakeholders have told us they want our help and support to enable them to meet their decarbonisation and net zero targets. They recognise the role of the electricity network in facilitating their ambitions and the potential barrier of unaffordable grid connections. They have also told us they trust us as a source of information and they think we have a role to play, beyond delivering network connections, in helping them understand what actions they can take.

This is a particularly strong message from our communities, many of whom are working together to deliver community led projects to reduce their carbon footprint from energy consumption. There are many different ways communities are working together but community and local energy involves individuals coming together through a new or existing organisation to tackle decarbonisation of their community. The results are often community owned low carbon energy generation projects, electric vehicle (EV) charging points or communities working together to support each other to deliver energy efficiency, heat pumps and other measures within their homes.

Throughout the ED1 period we have been delivering a dedicated service to support community and local energy customers and stakeholders – a service described as ‘best practice’ by independent organisation Regen, a not-for-profit energy expert with specialisms in community energy and electricity networks. We intend to build on this success in ED2, scale up our support to meet the increasing demand we are experiencing for this service, and meet the increasing ambitions of our customers and stakeholders.

We have co-created our ED2 proposals in partnership with customers and stakeholders and this is reflected in the high level of support we received through our “willingness to pay” and acceptability testing.

- Customer “willingness to pay” for our community and local energy service is £1.32 at the 80th percentile (based on our original higher cost proposals)
- These same proposals received an 83% acceptability score when tested with customers.

In addition to customer support our community and local energy service also performs well at delivering an economic return on investment, particularly with regards to value for money for the customer. Research shows that the cost of community energy finance is generally 2% cheaper than commercial finance¹ which means community energy can deliver decarbonisation at a lower overall cost to the customer.

In addition, research shows that community energy can deliver a better economic return to the community compared to commercial developments, which means communities can capture additional value from developing their own projects. Two reports have recently been published that show the life-time additional benefits from community energy. The [first](#) from Devon County Council with CAG Consulting showed a life-time additional benefit of £15.9million from a power purchase agreement (PPA) with community energy rather than with commercial partners to deliver a 30MW solar farm; and the [second](#) from Point and Sandwick Trust and Aquaterra, a large Scottish community windfarm which showed community wind delivered 34 times the benefit of commercial installation.

We have also undertaken our own social return on investment assessment of our ED2 proposals to ensure we are prioritising investment into services that will deliver a return for customers. Our

¹ <https://tyndall.ac.uk/projects/financing-community-energy-project>

research shows that the community energy fund we are proposing as part of our service for ED2 will deliver:

- £1.70 social return on investment (SROI) for every £1 invested over ED2, and
- £5.27 for every £1 invested over a 10-year period.

Electricity North West, as the region's DNO, is in a unique position to be able to support our communities to realise these benefits through the delivery of community energy. We can use our understanding of the network, our ability to enable grid connections alongside our trusted position with our customers to deliver the tailored support they require.

Helping our customers take action is a core part of the work we'll do to 'lead the north west to net zero', the overarching commitment in our Business Plan for 2023-28. We've broken our customers down into the three main groups we work with: community and local energy groups; our domestic customers; and our business customers. For each of them we will be providing bespoke information, advice and support to help them take action to reduce their CO₂ emissions, for their benefit, the communities here in the North West and those right around the world, as we work together as part of a global effort to tackle the climate emergency.

The help we'll be providing to community and local energy groups is set out in this annex. Our work with domestic customers will be based on our Annex 8 **Electricity Users in Vulnerable Circumstances Strategy**, helping them to benefit from energy efficiency and the adoption of low carbon technologies. And for our business customers we'll be delivering a new business engagement and support programme.

This annex introduces community and local energy in the North West region, what support our stakeholders and customers have told us they need and our vision for meeting these requirements in ED2.

Our RIIO ED1 highlights:

- First DNO to publish a Community and Local Energy Strategy, including 24 commitments to support the community and local energy sector in our area;
- Successfully piloting a community energy seed fund called "Powering our Communities" which has supported 19 projects to date;
- Launched a 'Go Net Zero' portal on the ENWL website which includes dedicated community and local energy support with free advice, resources and case studies.

In ED2 we will build on this experience and track record to expand our service and ambition, informed and led by our customers and stakeholders.

1.1 Summary of our service to community and local energy customers for ED2

Our vision for engaging with and supporting community and local energy customers and stakeholders is:

To continue with our dedicated service to maintain an in-depth understanding of the issues and barriers facing the sector; and to continue to use this intelligence to develop and shape our services. This will ensure we are meeting our customers' and stakeholders' expectations when Electricity North West supports them with their journey towards net zero.

Specifically, we will deliver:

1. A clear strategy with an action plan that illustrates how we are responding to stakeholder needs so they are able to hold us to account;
2. A dedicated resource, newsletters, regulation and policy updates, web resources, and engagement events to facilitate ongoing engagement;
3. An enhanced 'Powering our Communities fund' to the value of £1.95m for ED2;
4. A new £1m delayed payment scheme for connections of community owned low carbon technology.

This service will deliver benefits to individual and group schemes as well as the whole customer base, including but not limited to:

- Carbon savings;
- Adoption/installation of Low Carbon Technologies;
- Reduction in fuel poverty;
- Green jobs;
- Local economic benefits;
- Capacity building and skills development within communities to enable them to take part in the energy systems and net zero transition;
- Supporting a Just Transition by engaging communities and groups of customers who might otherwise get left behind.

The enhanced ED2 community energy fund will deliver additional benefits beyond the value of the direct funding, estimated to be:

- £2.70 SROI for every £1 invested over ED2, and
- £6.27 for every £1 invested over a 10-year period.

The total cost of delivering this service in ED2 will be £3.2m and will involve an additional member of staff being recruited to the Community Energy Team, amounting to two dedicated posts for this service, with wider support from across the business.

This will ensure that Electricity North West provides an appropriate level of services for the region's community and local energy groups, and also provides an additional mechanism to engage hard to reach groups such as vulnerable customers in fuel poverty. The proposals outlined here form a specific strand of our customer and stakeholder engagement on net zero. As well helping groups to take practical action themselves, we'll also ensure their views inform the work we do to ensure our

network is fit for a net zero future. We call this network-focused work the 'DSO transition', which is covered in detail in our DSO Transition Plan.

2. Understanding the issues facing our customers and how this informs our approach

Since October 2017 Electricity North West has employed a dedicated Community Energy Manager who has developed an open and honest dialogue with the customers and stakeholders in this sector, meaning we have an in-depth understanding of the issues our customers are facing. This relationship has been nurtured through a commitment to early engagement on projects and ideas, and a willingness to understand their aspirations and to develop solutions and services in response to their issues.

2.1 What is community and local energy?

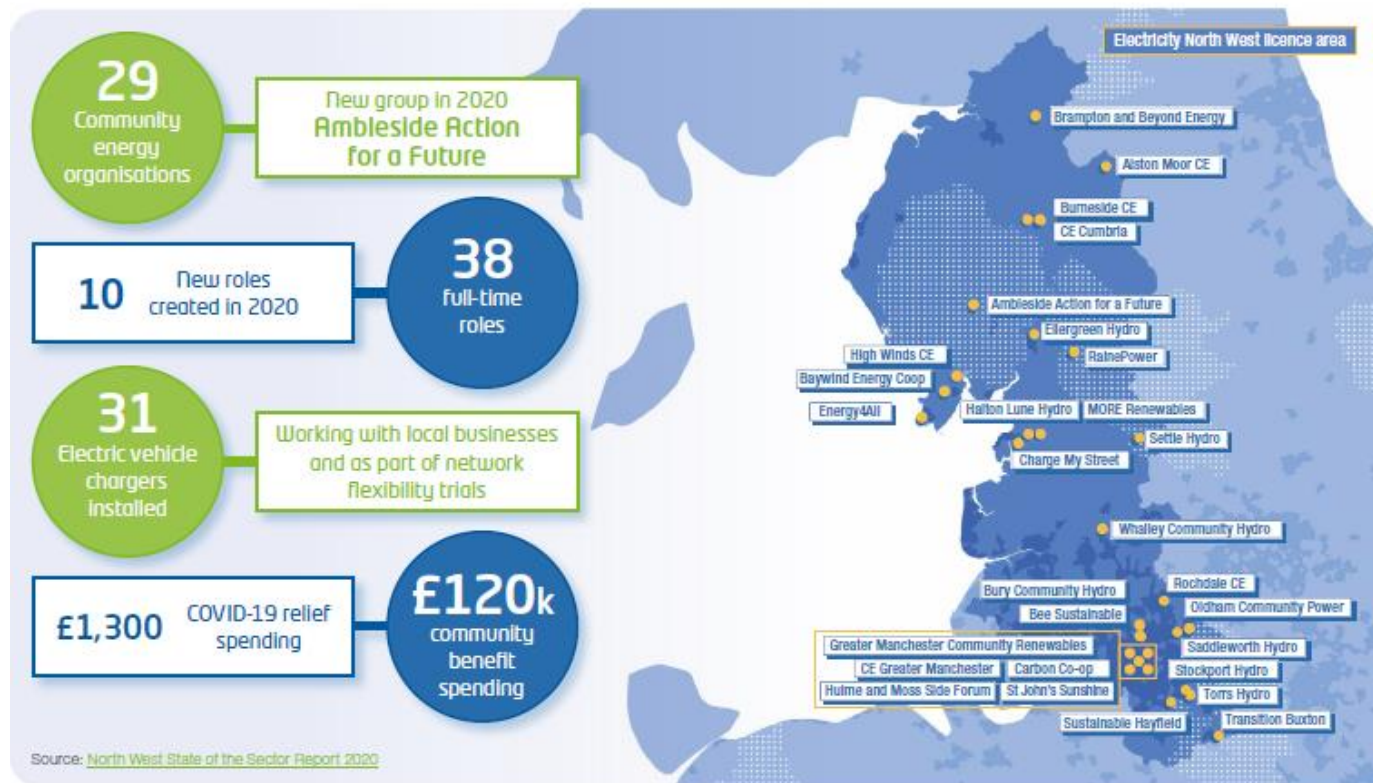
Community energy involves community-led projects or initiatives that reduce, manage, generate or purchase energy. Community energy projects focus on engagement and benefits for local areas and communities.

Local energy projects also includes the activities of a wider set of partners such as local authorities, housing associations, intermediary or advisory organisations and local businesses. These projects may have a commercial aspect to their delivery but are also likely to benefit their local area and community.

2.2 Community and local energy in the North West

Our most recent '[State of the Sector](#)' report provides vital intelligence about community energy organisations in our region and helps inform how we develop our support for the sector. Figure 1 shows the key headlines from the latest survey and the locations of community-owned organisations the North West of England, identified by the 2020 survey.

Figure 1:
Community energy groups in the Electricity North West area



As Figure 1 shows that the community and local energy sector in our region is expanding with 29 groups, including one that was established during 2020 despite COVID restrictions. The sector supports 38 full time roles with 10 new roles being created during 2020. It was also able to disburse £120,000 of community benefit during 2020.

2.3 Increasing demand for our service

Since 2017 we have seen an increasing demand for our service as follows:

- The number of people we engage with through our community and local energy stakeholder engagement activities has **increased 34%** between 2018/19 and 2020/21
- The number of community and local energy projects we have supported has **increased 95%** over the same time.

The State of the Sector survey report shows that community and local energy groups are delivering decarbonisation activities in their local area, making important contributions to the North West's just transition to a net zero energy system. Across our licence area the 29 existing community energy groups are already involved in renewable energy generation schemes, energy efficiency work, fuel poverty alleviation and low carbon transport projects. To date, most community and local energy organisations are asset holders but many also interact with communities, for example engaging with education initiatives or in the case of local housing associations, engaging with tenants.

In addition to these established groups, we also know there are many existing community organisations such as Parish Councils, Sports Clubs and existing environmental groups who are starting to investigate how to get their communities to net zero. This is one of the factors driving the increase in demand for our service.

We have also observed that communities are becoming more ambitious in their plans and the support they expect to see from us. That observation is supported by the State of the Sector survey results and the comments that groups and individuals have made to help us develop our ED2 Business Plan. We are also seeing an increase in ambition from the type of enquiries we are receiving which is leading to more complex requests for support. For example, community and local energy organisations are considering connecting multiple low carbon technologies (LCTs) as part of one project, and/or aiming to deliver community-scale decarbonisation of heat in off-gas grid areas. We are already providing extra resources for these enquiries by supplementing the existing community and local energy service with dedicated LCT connections engineering support which will be further expanding in ED2 with additional Community Carbon Engineers. Further details of how this support will be provided in ED2 are in [Annex 2 DSO Transition Plan](#).

2.4 Stakeholder engagement approach

As a business we are committed to stakeholder engagement. Stakeholder engagement is vital to the success of our business because it drives everything we do. This is particularly true for community and local energy because it is an emerging sector that is rapidly changing and developing, and we rely on stakeholder input to help us respond appropriately. We are very grateful for the time that all our stakeholders take to give us feedback and share their insight and thoughts with us. We appreciate it takes time away from busy lives, particularly as many community and local energy stakeholders are volunteers.

2.5 Stakeholder engagement tools

We have used a wide variety of stakeholder engagement and customer feedback tools to find out what is important to our community and local energy customers and wider stakeholders and what issues they face. We have developed strong relationships with the sector in our region which helps make our conversations with customers honest and meaningful.

To illustrate how we have listened and responded to stakeholder feedback Figure 2 shows what we have heard from stakeholders and our corresponding actions. We reported similar information back to stakeholders in our second Community and Local Energy Strategy published in September 2020.

Figure 2: You said, we did

| You said | We did | Outcome |
|---|--|--|
| <ul style="list-style-type: none"> Access to Electricity North West | | |
| It's not always easy to find the right person to talk to | <ul style="list-style-type: none"> Appointed a dedicated Community Energy Manager Developed a dedicated section of our website to provide extra resources and to help navigate the information available | <ul style="list-style-type: none"> Over 247 enquiries received and handled by our Community Energy Team Dedicated Community Energy Manager most popular aspect of our service in our recent customer survey (77% find it useful) |
| The language you use is very technical and sometimes it is difficult to understand what you are talking about | <ul style="list-style-type: none"> Reviewed our website against Plain English guidelines and will apply to all future communications Produced an 'Introduction to Electricity North West' guide | <ul style="list-style-type: none"> There is still a low awareness of our connections surgery sessions Many of our processes are still difficult to follow for community and local energy stakeholders |

| You said | We did | Outcome |
|--|--|--|
| | <ul style="list-style-type: none"> Promoted our connections surgery and advice via our community and local energy channels | <ul style="list-style-type: none"> This will remain an area of focus in the coming years |
| <ul style="list-style-type: none"> Finance | | |
| The sector needs financial support, either direct support or help with making business plans viable | <ul style="list-style-type: none"> Launched a seed fund for community and local energy groups called 'Powering our Communities Fund' Encouraged early engagement to help identify the best point of network connection for projects Committed to investigating how to purchase community energy and/or enable it to be developed on our sites | <ul style="list-style-type: none"> So far, we have awarded 19 Powering our Communities Fund grants We have supported 37 projects with network connections applications and at least a third of these engaged early e.g. before a budget quote request We will pilot working in partnerships to deliver community owned PV on one of our sites |
| What are flexible services, and will it help me get additional income to my project? | <ul style="list-style-type: none"> Explained our approach in 1-2-1 meetings and via our newsletter Produced FAQs and supporting material for our website Launched flexible services newsletter and consultation events | <ul style="list-style-type: none"> Reduced number of questions about flexible services showing a better understanding among customers and stakeholders on our approach and requirements |
| <ul style="list-style-type: none"> Regulation | | |
| Regulation is difficult to understand, and we feel it is a barrier to developing financially viable projects, especially with the removal of the feed-in tariffs | <ul style="list-style-type: none"> Held a 'Community Connects' engagement event focused on regulation and local supply Developed meter splitting code modification briefing paper Included criteria within our fund to encourage projects looking at 'new ways of working' | <ul style="list-style-type: none"> Started producing a quarterly update on relevant policy and regulation Committed our support to the Local Energy Bill campaign being run by Power for the People Funding three projects looking at the feasibility of local supply |

Our Community Energy Manager is on the board of Community Energy England. We are also members of Regen which helps to give us insights into the issues affecting the sector nationally.

To find out more about Electricity North West's approach to stakeholder engagement, please see our Stakeholder Engagement Strategy in Annex 31 for more details.

2.6 Stakeholder engagement to inform ED2 proposals

The stakeholder engagement tools we have used to inform the development of our community and local energy proposals to support customers and stakeholders in ED2 include:

- Community and local energy evidence base for ED2 proposals research prepared for ENWL by Regen
- Interviews with key industry stakeholders
- State of the Sector surveys for our region (2018/19/20)
- Capture reports prepared after our engagement events which summarise what was discussed, what we heard and our internal and external responses
- Analysis of customer enquiries and correspondence we have received
- Iterative consultation, guidance and feedback from the sustainability panel
- Willingness to pay and acceptability research
- Feedback from our Sustainability Panel
- Feedback from our Customer Engagement Group
- Regional stakeholder engagement events

The following table summarises the evidence gathered as part of our stakeholder engagement:

Figure 3 Summary of ENWL’s community and local energy evidence base.

| Reason for ENWL to support community and local energy | Evidence |
|---|--|
| Stakeholder support | <ul style="list-style-type: none"> • ENWL Sustainability Panel support (documented in the meeting minutes) • Regen Community and Local Energy Research report which includes stakeholder support for proposals (see appendix 1) • Stakeholder feedback gathered to inform our Community and Local Energy Strategy which supports our approach² |
| Customer support | <ul style="list-style-type: none"> • Customer “willingness to pay” for our community and local energy service is £1.32 at the 80th percentile (based on original proposals) • 83% acceptability score. |
| Benefits to customers | <ul style="list-style-type: none"> • Carbon savings • Improved air quality |
| Business benefits | <ul style="list-style-type: none"> • Licence to operate / good community relations • Community energy sector could be 12-20 x larger by 2030³ • Diversity in customer base for network services e.g. flexible services • Innovative ideas / new services models developed as a result of new partnerships |

² <https://www.enwl.co.uk/globalassets/go-net-zero/community-and-local-energy/documents/strategy/community-and-local-energy-strategy-2020-2023.pdf>

³ <https://communityenergyengland.org/pages/2030-vision>⁴ <https://tyndall.ac.uk/projects/financing-community-energy-project>

| | |
|---|---|
| | <ul style="list-style-type: none"> Better understanding of future customer needs / requirements |
| Ofgem priorities e.g. decarbonisation at least cost | <ul style="list-style-type: none"> Cost of community energy finance 2% cheaper than commercial finance⁴ |

2.7 Stakeholder and customer support

We tested a package of support measures with customers through our ‘Acceptability and Willingness to Pay’ research. Originally, we proposed to “Enhance support for local and community energy projects, increasing our grant fund from £75,000 to £500,000 a year and providing a free dedicated support service”. In the qualitative phase of the Willingness to Pay Research customers responded that they wanted to see a more radical increase of the fund to a maximum of £1m per year. This is the proposal we took through our Willingness to Pay and Acceptability testing where it received an acceptability score of 83% from both domestic and business customers, and customers’ willingness to pay was valued at £1.32 based on the 80th percentile (not the mean) – a more cautious approach based on setting a higher level of acceptability.

2.8 Benefits measurement assessment

For a community energy fund at the level of £1m per year the subsequent benefits measurement assessment shows that the total net economic benefit per £ spent (SROI) was positive over a 10-year period, however, relatively poor compared to ED1 SROI benchmarks. This is, in part, due to uncertainty regarding the projects that will be funded, and benefits delivered. This, combined with uncertainty regarding the level of demand there is likely to be from the community and local energy sector for project funding at this scale of increase (despite the increase we have seen to date we can be certain there would be a demand for £1m per year) means that a £1m annual fund cannot currently be fully justified as a good use of our customers’ money.

Therefore, we have reduced the fund to £1.95m over ED2 and re-profiled the funding. In ED2, we will increase this fund to ramp up each year to meet predicted demand (details in section 3.3). In addition to re-profiling funding, SROI analysis was used with a re-calibrated weighting of funding towards indicative projects which have a relatively high societal benefit. The societal benefit delivered by establishing a new annual community energy fund (£1.95m over 5-years) was re-modelled on this basis. Figure 4 shows the output of this modelling and shows that through the action taken, the total net economic benefit per £ spent (SROI) improved significantly.

Figure 4: Benefits measurements for the proposal ED2 Powering our Communities Fund

| 5-year reporting figures | | |
|--------------------------|----------------------------------|---------------|
| Economic | Total cost | £1,609,010.99 |
| | Total gross present value | £3,587,877.18 |
| | NPV | £2,730,681.74 |
| | SROI | £1.70 |

⁴ <https://tyndall.ac.uk/projects/financing-community-energy-project>

| 10-year reporting figures | | |
|---------------------------|---------------------------|---------------|
| Economic | Total cost | £1,609,010.99 |
| | Total gross present value | £7,673,591.56 |
| | NPV | £8,473,585.86 |
| | SROI | £5.27 |

Further details of the customer research findings, willingness to pay, benefits assessment and triangulation can be found in Annex 1

3. Our vision for community and local energy support in ED2

Our vision for engagement with community and local energy customers and stakeholders is:

To continue with our dedicated service to maintain an in-depth understanding of the issues and barriers facing the sector; and to continue to use this intelligence to develop and shape our services. This will ensure we are meeting our customers and stakeholder's expectations that Electricity North West supports them with their journeys towards net-zero.

Specifically, we will deliver:

1. A clear strategy with an action plan that illustrates how we are responding to stakeholder needs so they are able to hold us to account;
2. A dedicated resource, newsletters, regulation and policy updates, web resources, and engagement events to facilitate ongoing engagement;
3. An enhanced 'Powering our Communities fund' to the value of £1.95m for ED2;
4. A new £1m delayed payment scheme for connections of community owned low carbon technology.

A dedicated community and local energy service

Our service to engage, support and enable community and local energy groups to develop their projects will continue throughout ED2. It will feature a dedicated point of contact and be supported by specialist engineering expertise in low carbon technologies.

A key part of the service will be ongoing stakeholder engagement to maintain and develop our excellent relationships with communities across the region. This will include:

- A new Community and Local Energy Strategy and Action Plan for ED2 with annual progress reports to enable stakeholders to hold us to account and track our progress;
- A minimum of three dedicated community and local energy engagement events per year in addition to the on-going promotion of connections surgeries and flexible services workshops, all of which will continue to be accessible to community and local energy customers;
- A minimum of three regulation and policy updates;

- A minimum of three dedicated community and local energy newsletters per year;
- A dedicated section of our website to provide tailored advice and support to help new groups establish and existing groups to develop.

All these commitments combined will enable us to continue to respond to our customers' and stakeholders' top priority, which is to be able to get access to us and talk to us about their projects at an appropriate stage in their project development. It will also mean we can tailor our support to respond to the issues and barriers the sector is facing. At the time of writing the key barriers are finance and regulation. We will review these and consider how best we can respond as part of developing the new strategy and action plan for ED2.

Our new commitments will also enable us to provide increased feedback and better understand what this group of customers and stakeholders want from other parts of our business, such as flexible services and data management. The community and local energy sector can be considered early adopters of low carbon technologies and lifestyles and therefore is a good test bed of how to develop services for the mass uptake of LCTs. The relationship we have developed with this sector has enable us to get honest, quality feedback and we expect this to continue and develop throughout ED2.

3.1 Support with connections

Feedback gathered from community and local energy customers during our business plan development process has told us they require support to apply and secure the necessary approvals to connect to our network. We have received strong feedback that we should formalise this service to ensure all customers developing community and local energy projects get the help they need. Our customers have referred to this as an "enhanced" service but it will in fact be delivered through the baseline standards that have been developed across the industry for ED2 as all DNOs plan their services for all customer groups.

Community and local energy customers would like the following features from our connections service:

- Clearly signposted and dedicated point of contact
- Provision of relevant information to enable community and local energy groups to understand and fully utilise ENWL services
- Pre-application support to understand network data, available capacity, the connections process, likely cost of a connection and available options
- Information provided in appropriate language and format to enable community and local groups to access data, guidance and applications
- A commitment to continue to consult on and develop this service in response to stakeholder requirements

This feedback has been used to inform and develop our connections service for ED2 and further details about how this will be delivered in ED2 can be found in Section 4 of Annex 16.

A further service will be developed specifically for community energy customers.

3.2 Delayed payment scheme for connections costs

In ED2 we intend to allocate £1m to a "delayed payment scheme" for the cost of connections for community energy customers. This will be provided at no extra cost to customers.

Currently, consistent with all other DNOs, we require payment in advance of making a connection. Specifically, for community energy projects, we intend to develop a scheme whereby these projects

can apply to pay for the connection after it has been made. Whilst the connection is still paid for, from our discussions with stakeholders we believe the delay in payment will make the raising of finances easier. This means the invoices would typically be received *after* the community share offer has been finalised instead of *before*, as is currently the case; the invoice would then be issued on our normal payment terms.

We would limit our exposure to the bad debt risk of the payments not being made for the work we have undertaken to make the connection through this scheme by having a cap of £1m at a time allocated to the delayed payment scheme and a maximum of £100,000 per project. Whilst a sensible precaution, we do not think the cap will impede the effectiveness of the scheme as it could still allow us to support up to 600 projects in ED2.

This scheme would be limited to projects which are 100% community owned by a legally constituted community energy organisation, with an asset lock in place to ensure the scheme remains in community ownership for the lifetime of the project

The scheme will be delivered at no extra cost to customers because the impact on cash flow will be shareholder funded. Administration costs will be included in the normal administration costs of managing connections billing and any extra costs that may be required to manage the scheme are included in the community and local energy strategy delivery budget.

We have developed this “delayed payment scheme” in response to community energy groups telling us that it would be preferable if they could be invoiced for the cost of connection at energisation instead of in advance. However, given the scheme constitutes ‘due discrimination’ towards a particular customer group, it requires Ofgem approval before we can proceed.

3.3 Enhanced Powering our communities fund

We intend to enhance our Powering our Communities community fund to provide £1.95m over the five-year ED2 period.

3.3.1 ED1 pilot fund

The Powering our Communities seed fund has been piloted during ED1 and we propose to scale it up during ED2 to meet the anticipated demand based on demand to date.

Since we launched the fund in 2018 it has been continually oversubscribed. For example, in 2020/21 we received applications to the value of £231,372, over three times the available funding of £75,000. Of these, applications to the value of £148,060, twice the value of the fund, met the criteria for immediate funding, with the remaining projects eligible with further support.

The [19 projects supported to date](#) have covered a wide variety of topics that meet the overarching criteria of putting energy at the heart of our communities, with a focus on seed funding activity that will, ideally, lead on to further activity. An interim evaluation carried out by independent experts CAG consultancy in 2021, concluded that for many projects it is too early to report on outcomes, but the 19 projects supported to date can be expected to deliver the following:

- Carbon and energy savings;
- Feasibility studies and demonstrations;
- Increased levels of awareness and engagement amongst individuals;
- Capacity-building of young people;
- Capacity-building of communities;
- Increased levels of partnership working between a wide range of partners.

All of which are activities that are essential to seed community level action.

The interim evaluation also provided advice on how we can align the outcomes of the projects with our Social Return on Investment (SROI) tool so that over time we can target the fund towards projects that provide the best SROI.

3.3.2 ED2 enhanced fund

The aim of the ED2 Powering our Communities fund will be a continuation of our existing fund, with continual development, shaped by stakeholder feedback, to make sure it remains relevant and adds value.

During ED1 we have provided £75,000 per year and we propose to scale up this support during ED2 by increasing the amount of funding available in increments to meet predicted demand. We will double the size of the fund in 2023, 2024 and 2026, as shown in the following table in figure 5, meaning we will provide a total of £1.95m in ED2.

Figure 5: ED2 community energy fund spend profile

| Year | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 |
|---------|----------|----------|----------|----------|----------|
| Funding | £150,000 | £300,000 | £300,000 | £600,000 | £600,000 |

The scope of the fund is based on stakeholder feedback, which has clearly set out that the fund should support the development of the community and local energy sector, specifically to address the key barriers of capacity and resources. Our stakeholders are also very clear that the fund should leave a legacy in the region beyond the lifetime of our funding. This ambition aligns well with our intention to support projects with the best SROI.

As part of the interim evaluation of the Powering our Communities Fund project, CAG Consultants reviewed the ED2 fund proposal as far as it had been developed by the date of the evaluation in May 2021. A key part of this review was to model potential outcomes of the fund. This has enabled us to work with our SROI experts, Economic Insights to estimate the likely SROI from the proposed ED2 community energy fund.

Economic Insights have estimated an enhanced ED2 community energy fund will deliver additional benefits beyond the value of the direct funding, estimated to be:

- £1.70 SROI for every £1 invested over ED2, and
- £5.27 for every £1 invested over a 10-year period

The SROI comes from a range of additional benefits including:

- The value of volunteer hours contributing to delivery of a project;
- Economic value of the community benefit fund created from the project's profits;
- The economic value created locally if local labour used (more likely for community energy);
- Jobs created to deliver new schemes or projects;
- New skills created, and awareness raised among volunteers and the wider community;
- Carbon savings from the delivery of LCTs or increasing the uptake of EVs;
- Bill savings for customers who install, energy efficiency measures, LCTs or use an EV;
- Reduced pollution from increased use of LCTs and EVs.

We also believe that these outputs combined are more likely to deliver a Just Transition that engages all parts of our community, ensuring no-one gets left behind, however this is a very difficult

output to measure. We will work on developing our method for how to capture the benefits of this throughout ED2 and therefore could potentially report an even greater Social Return on Investment.

Another key recommendation of the CAG Consultants Interim Evaluation is to develop a 'theory of change' (ToC) to inform the development of the ED2 fund.

A theory of change describes, in diagrammatic form, how a given intervention is intended to secure a desired change. ToCs are used to inform the early-stage development of interventions. They provide a powerful tool for stress-testing intervention concepts and proposed operational mechanisms. As part of a participatory design process, the co-production of a ToC is a way of ensuring logical, deep and critical thought by multiple stakeholders about the nature of an intervention, and the factors that will dictate how well, or otherwise, it might work.

ToCs are also commonly used in evaluations, where they are used to provide a testable model of an intervention, for example a grant scheme, against which the actual operation of a scheme and its associated outputs and outcomes, can be assessed.

As part of the process to ensure the enhanced ED2 fund continues to be relevant we have committed to review the scope with stakeholders. CAG Consultants will be supporting a working group of our Sustainability Panel which consists of internal and external stakeholders to take us through a ToC process. As well as making sure the enhanced fund is designed to deliver the expected outcomes, it will provide a framework for future evaluation and monitoring. It will therefore give us a framework to transparently report on the impact of the fund which, aligned with the use of the SROI tool as part of the project selection process, should ensure the fund delivers significant impact for customers.

3.4 Who is the fund for?

Our stakeholders have told us they want the fund to be open to all types of community and local energy groups as well as those more traditionally seen as community energy. They feel strongly that we should be enabling people to take part and therefore we need to be inclusive. We have agreed the use of the following definition of who can apply for community and local energy funding:

Figure 6: Definition for who can apply for the funding



3.5 Finance mechanism

We intend to finance the community energy fund through the Net Zero Distribution Fund and the details of this fund are within the Uncertainty Mechanisms Annex 29.

4 Summary of cost for ED2 community and local energy customer support

The following table shows the cost of delivering the services set out in this annex.

Figure 7: ED2 community and local energy costs

| Activity | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 | TOTAL |
|--|---------|---------|---------|---------|---------|-----------|
| Powering our Communities fund | 150,000 | 300,000 | 300,000 | 600,000 | 600,000 | 1,950,000 |
| Community and local energy strategy delivery | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 1,250,000 |
| Total per year | 400,000 | 550,000 | 550,000 | 850,000 | 850,000 | |
| TOTAL FOR ED2 | | | | | | 3,200,000 |

5 Summary of deliverables for community and local energy customers in ED2

The following table in Figure 8 is the logic framework developed to show link between the self-identified customer issues that the Community and Local Energy Service aims to address. It provides a useful summary of the deliverables of our proposed community and local energy support for ED2.

The logic framework will be continually refined over ED2 both as our approach evolves, and as the Powering our Communities fund projects start to provide sufficient data to develop our use of SROI data in reporting.

Figure 8: community and local energy deliverables for ED2

| Customer issue | Deliverable | Time frame | Outcome | Benefit |
|--------------------------------------|---|---|---|---|
| Ease of engagement with ENWL | Strategy and action plan | By end of 2023/24 with annual progress reports | Customer and stakeholder informed strategy; customer satisfaction | <ul style="list-style-type: none"> Increased no. of people engaged in energy issues; behavioural changes Better service / VFM for customers Carbon savings Energy cost savings Better air quality Local supply chain benefits Progress towards meeting the region's net zero targets |
| | Engagement events | Minimum 3 per year | | |
| | Newsletters and regulation and policy updates | Minimum 3 per year | | |
| | Web resources | Updated annually | | |
| Delayed Payment service | Develop option to delay connections payment until energisation | Scheme will be live from the launch of the first round of the community energy fund and run all ED2 | Increased number of projects developed | <ul style="list-style-type: none"> Money co-invested New community energy groups established FTE created Increase value of community benefit fund created and spent in the North West |
| Powering our Communities fund | Number of projects funded to the value of the fund in that year: £1.95m total for ED2 | Community and local energy funded dispersed annual throughout ED2 | Increased number of projects developed | <ul style="list-style-type: none"> Increased amount of low carbon generation installed Energy saved Carbon saved and progress towards net-zero targets No households in fuel poverty supported with energy saving measures |

| | | | | |
|--|--|--|--|---|
| | | | | <ul style="list-style-type: none">• Increased number of people engaged in the energy systems transition |
|--|--|--|--|---|

Appendix 1

Electricity North West community and local energy research

December 2019

A report by Regen for Electricity North West

Executive summary

This internal report commissioned by Electricity North West (ENWL) provides evidence, feedback and insight on ideas generated through extensive, independent community energy engagement and in-house ideas from the ENWL team on how they can better support community energy. ENWL have already delivered significant support and achieved best practice in their engagement with community and local energy organisations. The aim of this report is to enhance the business case for further specific actions that are going to help the community energy movement grow and thrive in the next RIIO price control period (2023-2028).

To ENWL community energy means community-led projects or initiatives to reduce, manage, generate or purchase energy. Community energy projects focus on engagement and benefits to their local area and communities. Local energy encompasses community energy projects and includes activities by a wider set of local partners such as local authorities, housing associations, intermediary or advisory organisations and local businesses. Local energy projects may have a commercial aspect to their delivery but are also likely to benefit their local area and community.⁵

Community energy organisations have a key role to play in the transition to net zero, engaging people at scale in the decarbonisation of our energy system and providing valuable network services to system operators. This report demonstrates how community energy delivers more than carbon savings, and summarises some of the social value, and local economic impacts. Community energy organisations can act as a social conscience for the wider energy sector, ensuring a just transition where no one is left behind. However, the documenting of the additional value that community energy delivers is patchy, so Regen recommend ENWL support the community energy movement to develop key metrics and economic multipliers, and help communities record impacts, to justify additional support for the sector.

ENWL wants to support more community energy organisations to develop and achieve their goals, as set out in its Community and Local Energy Strategy.⁶ However, their understanding from customers and stakeholders in the sector is that the regulatory and commercial environment around community energy is challenging following the end of the Feed-in Tariff (FIT), and there are multiple barriers preventing community energy from being adopted at scale.

Of the specific actions explored in this report that could help the community energy movement grow and thrive, we recommend ENWL focusses on the enhanced connections service which is deliverable

⁵ ENWL, [Community and Local Energy Strategy](#), May 2019

⁶ ENWL, [Community and Local Energy Strategy](#), May 2019

in the short term, and working with other DNOs to make a case to Ofgem for the socialising of connections costs for community organisations, which will make the largest material difference to the business case for community and local energy.

Background

In its role as Distribution Network Operator (DNO), ENWL wants to help communities overcome some of these barriers. To do this they have developed a series of proposals:

1. An enhanced connection service
2. Socialising connection costs for community organisations
3. Removal of technical requirements where there is no network impact
4. Asset transfer

Regen gathered evidence relevant to each of the four proposals from a workshop with ENWL and community and local energy stakeholders, interviews and surveys with community energy groups and its extensive knowledge of the community energy sector and energy system. Key pieces of evidence found were:

- When developing subsidy-free projects, communities can be at a disadvantage to commercial investors working at scale with merchant risk investment. Communities require extra technical support to level the playing field, with recognition that they are resource constrained and often voluntary, energy is not usually their day job. Community projects have higher upfront costs of raising finance, higher company management costs and must repay their capital over 15 to 20 years rather than 30. The Return on Investment (ROI) for community energy projects is 5.5% to 6.3%, similar to commercial projects, however because they are often financed over a shorter timescale, they need to achieve higher ROI's than a commercial equivalent to be considered viable; closer to 7% over 20 years. At the smaller scale communities are making more marginal rooftop PV projects work for the social and environmental benefits, where the financial proposition is less appealing to commercial developers. If communities are not supported to engage in the smart clean energy system of the future, we will miss out on the social, environmental and local economic multiplier effect delivered by community energy organisations who reinvest in addressing fuel poverty, energy efficiency, and activities that benefit our society and environment.
- Quoted connection costs are a key reason some community projects have stalled, alongside the end of the FIT.
- Many community energy projects are marginally financially viable and connection costs can tip them into becoming unviable.
- Some projects have reported benefitting from a close relationship with their DNO, enabling them to overcome some of these barriers by finding more favourable connection arrangements and being supported to better understand the smarter energy system. Feedback on a project's viability at an early stage and a solution focussed approach to finding viable alternatives at the point of connection is hugely beneficial to community energy schemes. Commercial operators have an advantage because they understand the system, are not locally rooted, can move project locations easily, knowing which questions to ask, and how to use these relationships with experienced DNO staff to find the most economic points of connection.
- Ofgem's changes to embedded benefits under its Targeted Charging Review will make the business case less attractive for all distributed generators, including community owned projects.

- Communities are keen to own and operate batteries, with more technically advanced groups especially enthusiastic. They highlight the capacity building potential of exploring new ideas and business models, such as local supply and flexibility, as key drivers.

From the evidence gathered Regen has produced a series of recommendations for ENWL to support implementation of their proposals, so that they can materially benefit community energy projects and enable greater collaboration with ENWL.

A summary of recommendations in this report:

Enhanced connections service

- ENWL should continue being proactive and engaging early. Getting the right enhanced connection support in place now, ready for community energy groups to enable them to play a key role addressing the climate emergency when market conditions for new renewable energy projects improve, will lead to a more just transition.
- Focus the service specifically on new connections support, making sure there are face to face and telephone options available and that staff are trained to facilitate solution focussed conversations with communities. Set clear expectations about what the service covers.
- Consider widening the service to include maximisation of value of existing assets and innovation project support, based on feedback from communities who contributed to this research and communities who have engaged with Regen over the past six years, who want to innovate to achieve demand reduction, local supply and new business models that could help unlock the challenging market conditions for community renewables.
- Publicise and rename the service appropriately.
- Collaborate with other partners working with communities to signpost/provide support, funding and capacity.
- Provide additional technical support and capacity to community energy organisations.
- Consider supporting community energy organisations to report on their social, environmental and local economic impacts by providing a framework and resource to support the monitoring and evaluation process. This could help justify the cost of an enhanced connection service, for example, ENWL could require communities who benefit to report back on:
 - Tonnes of carbon saved
 - Number of local jobs created
 - Social value and community benefit delivered.
- Use a tight definition for community energy to ensure this service isn't unfairly manipulated.

Socialising connections costs for community organisations

- ENWL should consider presenting evidence to Ofgem on case for socialising connection costs for community organisations in collaboration with other DNOs or the ENA. Regen would be happy to facilitate this. A notable precedent was set when the UK government created specific rules for community owned generators in the FIT to recognise the specific needs and benefits they created.
- Excluding grid connection costs makes a key difference to ROI, rising from around 5.5% to 6.3% for a typical ground-mounted solar project. Although these figures are like those for commercial projects, community energy projects are often financed over a shorter timescale and so need to achieve higher ROI's than a commercial equivalent to be considered viable; closer to 7%. This is the most impactful way of levelling the playing field for community energy projects and was the most popular idea when tested with community energy stakeholders.

- Use a tight definition of community energy as above.
- For shared commercial and community ownership schemes to qualify, ENWL could limit the socialisation of connection costs based on the percentage of community ownership or shared revenue.
- Support the process of social and environmental reporting to justify the additional spend.
- Define clearly the milestones projects would need to meet prior to ENWL committing spend on grid connections to ensure work is not undertaken on projects that do not in fact proceed.

Removal of technical grid connection requirements where there is no network impact

- Feedback from stakeholders at the working group is that community and local energy doesn't need special exemptions just support to help level the playing field so it can compete fairly with commercial projects. There wasn't much support for this idea.
- Prioritise and focus on delivery of the other support mechanisms in this report, revisiting this idea later.
- The trajectory of the market is for more large-scale projects to deliver economies of scale and subsidy free business model. The anticipated growth in co-location of grid scale batteries with large scale solar and wind, is driven by price arbitrage, managing variability of generation, and the potential for stacking of revenue from flexibility markets. Therefore, any community energy organisation considering 5MW+ projects in future will potentially be considering colocation anyway.

Asset transfer

- Justify gifting or selling assets, for example, a grid scale battery to a community using evidence of other 'assets of community value' transferred to communities under the Localism Act 2011 or apply 'community right to bid' legislation where there is existing precedent as outlined in this report.
- Assess the level of technical capacity and expertise of community energy organisations, incorporate a handover and training period and carry out a thorough scored social and environmental impact assessment before donating or selling a battery to a community.

For a full picture of the evidence and a detailed set of recommendations, we hope you enjoy reading the full report.

Next steps

ENWL's community energy engagement to date is exemplary. We encourage the continuation of such proactive and early engagement, and the further testing of the ideas explored in this research with community energy organisations. The next steps for ENWL include providing feedback to the sustainability panel and collaboratively narrowing down the options to feed into the RIIO-ED2 business planning process. We recommend ENWL remain open to considering other options that haven't been looked at in this report, such as valuing losses saved and paying community energy organisations for this, exploring voltage and frequency management through demand side response (DSR), and procuring flexibility with social and environmental values weighted more highly, and using ENWL influence to encourage Open Networks to adopt this approach. This would level the playing field for community-owned batteries and sources of flexibility and make local flexibility market revenues more accessible.

Regen are already experiencing increased interest in community and local energy due to the climate emergency, and as an industry, we have an opportunity to make this a just transition where local communities can deliver wider social and environmental impacts through greater ownership and control of low carbon generation and energy assets.

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