

Response to recommendations presented in the Institute of Welsh Affairs Re-energising Wales report 'Funding Renewable Energy Projects in Wales'

The barriers to renewable energy project investment in Wales

- 1. Welsh Government, non-governmental organisations and other parties should strongly explore the need to devolve a range of powers over renewable energy subsidy setting to Wales. Well-designed and time-bound sustainable energy support policies are vital to attract finance and improve risk-return profiles.**

The Wales Act will devolve powers to Welsh Ministers on energy consenting, heat, and onshore oil and gas licensing. The powers to provide support to energy generation through mechanisms such as Contracts for Difference (CfD), Feed in Tariff (FIT) and Renewable Heat Incentive (RHI) are conferred on UK Government under the Energy Act. Their devolution was not considered in the Silk review, which gave rise to the current Act. Whilst consistency of energy support regimes across administrations provides certainty for developers, we will continue to consider the evidence of need for devolution of further powers in the delivery of devolved responsibilities.

UK Government has considerably reduced the support available to renewable energy in recent years, and FIT and RHI are due to end. We are therefore working with the industry and communities to identify ways of enabling renewable energy to deploy in a subsidy free environment. For example, we are supporting the Energy Local project in Bethesda, which is piloting local selling of electricity and will help us understand how regulation needs to change to help this to happen more widely.

- 2. Welsh Government should lobby the UK Government for future access to the Contracts for Difference (CfD) mechanism for onshore wind to enable further deployment of this technology in Wales.**

The changes the UK Government has made to the subsidy regime for renewables have introduced uncertainty for developers and increased the level of development risk in bringing onshore wind projects into operation.

The Cabinet Secretary for Environmental and Rural Affairs has already written three times (September and November 2016 and July 2017) to the Secretary of State for Business, Energy and Industrial Strategy highlighting her concerns in relation to the Contract for Difference regime.

We need continued and increasing deployment of the most affordable technologies, such as onshore wind and solar, in order to deliver the level of decarbonisation needed by 2030 at an affordable cost. Ending support too

early, as was done in 2015, risks fatally damaging the sectors and losing the benefit of the huge investment of bill payers' money.

We also need to continue to innovate and bring forward future technologies. Innovative technologies, such as those within the marine energy sector, offer the opportunity for affordable, secure, low carbon energy generation for future generations, as well as the export of skills and knowledge. Indeed, in Wales, we believe there is an opportunity to grow a vibrant marine energy sector. We believe the success in encouraging both onshore and offshore wind by providing higher levels of initial support should be replicated for the emerging marine energy sector. These significant and exportable benefits will not be realised if they have to compete against long established technologies.

3. Wales needs to exploit specialist forms of finance, including mezzanine finance, in order to drive investment in renewable energy projects and ensure adaptability and diversity within the energy market.

Finance is clearly important for delivering renewable energy projects, but the characteristics driving liquidity in the finance markets need to be understood. Investment risk is key, which is why we see relatively high liquidity for renewable energy projects with subsidy and relatively low liquidity for novel technologies or early stage projects. One of the key features of the reduction and removal of subsidies is whilst the subsidy was valuable as a source of income, there was also significant value in the fact the subsidy is Government backed and guaranteed an income. This income could therefore be used to secure low cost finance. In a world where subsidies for more established technologies have all but ended, Welsh Government are investigating how its levers can be best deployed to create a more attractive investment climate for Welsh renewable projects.

Welsh Government has already made funding available where market failure has been demonstrated. The Welsh Government Local Energy Service provides a holistic service considering the needs of projects from early stages through to completion. It has provided grants to communities, who tend to be the least well resourced organisations, to carry out the early development of more than 78 projects over the last seven years. Loan funding for project development once planning permission has been secured, and for capital construction, is also available. Welsh Government has also proactively supported communities to shortcut the development process by buying consented projects from developers, bringing more generation into local ownership. Our support to communities running local share offers has enabled groups to access lower cost capital and increased the ability of local people to benefit from developments.

4. Welsh Government should develop a sustainable energy strategy which maps out timing, capacity needs and location for new

renewable energy assets. This will include deployment targets and technology specific considerations. This should include an analysis, in collaboration with the National Grid, Distribution Network Operators and others of how existing as well as new grid infrastructure in Wales (north, mid and south) can be utilised to respond to Wales' particular energy aspirations.

This Government is committed to the ambitions set out in our energy policy document, *Energy Wales*. Last December the Cabinet Secretary for Environment and Rural Affairs made a Statement setting out her priorities for the future of energy in Wales. In September the Cabinet Secretary set new, ambitious targets for energy generation in Wales:

- Wales to generate 70 per cent of its electricity consumption from renewable energy by 2030
- 1 GW of renewable electricity capacity in Wales to be locally owned by 2030
- Renewable energy projects to have at least an element of local ownership by 2020

Wales will need a mix of different technologies and sizes, from community scale to major projects, to meet our future energy needs. We need to use Wales' natural resources to decarbonise our electricity supply, keeping costs under control and retaining benefits for Wales.

We are considering how our planning and consenting regimes should evolve to provide developers with the clarity they need to develop economic opportunities for low carbon generation which also provides benefits for Wales.

The Environment Act puts in place a decarbonisation framework with a series of interim targets (2020, 2030 and 2040) and five yearly carbon budgets. The Act requires a Delivery Plan setting out how as a Government we are going to meet our carbon budget. The plan will cover key areas such as energy, and look at enabling mechanisms.

Local planning authorities are already expected to plan positively for renewable and low carbon developments with appropriate policies in their Local Development Plans. We have published guidance to help local planning authorities assess and map the potential for renewable and low carbon energy in their area and develop policies in their local development plans to guide appropriate development.

Our current planning policy framework provides leadership in terms of identifying spatial areas for new large-scale wind energy developments. The forthcoming National Development Framework will give us the ability to identify spatial areas for future renewable energy developments which will have statutory development plan status for use in determining applications for Developments of National Significance.

Pension Funds

We support in principle the approach of supporting the development of low carbon infrastructure in Wales. Investing Wales based funds in Welsh developments, where appropriate, will tend to retain more of the benefits from those developments in Wales, supporting prosperity. It is for the managers of relevant funds to assess where such investment meets the purpose of the fund and presents a reasonable opportunity for investment.

- 5. Welsh Local Government pension funds should significantly reduce their exposure to investment in fossil fuels. All funds should identify and take climate change into account as a key risk, as underpinned by the duties set out in the Well-being of Future Generations (Wales) Act 2015.**

The Local Government pension scheme is an England and Wales scheme and is not devolved. Therefore it is not subject to the duties set out in the Well-being of Future Generations (Wales) Act 2015. Whilst we are supportive of Local Government Pension Funds in Wales ascribing to the principles underpinning the Wellbeing of Future Generations Act, it also needs to be recognised the pension funds are under a duty to secure the best return for their members.

- 6. All public sector pension boards in Wales should recruit a suitably experienced renewable energy advisor or employee and increase industry engagement by joining an industry body such as the Institutional Investors Group on Climate Change.**

The membership of each Local Government Pension Board is a matter for each board to determine. The Local Authority Pension Fund Forum (LAPFF) is the collaborative shareholder engagement group representing Local Authority Pension Funds including the Welsh pension funds. The LAPFF is a supporter and partner of a number of organisations including the Carbon Disclosure Project (CDP) and the Investor Network on Climate Risk (INCR).

- 7. Requirements for investors (capital providers, asset managers and consultants) to share data on performance, risks and the costs of renewable energy investments should be strengthened in order to improve market transparency and promote the understanding of the risk profile of these investments. This should help drive collaboration and knowledge sharing.**

This recommendation goes wider than pension funds to cover all investors in renewable energy projects. We do not have any powers over financial investors.

The Local Authority Pension Fund Forum exists to promote the long-term investment interests of UK local authority pension funds, and in particular to maximise their influence as investors to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations. Furthermore it provides a forum for information exchange and discussion about investment issues and considers issues of common interest to all pension fund boards, committees and their supporting administrative staff, as well as to other interested parties from national, local and regional governments.

8. The Welsh pension funds' collective investment vehicles could potentially invest up to £13 billion worth of assets. Scope is needed within the design of the different asset pools to allow collective investment vehicles to be able to invest directly into local renewable energy projects.

Local Authority Pension Funds in Wales are currently working towards establishing a Collective Investment Vehicle. The primary objective of the pooled fund is to achieve savings on investment management costs through economies of scale and to provide access for funds to a wider range of potential investment opportunities. The Funds have made a clear statement setting out the expectation for such investment to be invested in the best interests of the fund members and the wider council tax payers.

9. Welsh Local Government Pension funds should consider setting a target of 5% total investment in Welsh renewable energy projects by 2020. This should include direct investment in new projects and investment in the repowering market. Investment could be channelled through the collective investment vehicles or through existing platforms or bodies such as the 'Pensions Infrastructure Platform'.

The Organisation for Economic Co-operation and Development (OECD) recently monitored large pension fund direct equity investment in infrastructure projects. Their survey has suggested a number of barriers exist resulting in unlisted infrastructure projects accounting for only 1% of their asset allocation in 2015, and green infrastructure accounted for a tiny fraction of this (1%)¹.

¹https://www.oecd.org/cgfi/resources/Progress_Report_on_Approaches_to_Mobilising_Institutional_Investment_for_Green_Infrastructure.pdf

The OECD proposed a number of high-level policy recommendations² for governments to facilitate institutional investment in sustainable energy infrastructure. Welsh Government has a role in a number of the recommendations, such as creating an ‘investment grade’ policy environment and developing a national infrastructure strategy.

10. Welsh pension schemes and the Welsh Government should partner to jointly identify suitable renewable energy projects that benefit local communities and at the same time provide Welsh pension schemes with long term, inflation linked returns.

Given the nature of their liabilities, local authority pension funds can adopt a more long-term approach to the companies they invest in. This allows them to look beyond the focus on the next quarter, but also means they must ensure their returns are both financially and environmentally sustainable.

The discussion at an event exploring some of the proposals following their publication indicated the specific nature of the investments sought by pension funds. It indicated other fund holders such as building societies might be more suitable partners for projects in advance of construction.

The Welsh Government is already proactively identifying potential renewable energy projects which could benefit Wales through its Local Energy and Green Growth Wales services and the work Natural Resources Wales does promoting renewable energy development on the Welsh Government estate. Our work with Local Authorities on Local Development Plans also encourages them to do the same at the local level. Our role is to support the de-risking of these projects as far as possible, and to continue to encourage the UK Government to create a stable environment for energy investment from a range of potential investors, some of whom can accept higher risk profiles.

Our Local Energy service already maintains relationships with a number of potential investors, and supports groups to find the necessary development funding, when needed and at appropriate rates of interest. This already involves helping groups run share offers.

We will explore further how we can support potential funders to better understand the opportunities in renewable energy as the pipeline of investable projects develops.

Further Models for Investment

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http://www.keepeek.com/Digital-Asset-Management/oecd/environment/mapping-channels-to-mobilise-institutional-investment-in-sustainable-energy_9789264224582-en#page1

11. Welsh Government should support the development of a new cooperative, charitable or not for profit body which has a clear brand and supports investment in Welsh renewable energy projects, with an aim to establish the body by the end of 2019. This entity could be an obvious local partner for developers and investment platforms such as Abundance to build significant renewable energy sites, creating joint investments.

We believe a modern, efficient and reliable energy infrastructure is important for our businesses and communities, and we are committed to supporting the development of new renewable energy generation.

We delivered a series of events in March to create a conversation about the potential for an energy company for Wales, and how this might fit with the Welsh Government's role in advancing decarbonisation of the energy system in Wales. Engaging with people interested in the energy service company idea has built a collective understanding of what activity is already under way and how the Welsh Government can best add value in this area. We published the independent report on this work on the Welsh Government website at:

<http://gov.wales/topics/environmentcountryside/energy/publications/an-energy-company-for-wales/?lang=en>

Projects with a viable business model have to date been successful in attracting investment. We therefore consider focusing resource on identifying and developing such viable projects as a more effective use of resources than establishing a new body specifically focused on investment in renewable energy. Our work with Finance Wales in developing the Local Energy Fund has provided the organisation with experience of the sector. This knowledge will be available to the forthcoming Development Bank for Wales.

12. In order to enable more community shared ownership of large scale renewable energy projects, more encouragement is needed in Wales within the tendering and planning process. There should be more onus on bodies such as Natural Resources Wales to show how their tender process fits into the Well-being of Future Generations (Wales) Act 2015 criteria.

We have been working with Natural Resources Wales regarding how the approach to developing renewable energy projects on the Government estate should develop to best deliver future generations objectives. The approach will take into account the wider aspirations of decarbonisation, and ensure energy developments retain an appropriate proportion of income and benefits within Wales.

With regard to the planning system we have written to local planning authorities on several occasions in recent years clearly stating they should be as helpful as possible to community groups when progressing their

applications for renewable energy projects. Planning decisions must be based on an assessment of the impacts of any proposed development irrespective of who the applicant is.

In 2016 we commissioned the Energy Saving Trust to provide training to local planning authority Members and officers on identifying community schemes and making them aware of the issues community groups face when navigating the planning system. Six training sessions were held with a total of 63 people attending. The Local Energy Service also supports communities to develop planning applications clearly articulating the social and economic benefits of their proposals, as these are material considerations within the planning process.

The role of Welsh Government

13. Welsh Government must report on an annual basis on what actions each Welsh Government department has taken to reduce their impact on GHG emissions in Wales and the estimated emission abatement achieved. This should include the impact of investment programmes and actions that have been taken to reduce energy consumption and increase renewable energy generation, including community renewable energy generation, as part of plans for overall greenhouse gas reductions and as part of reporting under the Well-being of Future Generations (Wales) Act 2015.

Welsh Government is committed to delivering the target of at least an 80% reduction in emissions by 2050 and will set out our decarbonisation pathway by establishing interim targets and first two five year carbon budgets by the end of 2018.

The Environment Act puts in place a robust monitoring and reporting framework requiring the Welsh Government to produce a ‘final statement’ every 5 years, reporting on progress of each carbon budget period. This allows for a more accurate assessment of progress, removing anomalies and sensitivities which can influence and inform misleading figures on an annual basis. This approach is consistent with the UK government and advice from the United Nations Framework – Convention on Climate Change (UNFCCC).

The Greenhouse Gas Inventory, which will produce the emissions data we report against, does not show progress at an individual policy or activity level. Therefore, the policies and proposals report will be organised to reflect the contribution which programmes and actions make towards respective, and potentially multiple, portfolio areas.

In addition to reporting every five years on progress against our carbon budget, we will be reporting our total emissions annually under our Well-being of Future Generations Act Indicator framework.

14. Renewable projects should be at the centre of a coherent and ambitious strategy to boost the Welsh economy that involves every department of Welsh Government. Green Growth Wales should promote their emerging pipeline of work more widely to maximise opportunities for collaboration and community involvement.

Collaboration is important to ensure Wales maximises the benefits of its natural environment. Welsh Government will be fulfilling its duty under the Environment (Wales) Act 2016 of publishing the first Low Carbon Delivery Plan in March 2019, which will outline a range of Welsh Government policies and proposals to drive decarbonisation. This plan will incorporate areas where Green Growth is being and will further be stimulated.

Renewable energy will undoubtedly play an important role in supporting a sustainable economy. Welsh Government has focused significant effort on ensuring Wales captures benefits from low carbon energy projects based in Wales. The Vattenfall wind development at Pen y Cymoedd, the largest onshore wind development in England and Wales, has supported over 1,000 jobs, with £220 million of the £400 million development cost being spent in Wales. Its Community Benefit fund will generate £1.8m for the local community on an annual basis. These benefits were largely made possible through the energy support mechanisms available at that time. We need to manage expectation of the profitability of energy schemes of all types in the future.

Welsh Government has supported labour forecasting and skills requirements studies for the proposed 320MW Swansea Bay tidal lagoon project. In his review of lagoons, Charles Hendry recognises the integrated approach we have taken on skills and supply chain development in support of this important sector.

The current Green Growth Wales pipeline is currently dominated by energy efficiency projects. Renewable energy projects clearly also offer meaningful opportunities for community involvement. The reduction in subsidies has caused a number of projects to stall. The Green Growth Wales team are developing new commercial models which may be successful in re-stimulating the projects. Welsh Government will look at all opportunities to promote collaboration and local ownership where projects are viable.

Our public services need to lead by example by improving energy efficiency, installing renewable energy technologies, and seeking to procure their energy needs from renewable energy sources.

We are exploring ways the public sector can help to stimulate new developments by lowering the development risks. This could include using the combined purchasing power of the public sector to demonstrate a long term income.

15. Local supply chains should be prioritised within energy efficiency schemes delivered in Wales as much as possible. To achieve this, part of the solution includes a strategic and holistic green-up-skilling of the construction SME sector in Wales so that Wales-based contractors can compete with UK wide and multinational firms.

Our aim is a low carbon economy which delivers jobs and long term prosperity working in partnership with businesses and communities.

Welsh Government's domestic energy efficiency and fuel poverty schemes, under the *Welsh Government Warm Homes Programme*, are already designed to maximise new jobs, training and employment opportunities using local supply chains. The *Warm Homes - Arbed 2* Welsh Government and European funded scheme alone created more than 470 jobs and delivered more than 60,000 hours of training in clean technologies to existing and new employees. This included the creation of 40 new apprenticeships throughout the supply chain, from logistics to administration and surveying to project management. There were also 66 placements provided under the Lift³ Programme. These opportunities will continue to be offered under *Welsh Government Warm Homes* as they form an important part of the community benefits delivered by the programme.

In addition, *Warm Homes - Nest* currently has 38 local SMEs sub-contracted to the scheme, employing over 300 operatives and has directly supported 49 jobs and apprenticeships in 2015-16 alone.

We are currently procuring scheme managers to deliver new *Nest* and *Arbed* schemes, which will continue to be designed to maximise jobs, training and employability. Specifications will include Key Performance Indicators (KPIs) relating to training, new local jobs and any other opportunities which may be available.

16. Welsh Government should lobby the UK Government to allow community renewable energy schemes to be eligible for Social Investment Tax Relief.

This has not been raised with us to date. We would be happy to receive further information from the IWA, or from affected projects, supporting the

³ The Welsh Government's Lift Programme aims to provide training and employment opportunities for people living in households where no-one is in work.

case for an approach to UK Government on this topic. If the IWA or other bodies has evidence and proposals in relation to Social Investment Tax Relief, we would be happy to discuss them.

17. Welsh Government should introduce business rates relief to a range of renewable energy technology projects in order to drive community participation in renewable energy schemes, as already implemented in Scotland.

The Valuation Office Agency (VOA) has recently completed the 2017 Revaluation exercise of non-domestic (business) rates. VOA is an independent body with responsibility for assessing non-domestic properties in England and Wales according to methodology set out in legislation. Under the previous valuation carried out in 2010, based on values as at 2008, assumptions of income were very low, based on a small number of schemes with high costs and little or no subsidy. The 2017 Revaluation has taken into account reduced capital costs and relatively high subsidy levels, resulting in an increase in valuation for many projects.

The VOA has worked with trade associations to agree the valuation approaches and methodology for renewable energy projects. Two issues remain unresolved in relation to the impact the revaluation is having on renewable energy projects.

Solar rooftop generation attracts a higher level of rateable value if it is for self consumption, rather than for sale to the grid or another user. This issue can be addressed through the establishment of a separate trading vehicle.

The hydropower sector considers it is being disproportionately impacted, partly due to the high capital costs and the impact of the assumptions around the split of these costs within the valuation assessment. There may also be issues around the business models used by the industry, which seek to recover capital costs over a period relatively short in comparison to the overall life of the project.

Welsh Government has had a number of conversations with VOA to understand these issues. We will continue to work with representatives of affected projects to assess the impact of the 2017 Revaluation carried out by the Valuation Office Agency and the range of support which can be provided.

A range of schemes exist to help small businesses with their non-domestic rates Small Business Rate Relief (SBBR) has been extended to 31 March 2018 and provides £100m of support to more than 70,000 ratepayers. Small businesses are eligible for this rate relief, which provides 100% relief under £6,000 rateable value and tapered relief between £6,000 and £12,000.

From next year, we will be introducing a new permanent Small Business Rates Relief scheme and have launched a consultation asking how we could make the scheme more generous for ratepayers, including hydropower

schemes. We are also asking for views about whether, post 2018, we should focus support on businesses that are in line with Welsh Government priorities – whether social, economic or environmental.

A £10m Transitional Rate Relief scheme has also been introduced which will assist businesses whose entitlement to SBRR would be adversely affected by the 2017 Revaluation. These schemes are open to all eligible businesses meeting the criteria, including community energy projects. We are aware of the concerns regarding the potential impact of the rate revaluation on some new and existing renewable energy projects, and have been working with communities and industry to collate evidence of the impact of the revaluation on specific technologies.

18. The National Infrastructure Commission for Wales must have targets for supporting the deployment of renewable energy and associated infrastructure.

The National Infrastructure Commission for Wales will provide advice to Welsh Government on longer-term strategic economic and environmental infrastructure needs. In doing so, it will need to take account of a range of Welsh Government policies and goals, including renewable energy targets.

Welsh Government is already working with the transmission and distribution network providers, who own and manage the electricity and gas grid, to ensure the organisations' development plans consider the current and future needs of Wales.