

RIIO-ED2 Business Plan
December 2021



Annex 4B.3:

Community Energy Strategy



PRINCIPAL PARTNER
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1. Foreword

A strong and resilient community energy sector is essential to achieving a just transition and meeting the devolved and UK Government's Net Zero targets. In its 6th Carbon Budget¹, the Committee on Climate Change state that people will need to be more actively involved and supported to make low carbon choices on travel, heating, consumption, food, and be better involved in decision-making if they are to help facilitate the transition to net zero. The report also points out that fairness is fundamental to public support and that 'only a transition that is perceived as fair, and where people, places and communities are well supported, will succeed.'

The Committee's policy recommendations on electricity generation urge for a fully decarbonised electricity system by 2035 with an additional 400TWh of new low carbon generation and an increasingly flexible system. By then, they say, 20% of demand should be flexible - through demand side response - and networks should be able to accommodate new generation technologies and new demands. It emphasises the significance of planning investment in coordination with Ofgem to ensure networks can meet changing volumes and patterns of demand.

In Annex 4A.3 DSO Strategy, we set out 4 main drivers of change: Decarbonisation, Decentralisation, Democratisation and Digitalisation. We believe 'democratisation' is enabled by active domestic consumers and communities empowered by smart meters, technology, storage, and aggregation. All of which will reduce barriers for consumer participation in the energy system. We see Community Anchor Organisations² and their community energy schemes as an important vehicle and enabler of all four drivers and particularly democratisation. Community energy projects democratise energy by enabling local people to take on a proactive role in their energy system and derive further social, economic, and environmental benefits for their local communities via community energy business models.

In the past decade, communities and the private sector have delivered transformational changes in electricity generation, but the emphasis is now shifting to include more demand side action. The move to the Distribution System Operator (DSO) model and the urgent need for millions of customers to make individual decisions around the smartening and/or electrification of their heating and transport needs – and partake passively or actively in flexibility services – have all become far more prominent in the past few years. Several pioneering communities around the UK, particularly in the highlands and islands of Scotland, have already proven the potential of real-world flexibility technology, matching their local generation with local electric heating and hot water needs to limit curtailment.

Indeed, there are many fantastic examples of community groups responding to local network needs and establishing community energy business models and approaches to local participation that can be replicated or adapted to meet the varied needs of communities and local network conditions across Britain. A handful of these examples can be found in the recent independent research we commissioned, the Future of Community Energy³.

From this same report, we know that when that community energy could deliver as much as 2.5m tonnes of carbon emission savings per year and power 2.2m homes with renewable energy by 2030⁴. Facilitating this input is crucial as we look to transition our networks in a just way and at the rate required to limit global warming by 1.5C. The report also highlights that - if strategically supported - community energy has the potential to deliver over 8,000 new jobs and provide a potential £1.8 billion boost to local economies while reducing household energy bills by up to £150m.

These schemes of course also impact wider customers and stakeholders through a multitude of benefits and by increasing the value DNOs (Distribution Network Operators), like SP Energy Networks (SPEN), can derive from our networks and therefore reflect through cost-efficiencies in consumer bills. They create opportunities for cross-industry partnership working and skill sharing where communities often work with tech developers, digitalisation experts and academia to develop and maintain the UK as a frontrunner in exporting low carbon solutions and delivery experience to international markets.

Pioneering Community Anchor Organisations who push forward innovative local energy solutions act as sources of encouragement and 'lessons learnt' support as we make fundamental but necessary changes in our thinking and behaviours towards smart, low carbon heating and power technologies and a decentralised energy

¹ <https://www.theccc.org.uk/publication/sixth-carbon-budget/>

² The term Community Anchor Organisations was first used by the UK Home Office in 2004. Full definition and examples are provided by Scottish Community Alliance at: <https://scottishcommunityalliance.org.uk/about/anchor-orgs/>

³ https://www.spenergynetworks.co.uk/pages/wpi_report_the_future_of_community_energy.aspx

⁴ Assuming a 'high' rate of growth - 34% annual growth rate to 2030.

system. These groups are well established in their local communities. Community groups can play a number of key and nuanced roles in the energy transition more effectively than private or public sectors. They can act as trusted intermediaries offering advice and support on energy efficiency; organise collective bulk-buying and retrofit schemes; coordinate peer-to-peer trading of electricity; provide local aggregation platforms for flexibility; start up community EV (electric vehicle) car clubs and e-bike rental schemes; and help to democratise the energy system.

In developing SP Energy Networks' first Community Energy Strategy, we have engaged with the GB community energy bodies: Community Energy England, Community Energy Scotland, and Community Energy Wales (the "CE bodies"), to understand the unique issues and challenges faced by the sector across our SPD (SP Distribution) and SPM (SP Manweb) licence areas.

We have worked in partnership with the CE bodies by asking them to advise us on our strategic approach to community energy and how best to measure our impact on the sector. We have also respected and maximised their expertise and independence to critique our strategy throughout its development. Central to the development of our proposals has also been our extensive consultation and online engagement with customers, stakeholders, and grassroots community energy organisations across the UK. This helps us ensure cross-sector input and support of our plans – including from those customers living in vulnerable circumstances.

SPEN agree with our customers and stakeholders that we should work with existing local organisations to support this key sector and that we can efficiently deliver tailored support to encourage and facilitate more community-led renewable energy projects across our licence areas for the benefit of customers, stakeholders, and communities.

2. An introduction to this annex

Scope

SPEN's Community Energy Strategy sets our RIIO-ED2 commitments and activity proposals for 2023 to 2028. It outlines how we plan to build on our existing support to work more closely and strategically with community anchor organisations our customers and stakeholders, to address some of the main barriers limiting the growth of essential community energy solutions.

We know that the ability of Community Anchor Organisations to enact change quickly and sensitively is essential to the successful roll-out of network innovation and flexibility. As such SPEN feel strongly that we must focus resource in building the capacity of community anchor organisations and to reduce the barriers they face in developing community-led network innovation and delivering local energy schemes facilitated by our networks. In doing so, our aim is to cost-efficiently benefit all our customers and stakeholders by leveraging our unique, central role in the energy sector to help community energy play its essential role in a just net zero transition.

Key highlights

Through baseline funding, we are aiming to develop a small community energy team who will act as a central point of contact for community anchor organisations looking to develop local energy schemes. We will build on existing self-help tools by proactively raising awareness and providing bespoke education and advice to our customers and communities. We will provide free optioneering, technical advice and signposting and make funds available for local groups.

If approved by Ofgem, our plans will set a foundation for a more embedded and strategic role for community energy from day one of the price control, while gathering more data to base future investment and policy decisions.

Our proposed commitments for community energy are outlined below.

1. *We will work in partnership with local support organisations to deliver community energy awareness campaigns at scale and educational outreach activities to raise knowledge and awareness of the changes coming to the energy sector and how individuals and their communities can participate and benefit. We will review our engagement, including who/how best to deliver information, throughout ED2 and remain flexible and innovative in our approach.*
2. *We will submit a Community Energy Strategy with our ED2 business plan to clearly show how we will embed community energy thinking across our business and set our approach to leveraging resources*

to cost-effectively support community anchor organisations and their community energy projects across our licence areas. Our strategy will be independently reviewed via the community energy bodies every year to make sure we are learning as we go and adjusting to changes in the external environment.

3. Through a dedicated team (who will work internally with our Whole System advisors) we will offer technical advice and optioneering as well as signposting to impartial, local support organisations and local energy planning activities and hand-hold local groups in need of additional support through our connections process.
4. We will ring-fence ~25% of our proposed Distribution Net Zero Fund for community-led energy projects. Community groups will still be able to access other categories of the fund.

Through our baseline funding we aim to be able to support a minimum annual growth rate of community energy projects of 4% across SPD and SPM. We have also suggested a bespoke Output Delivery Incentive funding framework that we and our stakeholders feel will best allow us to facilitate increased demand for our community energy support and an annual growth rate of up to 27% by applying additional resource to the above proposed commitments excluding our distribution net zero fund.

You can find the details on our baseline and incentive proposals and funding framework summarised in this Strategy. Full details are presented in our Annex 5C.5 ODI.

Benefits

Community energy projects provide a variety of essential benefits that are fundamental to the successful transformation of Britain’s electricity networks. Community anchor organisations⁵ and their local projects are uniquely placed to act as sources of renewable energy generation, local energy demand, and/or flexibility.

These anchor organisations are also essential to a just transition, both as established bodies able to administer and facilitate local ownership of energy schemes and as trusted intermediaries for the individuals and communities they are established to assist. In this respect they substantially increase the likelihood of a successful roll out of network flexibility innovation or energy efficiency into homes across GB. And in turn, a more just transition where benefits are accessible to all.

Through our ED2 proposals for community energy, we are seeking to develop a mutually beneficial and essential relationship between SPEN and our local communities. One which advances the technical development of a more efficient, flexible and low carbon network and increases benefits to our communities, customers, and GB.

By providing technical support to community projects and undertaking activities to increase the awareness of the energy system transition, we will facilitate local energy growth that will drive customer bill savings and CO2 reductions in our licence areas. More details on community energy benefits are discussed in section 3.1.

For clarity, we do not include or discuss any benefits derived from the ring-fencing of our proposed Distribution Net Zero Fund in this document. These benefits are considered fully as part of the fund and can be found in Annex 4B.4 Distribution Net Zero Fund.

Calculated total economic benefit from baseline activities over ED2 (2023-2028)	Calculated total economic benefit if maximum bespoke incentive outputs achieved over ED2 + 5 years (2023-2033)
£4.88m*	Up to £45.65m*
*Consumer Bill Savings + Carbon Savings + Gross Value Added based on moderate CE growth⁶	

Table 1: Total calculated benefits from our baseline and ODI proposals.

⁵ <https://scottishcommunityalliance.org.uk/about/anchor-orgs/>

⁶ Based on WPI (2020) ‘moderate growth’ assumes 27% annual growth in CE projects

To provide an indication of the value of the baseline funding we have calculated to support community energy projects over ED2, we have calculated the value of CE benefits arising from the 4% CE project growth rate supported by our baseline funding. We used information from the WPI report at the CE bodies last three years of State of the Sector reports to conclude that 4% was a reasonable value of CE growth assuming no external support for the sector. In this scenario, we have calculated that community energy in SPEN's network area will produce **£4.88m** in gross customer benefits directly attributable to our input. Compared to the **£3.05m** of CE funding included in the baseline, this demonstrates a clear net benefit and – as previously stated – excludes benefits derived from community energy delivery projects which may be funded through our proposed net zero fund.

We estimate that our Community Energy (CE) ODI activities in SPEN's network areas will produce gross customer benefits of **£45.65m** benefits arising specifically from our involvement in supporting community energy. Therefore, we believe that a reward rate of 0.50% of base revenue (c. **£20.83m** over the ED2 period) is appropriate for this ODI. This approach ensures that customers always share in at least 50% of the benefits of the bespoke ODI we have proposed. For full details on our proposed funding framework for Community Energy over and above baseline costs, please see Annex 5C.5 ODI.

For a more detailed list of economic and wider community energy benefits specific to DNOs and electricity networks, please see section 3 of our strategy as well as WPI Economic (2020) *The Future of Community Energy*¹. SPEN also plan to continue working with the CE bodies and relevant academic institutions over 2022 to develop our social return on investment (SROI tool) to capture and report on more of the essential non-economic benefits attributable to community energy.

Customer and stakeholder input

Our Community Energy Strategy follows on from on-going engagement with our wide-ranging customers and stakeholders. We are also extremely pleased to have developed our strategy and ED2 commitments with support and challenge from the three community energy bodies: Community Energy England, Community Energy Scotland and Community Energy Wales. These organisations are all representative, member-based groups with extensive networks that offer a platform for community groups to connect with each other and support and accelerate the transition to a fair, low-carbon and community-led energy system.

As the voice of the community energy in their respective countries, they are committed to facilitating the work of the sector by advocating and campaigning on behalf of their members at a local and national policy level. They work on behalf of their members to influence policy makers in line with furthering the essential role of community energy.

By engaging with the CE bodies in addition to our customers and stakeholders, we have ensured that our Community Energy Strategy is informed by input from community energy practitioners, represented by credible and knowledgeable sector specialists and that our commitments seek to leverage SPEN's role to address the key issues faced by the sector and maximise opportunities.

Our plans are also informed by external publications and research and are designed to be responsive to changes in the external environment over ED2. Our proposals also take learning from the practical support we deliver on the ground, especially within our district teams, and through learning from our Transmission Green Economy Fund. You can find further details of our customer and stakeholder engagement for our Community Energy Strategy in section 5 of this document and in *Annex 3.1 Co-Creating our RIIO ED2 Business Plan with our Stakeholders*. *Appendix 3.1h provides the triangulation record for customer and stakeholder feedback in relation to our community energy commitments.*

Delivering our Plan

With any area of our plan, it is essential we can deliver what we say we will in the most cost-efficient way for consumers. We must also ensure that our investment delivers real, timely benefit for customers now and in the future and that our proposals are efficiently linked with other relevant areas of our plan. To deliver our community energy commitments and strategy, we have proposed the creation of a delivery team situated within our central and district teams to ensure joined up thinking. We will also continue to work in partnership with the three CE bodies in delivering and refining our strategy. We have proposed funding for external delivery partners and local support organisations as well as the development of our existing, free, self-service, *Zero Carbon Communities Hub* to provide more interactive online tools and events to improve awareness and collaboration across our communities.

Signpost for Ofgem's business plan requirements

We know that community energy is critical to ensuring we achieve net-zero and a just transition, however there is currently no formal business plan requirement for specific community energy support from Ofgem. Working with community anchor organisations will of course be key to meeting some of our general obligations for example to understand and respond to the needs of our digital and data stakeholders and to engage with stakeholders to understand DSO related requirements.

Amid a climate emergency, we are proactively putting forward these commitments along with a baseline and incentive funding framework for Ofgem's consideration. Our proposals leverage SPENs central role in the energy system and focus resource in areas relevant to our role as a network operator for the benefit of all consumers and the UK's green recovery.

3. Community Energy – Barriers and Opportunities

3.1 Community Energy – what is it and why is it so essential to networks?

Community Energy refers to the delivery of community-led renewable energy, energy flexibility, demand reduction and energy supply projects, whether wholly owned and/or controlled by communities or through partnership with commercial or public-sector partners. This definition is shared by the representative bodies in Scotland, England and Wales. The Environmental Audit Committee go on to further detail that Community energy projects can include the local generation of renewable power or heat, the collective purchasing or peer-to-peer trading of energy, energy efficiency improvements or low carbon community transport schemes and EV charging.

In 2020, SPEN commissioned WPI Economics to undertake a review of community energy across England, Scotland and Wales. Their report, *The Future of Community Energy*¹ lays out the benefits the sector could deliver if effectively supported by the UK, Welsh and Scottish governments. It highlights that a potential increase in the number of community energy organisations to around 4,000 (up from several hundred today) would position the community sector as a key contributor to the UK's overall net zero targets by:

- ✓ saving as much as 2.5m tonnes of carbon emissions per year by 2030
- ✓ providing renewable energy to power 2.2m homes with renewable energy by 2030
- ✓ reduce household energy bills by up to £150m
- ✓ potentially creating over 8000 new jobs and providing a possible £1.8 billion boost to local economies.

The WPI report also acknowledges that while the community energy sector has thus far been focused on distributed generation schemes, the energy system transition is driving technological developments which are opening new opportunities in areas such as energy efficiency, demand management, heat generation, energy storage, and electric vehicle projects. These developments will both impact on and be driven by the way we manage and develop our electricity networks and so it is vital that SPEN engage with and help shape a viable future for the sector.

The rapid electrification of transport and a full or partial electrification of heating (depending on what role if any is played by other sources such as hydrogen and solar thermal) is set to have a massive impact on our business. Electrification will in turn require a massive expansion of both renewable generation, storage, and the capacity of our electricity networks, which will be much cheaper and more sustainable if we can shift our patterns of energy usage to make the time of electricity demand more flexible. Indeed – flexibility will become central to the operation of a low carbon energy system and the DSO model.

Householders have much to gain from becoming more flexible in the way they use energy and encouraging behaviour change at scale will be key to achieving net zero and ensuring a fair and equitable transition. Community-led initiatives are an effective way to raise awareness of, and encourage householders to take part in, projects that enable these flexible solutions.

Community anchor organisations⁷ are uniquely placed to help drive and deliver change in a way that is fair. When viewed from a network operations perspective, they can offer sources of energy generation capability as well demand and flexibility services from community sites or groups of individual householders in the community. This positions them as key actors in enabling behavior change that can increase clean energy generation, reduce overall energy demand (through EE (energy efficiency) and by local supply matching) as well as drive new innovative energy models which can help us accommodate more low carbon technologies on our networks.

Thinking of the role of community anchor groups from their soft skills or social impact role, these groups will be essential in facilitating the shift to a more flexible network as trusted local actors with sound local knowledge and sensitivities. They will be essential in reaching and influencing the energy behavior and decisions of consumers particularly those living in vulnerable circumstances. To date, most progress on flexibility has been made in industrial sectors, while individuals and their communities in the domestic sector have remained virtually untouched.

⁷ <https://scottishcommunityalliance.org.uk/about/anchor-orgs/>

Type of benefit (may be applicable to other categories)	Benefits of SPEN’s proposed community energy activity and investment relating to the just transition of our networks	Activity essential to a timely Just Transition?	Current ease of ability to quantify impact	Data measurement requires dev of SROI tool / consultation in 2022.	Data of use to sector / regulator/ policymakers
Social	<i>Increasing capacity, education and awareness of our Community Anchor Organisations who in turn will be better able to:</i>	Yes	Moderate	Yes	Yes
Network transition & resilience	Add value as trusted intermediary for local householders/communities’ engagement with SPEN and the broader energy system.	Yes	Moderate	Yes	Yes
Network transition & resilience	De-risk delivery/increase efficiencies of our plans for roll out of network innovation (e.g., large-scale flexibility); upgrading properties with looped electrical service connection; support EE delivery projects ahead of network investment at rate and scale required for net zero	Yes	Moderate	Yes	Yes
Network transition & resilience	Meaningfully inform our Just Transition Strategy by feeding into our investment/delivery plans with crucial local knowledge and sensitivity	Yes	Moderate	Yes	Yes
Network transition & resilience	Develop and lead local energy projects providing a source of network generation, demand and/or flexibility.	Yes	Easy to Moderate	No	Yes
Network transition & resilience	Take forward community energy schemes and provide up to 2.2m homes with 5.3GW of renewable energy by 2030 (Assumes 34% annual growth rate WPI Report 2020)	Yes	Easy to Moderate	No	Yes
Network transition & resilience	Pilot new local energy approaches for network management	Yes	Easy to Moderate	Some	Yes

Network transition & resilience	Provide improved data on community energy & local network supply/demand matching to better inform SPEN (including our DFES modelling) /Ofgem/Policy	Yes	Easy to Moderate	Yes	Yes
Social / Environmental	Reduce local carbon emissions and improve local health and wellbeing	Yes	Easy to Moderate	Some	Yes
Economic / Social	Create green jobs and increase local skills tailored to local needs	Yes	Easy to Moderate	No	Yes
Economic / Social	Address local fuel poverty through supporting energy efficiency schemes, providing tailored advice and bulk buying discounts	Yes	Easy to Moderate	No	Yes
Economic / Social	Improve cost efficiency of local energy bills and increase resilience against energy price increases through provision of local energy, innovation, or energy efficiency	Yes	Easy to Moderate	No	Yes
Economic / Social	Ownership of community assets, ability to borrow and lend funds to other community schemes via owned assets	Yes	Easy to Moderate	No	Yes
Economic / Social	Increased local income streams from community energy business models	Yes	Easy to Moderate	No	Yes
Network transition & resilience / Economic / Social	Further strengthen community cohesion and ability / ambition to propose and take forward more community projects and meaningful business models relevant to local network conditions	Yes	Moderate	Yes	Yes

Table 2. Community energy benefits framed in relation to the operation of the electricity distribution network

The retention and reinvestment of income from community-owned generation projects into the local area also provides a much-needed boost to those in fuel poverty and the ability of community organisations to engage local people in sustainable energy issues has been shown to improve public receptivity to renewable energy installations⁸, increase engagement in behaviour-change initiatives⁹, and helps to reduce carbon emissions. With the scale of the challenge around domestic heating, EVs (electric vehicles) and flexibility, community anchor groups as trusted local intermediaries will play an important grassroots role in ensuring that the right network investments are made in the right places.

There is also a real risk that rate and extent of required changes in energy production, distribution and consumption could exacerbate existing socio-economic inequality and further disadvantage already vulnerable groups. Community anchor organisations place people, social justice and equity at the heart of their projects and focus on upskilling communities, creating green jobs and tackling fuel poverty. As such, SPEN is targeting resource towards community anchor groups and their community energy projects to further ensure no one is left behind.

3.2 The policy landscape

The UK Government published its latest Energy White Paper, 'Powering our Net Zero Future', in December 2020¹⁰. This key document sets the direction of travel for UK energy policy throughout the RIIO ED-2 period. The white paper notes the importance of Smart Local Energy Systems linking local generation to energy use in heat and transport, and the key role of local authority partnerships to enable such projects. The Bethesda local supply trial, in our SPM licence area, is specifically mentioned as a case study - see section 4.2 below for more details. It also notes that some services may best be provided by local actors embedded in the community. In this respect, they outline that a market framework needs to be developed that supports co-ordination between local and national-level actions.

An updated UK Government Smart Systems and Flexibility Plan¹¹ was also published in July 2021, setting standards for storage and flexibility to guarantee fairness. The stated vision from Ofgem and BEIS is for consumers of all sizes to be able to participate in Demand Side Response and benefiting from affordable smart energy services by the middle of this decade, which will provide a strong market for community led flexibility¹².

On transport, the UK Gov White Paper prioritises active and sustainable travel and place-based local solutions as two of the six strategic priorities for decarbonisation and promising support for local solutions, although specific policy commitments on this are not apparent. These are both ambitions that need an empowered community sector to help achieve at a local level.

On buildings, the UK Gov White Paper underlines the need to increase the energy efficiency of existing properties, highlighting trials underway on whole house retrofit approaches, and commits to a 20-fold increase in heat pump installations - rising to 600,000 a year by 2028. It also notes a vital education and enabling role for community energy groups in helping people to understand what they can do in this area.

BEIS also published its Net Zero Strategy in October 2021, setting a clearer policy direction on decarbonization across all sectors of the UK economy to meet our Net Zero target by 2050. The document commits to BEIS publishing, jointly with Ofgem, an Electricity Network Strategy which will set out how they will facilitate an agile, flexible onshore network that allows the rapid, transformational change required while responding to consumer and energy system needs.

The Welsh government have confirmed their commitment to achieve a Net Zero target by 2050 but are aiming to 'get there sooner'. This follows recommendations from the Climate Change Committee in their 'The Path to a Net Zero Wales' published in December 2020. In their Policy Statement – Local ownership of energy generation in Wales¹³ - they call for 1GW of renewable electricity and heat capacity in Wales to be locally owned by 2030, and for all new energy projects to have an element of local ownership from 2020 onwards, including offshore developments. They also have a target to expand renewable energy generation by public bodies and community groups in Wales by over 100MW between 2021 and 2026 as laid out in their Programme for Government 2021 – 2026.

⁸ Does Community Ownership Affect Public Attitudes to Wind Energy? A Case Study from South-West Scotland, Warren and McFadyen, Land Use Policy, 2010

⁹ Low-carbon communities as a context for individual behavioural change, Heiskanen et al, Energy Policy, 2010

¹⁰ UK Gov 2020 - Powering Our Net Zero Future

¹¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/633442/upgrading-our-energy-system-july-2017.pdf. Also see 2018 progress update

¹² https://www.Ofgem.gov.uk/system/files/docs/2021/06/ssf_march_2021_slides.pdf

¹³ <https://gov.wales/sites/default/files/publications/2020-02/policy-statement-local-ownership-of-energy-generation-in-wales.pdf>

The Welsh Government's National Development Framework 'Future Wales – The National Plan 2040' has also promised a more supportive planning policy for renewable energy projects to help increase the amount of energy generated from renewable sources. The policy document specifies that decision makers, when considering planning applications for low carbon energy developments, must give 'significant weight' to Wales' target to generate 70% of consumed electricity by renewable means by 2030.

Their most recent Net Zero Plan (Net Zero Wales)¹⁴ published in October 2021, focuses on their 2nd carbon budget (2021 -2025). It emphasises a 'regionally planned approach, rather than a top down, market driven approach' as a means to achieving a socially just energy system. It highlights their commitment to work with energy network operators to assess the likely future energy needs in Wales to 2050 and to take a joined-up approach to developing gas and electricity networks. Other commitments to support new renewable energy generation include a review of the Welsh Government Energy Service, exploring new models to strengthen the relationship between communities and energy developments, supporting communities to partner with commercial developers and investigating options for innovative funding pathways for locally owned low carbon generation.

Published in January 2021, the Local Energy Policy Statement¹⁵ sets out the Scottish Government's vision for community and local energy and its role in a post-pandemic green recovery. There is an emphasis placed on partnership working and the importance of the DNO/DSO role in helping facilitate and support local energy solutions within the context of the whole energy system, and the vision of a secure and resilient national network with distributed energy and 'demand-providing-services' acting as a balancing mechanism is an important goal. The statement acknowledges that increased uptake of EVs and the electrification of heat will inevitably place more pressure on the electricity system and its ability to meet peak demand in the coming years.

There is also broader commitment to developing 'partnership arrangements at delivery level between local communities, energy network companies, local authorities, the public, and private sector'. SPEN participate in the Scottish Government's Energy Networks Strategic Leadership Group, which includes representation from electricity and gas network owners, National Grid ESO and Ofgem. The Scottish Government has stated that it will ensure this group considers local energy needs in Scotland in its remit. This measure is an acknowledgment from the Scottish Government that there are currently very few opportunities for local communities to benefit from managing their local energy supply and demand in ways that do not require significant network investment.

4. Community Energy in practice

4.1 Community Energy in our licence areas

Currently, there are 90 operational and in-development community energy projects located across SPEN's licence areas, with 48 based in SPD's licence area and 42 in SPM. The WPI report explains that sustained support, from the Scottish Government particularly, gives rise to a larger number of projects in Scotland. Projects focus on energy efficiency; low carbon heat utilising technologies such as heat pumps, biomass, and heat networks; transport projects such as EV car clubs/community transport, EV charging schemes and E-bikes; and capacity building programmes.

Pre-2015, most community energy projects were centred around electricity generation and biomass fuelled heat systems but there has been a clear shift in the past few years toward transport and heat electrification focused projects. Transport projects range from EV car clubs, EV charging, community transport and E-bikes, and while biomass remains popular, heat projects have seen an uptick in the deployment of heat pumps as well as energy efficiency and auditing activities. We are also starting to see an increase in more innovative community-led demand side projects involving flexibility, aggregation, energy storage, collective switching, prosumption and capacity-building.

4.2 What we have done so far

While this is our first formal community energy strategy, we have a long history of providing support and working in partnership with communities and recognise that effective engagement with community energy stakeholders helps us deliver better outcomes for our customers. Our commitments and strategy for ED2 look

¹⁴ <https://gov.wales/net-zero-wales>

¹⁵ <https://www.gov.scot/publications/local-energy-policy-statement/>

to build on this learning and offer increased support in a way that is strategically linked to our activities and responsibilities as a network operator.

Our work with community groups and facilitating local energy solutions continues to be fundamentally linked to SPENs operations and ED2 plans including our Connections Strategy, Whole System Strategy, Just Transition Strategy, Digitalisation Strategy, Sustainable Business Strategy, Distribution Net Zero Strategy, DSO Strategy and Customer Service and Vulnerability activities.

During RIIO-ED1 we have participated in innovation projects in a variety of ways and put in place a range of measures specifically designed to help community groups take forward low carbon projects. A small selection of the projects we have been part of during ED1 are listed in this section.

Energy Local, Bethesda

The Energy Local project in Bethesda is an example of a community-led innovative solution to address the problem of selling locally generated energy directly to local people. The project brings together local generators and customers into 'Energy Local Clubs' (ELCs) which then form partnerships with licensed energy suppliers. Utilising smart meters, consumers benefit from lower bills (between 10–30%) via a tariff which encourages them to match their electricity use to local electricity generation times. This has led to benefits in terms of reduced costs for consumers, increased income for local generators, increased local economic resilience and improved energy system resilience. Our financial support has helped them host events in the community for current and potential members of the energy club, and the success of the model has resulted in a further 18 ELCs currently in operation, benefiting communities and providing increased network resilience across England and Wales.

Accelerating Renewable Connections (ARC)

We believe it is important for us to take the lead in areas where our knowledge and expertise means we are best placed to facilitate innovation. Our Accelerating Renewable Connections (ARC) project, delivered in partnership with Community Energy Scotland, the University of Strathclyde, and Smarter Grid Solutions, was focused on supporting communities to develop and connect local energy projects to the distribution network, increase the productivity of renewable generators and help all parties benefit from reduced costs.

A key aspect of the project was to enable new renewable generation projects to connect to the distribution network more quickly and this was achieved in part by empowering customers to make informed choices relating to their connection requirements and applying novel commercial and technical approaches to implement flexible connection solutions.

The project succeeded in connecting 113 MW of new renewable capacity to the network in locations that were considered to be at full capacity and has led to an estimated £283m in investment and £0.33m of community benefits per year¹⁶.

Impact data is still being gathered for projects connected via the Berwick GSP, but between 2015 and 2019, four projects with a total 50 MW of new renewable export capacity were successfully connected to ANM (Active Network Management) on the Dunbar GSP in locations that were considered to be at full capacity. One other existing 48MW windfarm was also upgraded to ANM from an inter-trip connection.

Between 2015 and 2020, the 4 new projects:

- Led to the creation of 56 FTE jobs
- Generated an estimated £200m in capital investment
- Added a total GVA of £7.75m to the local economy
- Enabled an additional 653 GWh of energy generation

Additionally, it is estimated that over 25 years, the Dunbar GSP connections will offset 0.55m tonnes of carbon emissions and raise £1.75m in community benefit.”

Zero Carbon Communities Hub

As part of our commitment to facilitating local energy solutions, we developed our Zero Carbon Communities Hub - a free, online source of information to bring together shared knowledge of local community energy projects. This tool provides step-by-step guidance, technical information, signposting and inspiring examples, and highlights the opportunities and benefits of bespoke local energy solutions.

¹⁶ SPEN: ARC Closedown Report [2017]

Wider activities in support of the sector

Table 3 also summarises some of the wider measures we have implemented, often in response to customer and stakeholder feedback, which aims to address barriers faced by community anchor organisations and facilitate more community energy on our networks.

Table 3. Examples of further support and tools for community energy

Transmission Green Economy Fund	£20m fund to support the Scottish Government’s ambitious energy strategy and the UK’s drive to a low-carbon economy. Delivered via SP Transmission.
Green Recovery Fund	£61m to support transition to net zero.
‘Additional Help for Communities’ Web Page	Hosts various useful links including SPEN’s Community Energy Guide (see link below) but primarily a signposting page to external resources such as Community Energy Scotland, Local Energy Scotland, and other relevant organisations.
Publications & Reports	<ul style="list-style-type: none"> • The Future of Community Energy Independent report by WPI Economics Jan 2020, commissioned by SPEN. Includes recommendations on the support needed by Government to allow the community energy sector to flourish. • Community Energy Guide - a bespoke guide aimed at community groups looking to develop a renewable energy project. Very much focused on connection process for renewable assets. • Community Energy State of the Sector Report (SOTS) 2020 <p>We have sponsored the SOTS report every year since 2018. SOTS provides a very valuable data set, obtained directly from the community energy sector and boasts great participation year on year from community groups (including those in Scotland from 2020).</p>
SP Manweb & SP Distribution Heat Maps	Our online GIS tool which covers both SPEN licence areas and provides information on network capacity to help identify potential opportunities to connect distributed generation assets to the electricity network.
Online Interactive Guides	Cover all aspects of the connections process as well as a link to all relevant application forms.
Stakeholder Newsletters	Monthly newsletter highlighting key achievements and challenges in delivering the current ‘Incentive on Connections Engagement’ action plan
Customer Engagement Managers & Distributed Generation Experts	Online directory of key contacts for the connections team including a ‘Stakeholder & Community Engagement Manager’ for Scotland and England & Wales.
Policy support	Submitted recommendations and findings of our WPI report to UK, Welsh and Scottish Government and elected MPs. SPEN signed the Local Electricity Bill in 2021. Backing Environmental Audit Committee letter to Government to reduce barriers to community energy.

As ED1 ends, we are also able to build on from the success and learnings from SP Transmission’s Green Economy Fund and of course our day-to-day experience looking after 3.4million customers, to ensure local priorities and needs are represented in our work. We are also able to leverage our long-standing relationships with private, third-sector, academic and industry partners to create the varied technological solutions and business models needed to link local needs with local network conditions and establish viable local energy business models that will benefit all consumers.

5. Informing our strategy with meaningful engagement

Publishing our Community Energy Strategy has followed on from on-going engagement and conversations with our wide-ranging customers and stakeholders. It is also informed by the independent research we have

commissioned, relevant external reports and research and the practical support we deliver on the ground and via our Transmission Green Economy Fund.

Since February 2019 we have carried out 5 community energy focused stakeholder events under the topic of 'Smart Communities'. In 2019 our central team also held SPD and SPM strategic panel meetings on community energy and our high-level community energy proposals were also discussed at our panel meetings in 2020. The importance of community energy has been repeatedly mentioned by our stakeholders as an important consideration, even at sessions where it is not down as a specific agenda item. This has been the case throughout many of our stakeholder workshops on ED2.

We have consulted with our stakeholders to ensure we are implementing measures which will deliver the support they want and to ensure that our approach is driven by their needs. A key starting point for our ED2 commitments was collating the barriers and opportunities for community energy with the three CE bodies which we then tested with community groups.

Specific to our strategy document, we ran a community energy focused workshop on 26th February 2021 at which a total of 49 stakeholders from 38 different organisations were in attendance. The event was externally facilitated and delivered in partnership with the CE bodies. The objective of this event was to facilitate open discussion and gather feedback and challenge from our stakeholders on our draft proposals and funding framework. We also wanted to identify gaps and gather additional insight into the wants, needs and preferences of community groups as well as any new barriers for the sector, particularly in a post-Covid world. Alongside this event, we ran a series of bilaterals with key stakeholders and two separate online surveys to capture more detailed feedback, refine and strengthen our commitments and proposals. We held a focused workshop on our bespoke output delivery incentive for community energy.

For further details on the engagement carried out to inform our community energy strategy please refer to *Annex 3.1 Co-Creating our RIIO ED2 Business Plan with our Stakeholders and Appendix 3.1h ED2 Triangulation Record – Community Energy*.

5.1 Summary of engagement methods used to inform our Community Energy Strategy and commitments:

Community Energy Workshop

- ED2 customer research
- ED2 stakeholder workshops
- Online community energy survey
- Bilateral meetings with key stakeholders
- Weekly review meetings with CE Bodies
- Feedback from our CEG and CEG Community Energy subgroup
- SPD and SPM strategic panels
- Relevant publications including but not limited to:
 - Power for People publications on Local Electricity Bill
 - Learning from our ongoing local energy project work such as Energy Local Bethesda or Project Fusion
 - Learning from Community Energy Scotland's Next Steps in Community Energy [a response to Covid pandemic and the green recovery]
 - CEE State of the Sector reports
 - 2020 Future of Community Energy report
 - Community Energy in Wales *A manifesto for sustainable locally owned energy*
 - Environmental Audit Committee discussions
 - SPEN Innovation close-down and impact reports
- Learning and annual reporting from our Transmission Green Economy Fund projects
- Zero Carbon Communities Hub research

- Campaign reports and customer communications
- Welsh Government ‘Deep Dive – Sub Group – Community’ sessions – November 2021
- Policy landscape (see section 3.2)

5.2 Summary of example responses from our community energy strategy engagement:

We understand and have heard from our stakeholders that community energy projects bring with them a wealth of benefits, such as opportunities for education, knowledge sharing, community ownership, independence, and collaboration.

“Better inclusion & engagement with communities = faster, more equitable, and efficient transformation of UK energy system” (Charities)

92% of our stakeholders agreed that network operators like SPEN should play a role in supporting community energy as they have the knowledge, expertise and control the grid.

“Help from SPEN is essential to make schemes viable” (Renewables, the Environment & Sustainability)

82% of our stakeholders agreed with our community energy proposals stating they were focused on the right aspects, are well considered and sound promising.

“You are proposing & leading on a plan which allows community energy to be supported, ownership be taken, develop solutions & ideas, provide opportunity but also be reviewed going forward.” (Academia)

“I think SPEN have shown recently that they are very much community orientated” (Community Group)

While community energy brings with it many benefits, we know from our engagement that these are dependent on overcoming key challenges. For example, our customers and stakeholders have told us that community anchor organisations are often constrained by time and financial resource. We also know that there is limited knowledge across community groups about the changes coming to the energy system and the possibilities for community energy as a result of these changes. The CE bodies have also told us that confidence to develop new projects is often low across their community members because of the highly technical development process and a lack of available data to effectively assess project feasibility.

Some of the key barriers identified by our community stakeholders are listed below:

- Lack of community confidence & capacity to act
- Lack of knowledge on what is possible on local networks
- Low level of understanding/capacity in community groups of the need and possibilities linked to ‘flexibility’ and Distribution System Operator development.
- Highly technical development process
- Grid constraints/connecting to the grid
- Difficulty in assessing viability of non-firm connections
- Security and Transmission works payments complex and difficult to understand
- Varied across GB, but communities often have limited direct Distribution Network Operator engagement or knowledge of how DNOs can support community anchor organisations
- Managing the impact of grid outages
- Lack of availability of network monitoring data or proactive information on optimal grid locations for local supply
- Difficulty identifying the best grid locations for the development of distribution level flexibility services
- Lack of funding support (capital and revenue)
- Lack of group capacity to take forward local recruitment of participants
- Difficulty of establishing viable financial models

We have listened to customer and stakeholder feedback and designed our commitments to address these barriers and challenges where they relate to our distribution network role and in preparedness for the Distribution System Operator (DSO) model.

5.3 Responding to customer and stakeholder feedback

Table 4 below provides examples on how we have listened to our stakeholders and how we have incorporated their feedback into our community energy activities and commitments for our distribution plans. You can also find more information in *Annex 3.1 Co-Creating our RIIO ED2 Business Plan with our Stakeholders and Appendix 3.1h ED2 Triangulation Record – Community Energy*.

You said	We did	Outcome
Community collaboration and strategic partnerships at multiple levels		
<p>Stakeholders stressed that the company’s stakeholder-led Community Energy Strategy should involve collaboration with the private sector, Government and different industries to avoid “sounding in a vacuum”.</p> <p>Stakeholders commented that SPEN should engage with local authorities, community energy organisations, other utilities, and organisations such as Citizens Advice and the Energy Trust, some of which may be better placed to connect with communities.</p>	<p>Reviewed our current activities, latest community energy research findings and customer and stakeholder feedback. Launched our free online Zero Carbon Communities Hub. Collaborated with communities and trusted support organisations to facilitate community energy ambitions quickly and strategically</p>	<p>Our commitment: <i>We will submit a CE Strategy with our ED2 business plan to clearly show how we will embed community energy thinking across our business and set our approach to leveraging resources to cost-effectively support more community energy projects across our licence areas. Our strategy will be independently reviewed via the community energy bodies every year to make sure we are learning as we go and adjusting to any changes in the external environment.</i></p>
Advice provision		
<p>92% of stakeholders surveyed agreed that network operators like SPEN should be playing a role in supporting Community Energy as they have the knowledge, resources, and infrastructure to play a central role in the set up and delivery of community energy.</p> <p>Stakeholders agreed that SPEN should provide education and advice to the public, including by providing examples of successful community energy projects to enable shared learning.</p> <p>Stakeholders also stressed the importance of collaborating with other organisations, especially local authorities, and charities to achieve more meaningful outcomes.</p>	<p>Reviewed our current activities, latest community energy research findings and customer and stakeholder feedback. Launched our free online Zero Carbon Communities Hub</p>	<p>Our commitment: <i>Through our dedicated community team (who will work internally with our Whole System advisors and Just Transition colleagues) we will offer technical advice and optioneering as well as signposting to impartial, local support organisations and local energy planning activities and hand-hold local groups in need of additional support through our connections process.</i></p>
Awareness raising		
<p>Stakeholders advised SPEN to be more ambitious in its education provision by helping to address the skills gap in community groups as well as the knowledge gap.</p> <p>Stakeholders wanted to see a “deeply rooted” local energy education programme, warning that industry players risked sending out a fractured and potentially confusing message by failing to collaborate.</p>	<p>Use our leading role in the energy system, and working with local support organisations, to establish how best to spread awareness quickly and cost-effectively on community energy opportunities and benefits</p>	<p>Our commitment: Zero Carbon Communities – Awareness Raising and Outreach. More details in section 6 below.</p> <p>Proposed our bespoke incentive: Advice Services. More details in Annex 5C.5 – ODI Annex (section 5).</p>

Provide funds to help make projects viable		
Stakeholders called for clear, flexible funding with a simple application process, and some suggested that the fund should consider local energy plans, as well as feasibility and capital. There were also calls for SPEN to raise its ambition by separating out funding for community projects and funding for larger-scale projects and creating a business-as-usual community energy model.	Reviewed our current activities, latest community energy research findings and customer and stakeholder feedback. Used learning from SP Transmission Green Economy Fund delivery	Our commitment: <i>Ring-fencing ~25% of our proposed Distribution Net Zero fund for community-led energy projects. Community groups will still be able to access other categories of the fund.</i> We continue to work with the CE charities in relation to identifying appropriate SP Transmission land for CE project development
Stakeholders asked for ring-fencing of network capacity for community energy, reducing connections fees and local energy tariffs.	Explained how it would be against our licence agreements and risk stranded capacity if local projects did not progress. Advised these areas are out with SPEN's remit to decide upon.	Provided our signature to the Local Energy Bill. We will stay abreast of discussions re new tariffs and business models etc. in 2022. Facilitated meeting with the CE bodies and Ofgem to discuss these issues directly and establish contacts for future conversations and lobbying. Agreed to meet with the ENA (Energy Networks Association) again in early 2022 following Ofgem decision on DNOs proposals for CE.

Table 4: You said, we did – a response to stakeholder feedback

6. Our vision for community energy support in ED2

6.1 Our commitments and how we will deliver them

Community energy is critical to ensuring we achieve net-zero and a just transition however, given the current pace of change, it has not yet been formally considered as a core area of activity for DNOs. As such, Ofgem have not yet issued specific requirements on how we should operate in this area or draw down funding for our activities. Given the urgency to act, we have proposed the commitments below to help address barriers facing community groups that relate to our role as a network operator. Our costs and activities are designed so that they benefit all consumers and that their financial benefits outweigh the cost of delivery.

We have adopted a two-step approach which underpins the activities that SPEN has more direct control over but also retains flexibility (via our Output Delivery Incentive proposal) to apply additional resources to create and meet any increase in demand which may also be triggered by positive policy or regulatory mechanisms developed for the community sector during ED2. This new Community Energy ODI is a discretionary, reward only, ODI of up to 0.50% of base revenue. It will be formally assessed once mid-period, and again at the end of ED2. The ODI is structured around: (i) stakeholder satisfaction surveys; (ii) case study evaluation; and (iii) independent annual review of CE strategy delivery.

Through baseline funding our aim is to cost-effectively support a minimum annual growth rate of community energy projects of 4% across SPD and SPM. Through our Output Delivery Incentive funding framework, we will aim to facilitate an annual growth rate of up to 27% by applying additional resource to our proposed commitments.

6.1.1 Zero Carbon Communities Community Energy Strategy – Reviewed Annually

Our commitment: *We will submit a Community Energy Strategy with our ED2 business plan to clearly show how we will embed community energy thinking across our business and set our approach to leveraging resources to cost-effectively support community anchor organisations and their community energy projects across our licence areas. Our strategy will be independently reviewed every year to make sure we are learning as we go and adjusting to changes in the external environment.*

What do we mean by this?

We will create a community energy team with resource in our central and district teams who will be tasked with ensuring that the role for community anchor organisations and community energy solutions is embedded in our RIIO-ED2 planning and delivery activities.

This team will support community anchor organisations in their delivery of community-led energy projects as well as in their role as trusted intermediaries for local householders/communities. We know that community groups have a huge amount of value to add in providing advice and information or signing-up participants in local projects that roll out network innovation (e.g. remote controlled switches in the home to enable flexibility) or energy efficiency schemes or during essential upgrades across properties with looped electrical service connection. If it is approved by Ofgem, the CE team will also sign-post to our proposed customer advice service. More details of this service can be found in Annex 5C.5 – ODI Annex (section 5).

The CE team will deliver against the commitments contained within this strategy and report on the resulting impact on, and of, the community energy sector. They will collect data on wider metrics (shown in Figure 1) to support an improvement in community energy data and feed into the principles and reporting behind our upcoming Just Transition Strategy detailed in Annex 4.1 Our Plans for a Just Transition. This will involve using digital tools to support community groups to contribute to our annual distribution future energy scenarios data so we can more accurately plan for community energy over ED2 and beyond.

The team will produce a public facing report annually on our community energy strategy in consultation with the not-for-profit community representative bodies Community Energy England, Community Energy Scotland, and Community Energy Wales.

A whole systems approach is essential to a net zero future and our strategy will serve to identify and maximise mutual benefits - such as carbon savings, local job creation and cost-efficiencies for SPEN, community groups and bill payers. Reporting on the impact of our strategy and the commitments contained within it ensure we continue to implement a cost-effective, beneficial, and essential support to community groups and a just transition.

We will undertake training for our engagement and customer support teams, so they are more informed on the most up-to-date local energy opportunities available to individuals and their local communities and where to signpost both within the business and to third party support organisations

Our CE team will work closely with our regulatory teams to keep them abreast of latest developments in the sector so that SPEN may use our central role in the energy system to proactively champion the essential role of community energy and highlight the benefits and cost efficiencies for all network users.

The commitments outlined below address several of the barriers experienced by community anchor organisations, however it is important to recognise that not all barriers relate to our role as a network operator. For example, SPEN cannot make decisions on local energy tariffs for example. We will, however, look to work in partnership with key stakeholders and contribute to discussions with Ofgem, policymakers and other key decision makers. We are also keen to work with other DNO's and the Energy Networks Association to explore opportunities to develop a more standardised approach to supporting community energy groups across GB.

6.1.2 Zero Carbon Communities - Technical advice, Optioneering and Signposting

Our commitment: *Through a dedicated community energy team (who will work internally with our Whole System advisors and Just Transition colleagues) we will offer technical advice and optioneering as well as signposting to impartial, local support organisations and local energy planning activities and hand-hold local groups in need of additional support through our connections process.*

What do we mean by this?

Our stakeholders have told us that the process of developing community energy initiatives can be technical and complex and have highlighted the barriers they perceive to be preventing more community projects:

- difficulty connecting assets to the grid due to grid constraint
- difficulty in assessing the viability of non-firm connections
- difficulty identifying the best grid locations for the development of distribution level flexibility services
- a lack of available information on optimal grid locations for local supply
- security and transmission work payments are complex and difficult to understand

- Varied across GB, but often limited direct Distribution Network Operator engagement or knowledge of how DNOs can support community anchor organisations

Through the above commitment we will build on our existing self-service Zero Carbon Communities Hub and district stakeholder engagement to establish a dedicated team focused on supporting community energy projects and community anchor organisations.

As a regulated network operator, it is essential that we offer our varied customers equal access to our networks. Our above commitment aims to make this equal access more equitable by tailoring our support and/or signposting to the needs of community anchor organisations who our stakeholders have told us are often geographically fixed and therefore may have to develop more bespoke projects that more mobile customers can choose not to. Our stakeholders are also keen that we provide additional support to community energy groups as they may be less familiar with the technological and regulatory aspects of energy networks or what local business models might be available to them. We know that these groups may also be less familiar with what their project options are (e.g., which technologies may be best for their site and network conditions) or how to connect their project to the electricity grid if relevant.

For all community-led energy projects, our community energy team will act as a consistent point of contact, linking with relevant delivery areas of our business as required. They will offer advice and support to community anchor groups who wish to explore low carbon technology options and community energy schemes in their area and offer signposting to existing relevant support organisations, impartial advice services or available funding schemes.

For community anchor groups looking to connect a new project to our network, we envision that this support will quite often precede and then subsequently feed-in to our Connections process should a community decide to take forward a community energy project requiring a new connection. Please refer to our Connections Strategy Annex 4A.28 for more information on our plans for connection customers in ED2.

Examples of the support provided to community anchor groups by SPEN's community energy team include:

- Advice about the extent of our community energy services so that community anchor organisations are encouraged to contact us sooner to confirm their project idea is technically viable from a network perspective.
- Linking community anchor groups with other relevant activity happening in their areas that they may be unaware of such as local energy planning initiatives.
- Proactively outlining and communicating innovative connection solutions linked to demand development in grid constrained areas. Advising on potential opportunities brought about by the move to a DSO model.
- Making local energy and flexibility opportunities clearer and more accessible to individuals and their communities as 'new market entrants' who wish to take part in innovation projects and future services.
- If approved by Ofgem signposting to our customer service output delivery incentive (ODI) proposal which is detailed in chapter 4A Customer Service of our Business Plan and in Annex 5C.5 – ODI Annex, section 5.
- Linking to our RIIO-T2 initiative to support local communities to access available land around our transmission sites to develop community energy schemes.

This new team will collate the data – with support from Community Energy England, Community Energy Scotland, and Community Energy Wales - to report on the unique experiences and enquiries from our community groups to inform our annual Community Energy Strategy reporting.

Under this commitment we will also develop and improve our self-service online Hub to improve access to relevant data and help community groups develop viable business plans – for example integrating our existing Heat Maps data for better transparency and providing network data on capacity to connect additional load.

Our community energy team will also complement our Digitalisation Strategy making links with Community Anchor Organisations looking to take forward local energy projects. For example, by working with these groups to understand what levels of IT (Information Technology) literacy and IT access are present across community groups and support with IT training specific to their project if appropriate.

6.1.3 Zero Carbon Communities – Awareness Raising and Outreach.

Our commitment: *We will work in partnership with local support organisations to deliver community energy awareness campaigns at scale and educational outreach activities to raise knowledge and awareness of the changes coming to the energy sector and how individuals and their communities can participate and benefit. We will review our engagement, including who/how best to deliver information, throughout ED2 and remain flexible and innovative in our approach.*

What do we mean by this?

This programme will complement our technical advice and support commitment by proactively communicating information specific to the transition of Britain’s electricity networks. We will communicate on low carbon technology opportunities, local energy schemes, network flexibility to raise local awareness and understanding to encourage community anchor groups to participate and benefit. This commitment supports many of the barriers highlighted to us by our stakeholders. Particularly it aims to address their concerns around:

- the low level of understanding of the need and possibilities linked to ‘flexibility’ and DSO development.
- lack of confidence and capacity to take forward community energy initiatives
- lack of capacity to recruit participants to take part in CE projects

Our community energy team will work with the community energy bodies and other relevant support organisations as well as our central communications team to deliver a range of community energy information. This activity will range from awareness raising campaigns at scale to bespoke educational workshops for local groups. It will leverage SPENs existing customer engagement channels to provide a wider platform for community energy groups to communicate at scale and it will also allow us to work alongside local delivery partners to deliver community energy outreach events such as Community Energy Futures that go beyond high-level discussions into the step-by-step aspects of how to develop a locally tailored community energy scheme. In keeping with our Just Transition principles, we will target traditionally hard to reach regions that may be less likely to have social capital or resource to proactively engage in community energy solutions. We will review our impact annually to adjust our approach throughout ED2.

Working with the CE bodies and other relevant support organisations, our community energy team will also promote our additional services so that those wishing to pursue local energy solutions are encouraged to reach out to SPEN sooner (aiming to limit unnecessary expense) to ensure their preferred solution is technically viable from a network perspective.

They will also link network upgrade communications (e.g. upgrading properties with looped electrical service connection) to the relevance of preparing for net zero so individuals and their communities understand the necessary disruption in the context of increased opportunities for them to partake in net zero initiatives.

6.1.4 Ring-fencing 25% of our proposed Distribution Net Zero Fund for community energy projects.

Our commitment: *We will ring-fence ~25% of our proposed Distribution Net Zero Fund for community-led energy projects. Community groups will still be able to access other categories of the fund.*

What do we mean by this?

We will ring-fence roughly 25% of our proposed £30M Distribution Net Zero Fund for community-led energy projects.

Our stakeholders have told us that:

- a lack of funding support, for both capital and revenue costs, is preventing them from carrying out early-stage project development activities such as local energy planning, feasibility work and recruitment of participants
- community energy organisations are often run and staffed by volunteers who do not have capacity to take forward this type of activity without financial support
- capital grant funding is vital to the short and long-term financial viability of many community energy projects.

The fund will focus on facilitating practical low carbon initiatives with tangible outcomes that will drive the green agenda and address the upfront capex barriers for communities wishing to engage in projects that address

local challenges, maximise local benefits and support network cost-efficiencies and therefore cost savings for consumer bills.

By ring-fencing funds for community-led projects we aim to respond to the ideas being brought forward by community anchor organisations and link with our just transition principles by helping communities realise their low carbon ambitions and ownership within the energy system. The proposed distribution fund will build upon our Transmission Green Economy Fund which has a proven track record of delivering demonstrable environmental, economic, and societal benefits. The fund is designed to align with the UK and devolved Government NetZero aims, whilst supporting the ambitions of our local cities, towns, and communities.

6.2 Measuring success

We will monitor and publicly report on the impact of our community energy commitments and baseline investment costs using a combination of the following metrics:

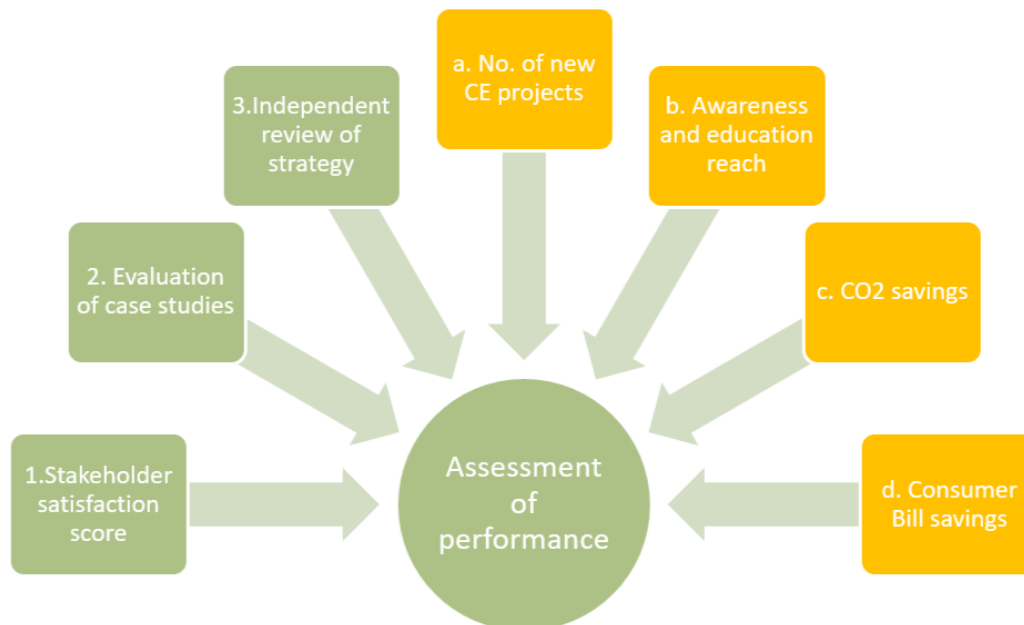
1. stakeholder satisfaction surveys
2. case study evaluation, and
3. independent annual review of CE strategy delivery

These metrics will enable us to receive scoring evidence from community anchor organisations themselves, and the CE representative bodies who are best placed to assess the delivery of our CE Strategy. In addition to these three metrics, we will also report on other important areas:

- a) Number of new community energy projects
- b) Awareness and education reach
- c) CO2 Savings
- d) Consumer bill savings

Community energy as a sector has limited available data, which has influenced which metrics are appropriate for SPEN to report on as resulting from our direct impact (metrics 1 to 3) and wider data that we still wish to capture (metrics a to d) in Fig.1 below. We hope capturing and sharing this data with Ofgem over ED2 will allow for better understanding of the sector and for improved baseline and target setting for supporting community energy in future price controls.

Figure 1: Metrics for measuring success of our community energy commitments and investment over ED2.



Key

1-3 (green) Metrics we will formally report on to Ofgem for assessment of delivery against our bespoke proposal
 a-d (orange) Additional metrics we will capture as a function of our baseline and ODI activities.

6.2.1 Measuring success of our bespoke output deliver incentive proposal

In addition to our baseline proposals and associated costs, we have developed a bespoke, reward-only, output delivery incentive to establish an additional funding framework. Incentives are one of the ways network companies can draw-down funding through Ofgem’s RIIO-2 price control framework. The bespoke proposal we have designed for our community energy strategy would allow SPEN to create an additional internal business case for the Company to invest more funds towards community energy in exchange for a financial reward from Ofgem. This financial reward would be less than half of the financial benefit generated by our input and is always assessed via pre-agreed performance measures by Ofgem before it is issued. You can find more detailed information on the costs, benefits, and performance measures of this proposals in 5C.5 ODI Annex and Appendix *Bespoke Outputs – Costs and Benefits Justification: Supporting Community Energy in ED2*.

The performance metrics we will assess for our bespoke ODI have been defined in agreement with the CE bodies and the available data that is independently collected by them and their members via the annual State of the Sector (SOTs) report.

We will report on our performance via these metrics and provide a score to Ofgem. Our performance against each component of the ODI (i.e., stakeholder satisfaction surveys; case study evaluation; and independent annual review of CE strategy delivery) will be converted to a score between 1 and 10 at the mid-period and end-of-period of ED2 for each of our licence areas. Reward will not be achieved unless we reach an average score of 5, and maximum reward be associated with an average score of 10. If our bespoke ODI proposals is approved by Ofgem, we will work with the CE bodies and Ofgem to determine the precise scoring methodology to be followed. The last column in Table 5 shows the weighting attribution for each type of evidence.

Table 5: CE ODI scoring system and weightings

ODI component	Scoring (performance associated with scores of 1, 5 and 10 listed below, linear in between)			Weighting
	Score of 1	Score of 5	Score of 10	
Stakeholder satisfaction survey	Average respondent satisfaction score of 1	Average respondent satisfaction score of 5	Average respondent satisfaction score of 10	50%
Annual review	Average annual review score of 1	Average annual review score of 5	Average annual review score of 10	25%
Case study evidence	Case study score of 1	Case study score of 5	Case study score of 10	25%

We propose that only performance scores above 5 will receive a reward, with a total potential reward value of up to £20.83m across ED2 available under this ODI. A full explanation of the rationale for selecting these metrics can be found in our ODI Annex.

6.2.2 Stakeholder satisfaction survey

We will conduct two online stakeholder satisfaction surveys over RIIO-ED2. One during 2025-26 to feed into the mid-period reviews, and one during 2027-28 to feed into the end-of-period reviews. Participants will include, for example, community anchor organisations and local housing associations that have been in direct receipt of our support. Respondents will be filtered according to the licence area (SPD/SPM) within which they operate. We will appoint an independent third party, such as a market research company, to undertake the CE stakeholder satisfaction survey on our behalf.

Survey questions will focus on establishing:

- Stakeholders’ satisfaction with the service that we provide in relation to CE
- The extent to which stakeholders view our input as crucial to the success of their CE projects, and
- The extent to which stakeholders view our input as crucial to the growth of the CE sector

- We will ensure questions are provided with context and appropriately framed to ensure respondents are clear on SPEN's role in relation to CE. We will use a range of question types including asking respondents to provide ratings of satisfaction in various areas on a scale of 1-10. This will ensure that we receive the detailed qualitative data we require to continually improve the service we offer to CE groups, whilst also capturing a quantitative metric for stakeholder satisfaction that SPEN can be incentivised against

6.2.3 Evidence of community energy strategy delivery

The second component of our proposed community ODI framework is evidence of SPEN's CE strategy delivery through an annual review. SPEN's performance will be reviewed independently by the community energy bodies in SPEN's annually published State of the Sector Report, which will include detail on the extent of SPEN's CE activities and achievements over the year across our two licence areas. We will work with the CE bodies to share information on our activities and outcomes for our SPD and SPM areas. We consider the CE bodies as taking the role of 'critical friend', supporting the development of, and critically reviewing our CE activities, much in the same way that the DNOs' Consumer Engagement Groups challenge the development of Business Plans. The CE bodies are best placed to review our CE performance, as they have a practical understanding of CE projects and challenges, project delivery experience and are trusted by community anchor organisations.

The CE bodies will score SPEN's annual performance from 1-10, based on the following criteria:

- How **collaborative** we have been in terms of partnering with the sister CE organisations, and other relevant parties to develop the CE strategy
- How **well embedded CE strategic thinking and activities are** across our business
- How **cost effective** our CE strategy is, and
- How well we have worked to **identify and address CE opportunities and barriers** through the strategy, reflecting on policy or other external developments that have changed the CE landscape in the previous year

We will continue to work with the CE bodies and relevant stakeholders to develop a detailed methodology for collating and reporting evidence of community energy strategy delivery scoring.

6.2.4 Case Study Assessments

We will develop one case study for each of our licence areas, for both the mid- and end-of-period reviews i.e., four case studies throughout the course of RIIO-ED2. Each case study will detail our work in relation to a particular CE project and provide feedback from the third parties we are engaging with in relation to the project. We will report on the projects' three broad impacts in relation to CO₂e reductions, consumer bill savings, and economic uplift¹⁷. We will also detail wider social benefit that results from this work including metrics a to d in figure 1.

We will submit each case study to the CE bodies, who will provide an independent score of between 1 and 10 based on the following 3 criteria:

- **The scale and scope of our activities** – in other words, the extent to which we have supported CE, and whether our activities meet our key commitments TP8.3 and TP8.4¹⁸.
- **A third-party view**– direct input from the 3rd parties involved in the CE project to get their view of how well the project is going, specifics of any barriers faced and their satisfaction with our involvement.
- **The benefits we have supported, including cost-benefit ratio** – in terms of the direct costs to us of the support offered, relative to the valuation of the benefits that result. We will use the social return on investment (SROI) methodology to measure the benefits we have supported in the case studies.

We will work with the CE bodies to develop a detailed methodology for case study performance scoring.

¹⁷ As detailed in our ODI Annex (Annex 5C.5)

¹⁸ A full list of our commitments can be found in Annex 1.1

7. Cost of delivering our CE Strategy

We are submitting baseline costs of £3.05m for the delivery of our CE commitments over the period 2023-2028. An annual breakdown of these costs is shown in Table 6 below. It is estimated that these costs will be associated with SPEN supporting a 4% annual growth rate of new community energy projects over ED2.

ED2 Commitment Delivery Area	Cost Total	Costs SPEN	External Support from CE organisations
Delivering and reporting on our community energy strategy	£180k	£150k	£30k
Delivering on our advice and support service	£270.5k	£262.5k	£8k
Delivering our awareness raising campaigns and bespoke training	£160k	£100k	£60k
TOTAL	£610.5k	£512.5k	£98k

Table 6: Breakdown of annual baseline costs

To calculate the costs for our bespoke incentive funding framework, we have estimated that our activities (in SPEN’s network areas) will produce gross customer benefits of £45.65m arising specifically from our involvement in supporting community energy. We have therefore proposed a reward rate of 0.50% of base revenue (c. £20.83m) over the ED2 period. This approach ensures that customers always share in at least 50% of the benefits of our bespoke ODI for community energy. If approved by Ofgem, SPEN would therefore receive a maximum annual reward of £4.2m associated with this enhanced delivery.

For further details of the costs and benefits associated with our Community Energy baseline and bespoke ODI costs, please refer to Annex 5C.5. ODI Annex and Appendix Bespoke Outputs – Costs and Benefits Justification: Supporting Community Energy in ED2.

We also plan to continue working with the CE bodies and relevant academic institutions over 2022 to develop our social return on investment (SROI tool) to capture and report on more of the essential non-economic benefits attributable to community energy.

The costs associated with ring-fenced funds from the net zero fund are treated separately and can be reviewed in Annex 4B.4 Distribution Net Zero Fund.

8. Next Steps

We look forward to hearing Ofgem’s assessment of our proposals. If approved, we will continue to fine tune our activities and offerings over 2022 with our customers and stakeholders ahead of ED2 delivery.

Over the coming months we will also look to build on our social impact tool to help us assess, quantify, and standardise reporting on our wider social impact (table 2 and figure 1) in this area and as part of our just transition commitment.

We welcome any thoughts or feedback on the activities outlined in this strategy document via riio_ed2@spenergynetworks.co.uk.




SP ENERGY NETWORKS

SP Energy Networks
320 St Vincent Street
Glasgow, G2 5AD

Contact us

 facebook.com/SPEnergyNetworks

 twitter.com/SPEnergyNetwork

RIIO_ED2@spenergynetworks.co.uk

spenergynetworks.co.uk