

Written Response by the Welsh Government to the recommendations of the Hydropower Task and Finish Group.

Wales has a long history of hydropower deployment, and in 2014 hydropower formed 6% of the installed low carbon generation capacity. Hydropower provides local economic benefits and has seen a boom in recent years due to the incentive of the Feed-in Tariff scheme.

Welsh Government recognises the impact the reduction in feed-in tariffs has had on the industry. However, with a refined business model, an appropriate regulatory regime and focused support there is potential for many further hydropower projects in Wales.

Welsh Government accepts the recommendations of the hydropower task and finish group. The main focus of the recommendations is on creating an efficient licensing regime for hydropower which is easy to navigate, provides clear guidance and has appropriate charges. Some of the recommendations require further consideration, however, we believe we can work together to achieve the intended outcome.

Whilst the Group has been useful, it has focused on actions by Welsh Government and Natural Resources Wales. We are also looking to the industry to take forward actions. We understand the challenge the industry is facing, and offer our continuing support to the industry to develop innovative solutions to drive down the cost of hydropower projects and establish business models which work within the current funding regime.

In accepting the recommendations we are pleased to provide an update on the work already undertaken to implement them and to set out what additional actions are planned.

Natural Resources Wales

NRW has a principal role in both planning and permitting. We have been clear about the need for NRW to make continuous improvements to their licensing processes. NRW has made substantial improvements to the way they manage hydropower licencing, which has delivered benefits to them and the industry. The Group's recommendations provide the context for further improvements to NRW's work in support of hydropower in Wales.

The primary aim of NRW's continuous improvement programme is to deliver an efficient, proportionate licencing service with a high standard of customer service. NRW has started work on a number of the recommendations set out in the Task and Finish Group's Report. A summary of the progress is given below.

Variation to abstraction licences (recommendations 1 & 2)

NRW has identified the licence holders for whom an upward variation may be applicable and have drafted advice letters to be sent to these licence holders. An upward variation would allow a greater volume of water to be abstracted. However, NRW has had to review their hydropower guidance in response to changes in the interpretation of some aspects of the Water Framework Directive following a

European Court of Justice ruling. Some minor changes to their hydropower guidance may be required before the letters are issued.

Licensing low risk hydropower schemes (recommendation 3)

NRW has already undertaken a number of activities to better understand the technical aspects of low risk hydropower schemes and what design options can be put in place to further reduce environmental risk and mitigate impacts. These include two informative site visits with pico hydro developers and an all-Wales staff workshop with NRW specialists. A networking event jointly hosted by Welsh Government and the British Hydropower Association in February provided an opportunity to seek the views of stakeholders.

NRW has identified areas where it may be possible to simplify certain licensing requirements whilst still meeting statutory duties to protect the environment. They have developed possible improvements for low risk schemes and options for a licensing process. These are currently being reviewed by legal and technical groups within NRW.

Streamline administrative processes (recommendation 4)

Preparatory work has been carried out in this area, identifying areas where further improvements can be made and drawing on experience of licensing hydropower schemes over recent years. There is further work to do to translate areas of improvement into new administrative processes.

Online guidance (recommendation 5)

Updating guidance complements recommendations 3 & 4 and will take place towards the end of the sequence of actions. New guidance will set out any new technical standards, approaches and processes developed from the other recommendations.

Licence fees (recommendation 6)

Recent experience has shown the variable technical content of some applications to vary abstraction licences for hydropower do not fall clearly into existing fee charging categories. NRW will review the range of variation types and assess the staff resource needed to determine these licences. Applications can then be categorised and appropriate fees set. These activities will form part of the 2017/18 charging consultation. In the meantime, NRW has assessed current variation types and placed them in the most appropriate charging band within the existing charging scheme.

Welsh Government

Two of the eight recommendations require action by the Welsh Government.

Planning (recommendation 7)

Smaller projects are particularly vulnerable to disproportionately high development costs. Planning consent is one of these costs and can be a barrier which prevents

projects advancing from development stage to construction. Simplifying planning and permitting for these small, low risk developments could be very helpful in increasing deployment.

Permitted Development Rights are being reviewed this year and we are exploring the feasibility of extending permitted development rights to include small scale, low risk hydropower projects. We are looking closely at how small hydropower schemes could become permitted developments, and are collecting evidence to support a decision. This could potentially remove the need for planning permission altogether for certain hydropower developments.

This would need to be consulted on as part of the wider review of permitted developments taking place later this year or early next year.

Non-domestic Rates (recommendation 8)

The methodology used by the Valuation Office Agency (VOA) for calculating the rateable value of renewables uses the electricity price and the level of UK Government Feed-in Tariff as at 1 April 2015. This is the valuation date set in legislation for the 2017 revaluation to ensure all non-domestic properties are valued at the same point in time.

The VOA has worked closely with trade associations to discuss, and where possible agree, the valuation approaches and methodology. In addition to this, the Welsh Ratepayer's Forum, lead by the VOA, has met to engage with stakeholders and industry representatives during the revaluation, and includes representation from the British Hydropower Association.

The VOA has indicated they are seeing a wide range of rateable values. For hydropower schemes, as there is so little standardisation, each installation has been looked at on its individual finances. There are winners and losers from this methodology, and indeed developments pre-2016 will have benefited significantly from the previous low rate of assumed income. The BHA has provided evidence of the impact the revaluation will have on hydropower projects in Wales.

Welsh Government has extended small business rate relief until 31 March 2018 which will provide £100m of support to more than 70,000 ratepayers in Wales. We have also introduced a fully funded £10m transitional relief scheme to help eligible ratepayers by enabling them to phase in any increases in the amount they have to pay over a three-year period. Both of these schemes will benefit some of the hydropower projects negatively impacted by the revaluation.

A new permanent Small Business Rates Relief scheme will come into force from 2018 onwards. As part of the development of this scheme the case for specific assistance and support for some projects, including community energy projects and community hydro projects will be considered. This will also include an assessment of the situation in Scotland.

However, our work to resolve this issue indicates some fundamental issues with the business model currently used by the industry, as indicated earlier in this response. These developments are long term sources of energy with high up front costs, which could benefit from a different and more long term model of financing than is currently

applied to the energy industry. We will continue to work with the industry and the VOA on the challenges identified by the Group.