REA summary of "Feed-in Tariffs - Government's Response to the Summer 2009 Consultation"

Introduction

Decc published its response to the consultation for the introduction of Feed-in Tariffs (FITs) on 1st February. It sets out the tariffs rates that will apply from April 2010, as well as confirming how the scheme will be run.

The response includes notable scheme improvements such as index linking tariffs to RPI, however there are also some major disappointments, such as the removal of non AD biomass. It also fails to set tariffs for a range of technologies energy from waste, geothermal and wave and tidal. However, on balance for those technologies able to participate, the overall scheme design is good and represents a firm foundation upon which to grow the UK small-scale renewables electricity industry.

It should be noted this document is a brief summary of the consultation. If you would like to know all the detail, please read Decc's official document, which can be downloaded from the REA website - www.r-e-a.net/info/rea-news/details-of-feed-in-tariff-scheme-for-local-renewables-unveiled/

Feed-in Tariffs – Small-scale generation

The Energy Act 2008 established enabling powers for the introduction of FIT's to supplement the RO and incentivise small-scale low-carbon electricity generation, up to maximum limit of 5 megawatts (MW) capacity (50 kilowatts (kW) in the case of fossil-fuelled combined heat and power). It also provides powers to implement a new Renewable Heat Incentive (RHI) aimed at renewable heat installations of all sizes, which will be implemented in April 2011. A consultation on the RHI was also launched in tandem to Decc's response to the Feed-in Tariff consultation and REA has summarised this separately.

FIT scheme design

- Supported technologies from 1st April 2010 will be; wind; solar PV; hydro; and anaerobic digestion. A tariff to incentivise a pilot programme of non-renewable Micro CHP has also been set. Tariffs have not been set for biomass, biomass CHP or other renewable electricity technologies;
- Tariff design is flat i.e. there will be no attempt to provide upfront capitalisation. The tariff rates are designed to provide a return of 5-8%;
- There is a fixed payment from the electricity supplier for every kilowatt hour (kWh) generated (i.e. the "generation tariff");
- Plus a guaranteed minimum payment additional to the generation tariff of 3p/kWh for every kWh exported to the wider electricity market (i.e. the "export

tariff"). Generators can opt out of this and find their own customer for exported electricity;

- To protect their value, generation and export tariffs will be index linked to RPI (Retail Price Index) which improves the return to between 7-10%;
- Generators receiving FITs will also benefit from on-site use of the electricity and will be able to be offset the electricity generated against electricity that would otherwise have been bought;
- Off-grid generators will receive a generation tariff and benefit from avoided fuel costs;
- Tariffs will be paid for 20 years (25 for PV, 10 years for the micro CHP pilot);
- It is proposed that generators can assign the rights of the FITs payments to a third party by way of bilateral agreement;
- Ownership of the equipment will be attached to the property, i.e. when ownership of the property changes, so does the equipment and the tariff benefit;
- To qualify for tariffs, systems up to 50kW must use MCS accredited products installed by MCS accredited installers, whilst larger installations will use the new ROO-FIT accreditation process (apparently similar to that used for the RO but still under development);
- Energy efficiency measures will not be a pre-requisite for the payment of FITs;
- From 1 April 2010, qualifying installations under 50kW capacity will only be eligible for FITs. Installations between 50kW to 5MW will have a one-off choice between the RO and FITs.

Setting the tariffs

Decc has listened to industry and stated that both the generation and export tariffs will now be index linked to RPI. This represents a significant improvement in the scheme. Decc has calculated that this will raise the nominal return to between 7 and 10% and our initial modelling of PV and wind technologies would support this view. However, small farm scale AD plants will struggle to achieve these rates with the tariffs/bands that have been sent.

Decc has adjusted the tariff rates from those set out in the consultation to take into account changes in electricity prices, the reduction in export tariff and added additional bands for AD and wind.

However, the additional bands for AD and Hydro that industry called for have not been forthcoming. Decc has also decided not to set a tariff for building integrated PV (BIPV), although it will look at this issue at future reviews.

The export payment has been reduced from the consultations proposed 5p to 3p/kWh. This is partly due to consultation responses claiming that it would be difficult to realise 5p in the market.

Details of the tariff bands and their rates can be found overleaf. We have highlighted how these have changed from the previous consultation.

Technology	Scale	Tariff level for new installations in period (p/kWh) [NB tariffs will be inflated annually]			Tariff lifetime (years)
		Year 1: 1/4/10 – 31/3/11	Year 2: 1/4/11 – 31/3/12	Year 3: 1/4/12 – 31/3/13	
Anaerobic digestion	≤500kW	11.5 ~~9.0~~	11.5	11.5	20
Anaerobic digestion	>500kW	9	9	9	20
Hydro	≤15 kW ~~≤10 kW~~	19.9 ~~17.0~~	19.9	19.9	20
Hydro	>15-100 kW ~~≤10 - 100kW~~	17.8 ~~12.0~~	17.8	17.8	20
Hydro	>100 kW-2 MW ~~≤100kW - 1MW~~	11 ~~8.5~~	11	11	20
Hydro	>2 MW – 5 MW ~~1 - 5MW~~	4.5	4.5	4.5	20
MicroCHP pilot*	≤2 kW*	10*	10*	10*	10
PV	≤4 kW (new build)	36.1 ~~31.0~~	36.1	33	25
PV	≤4 kW (retrofit)	41.3 ~~36.5~~	41.3	37.8	25
PV	>4-10 kW	36.1 ~~31.0~~	36.1	33	25
PV	>10-100 kW	31.4 ~~28.0~~	31.4	28.7	25
PV	>100kW-5MW	29.3 ~~26.0~~	29.3	26.8	25
PV	Stand alone system	29.3 ~~26.0~~	29.3	26.8	25
Wind	≤1.5kW	34.5 ~~30.5~~	34.5	32.6	20
Wind	>1.5-15kW	26.7 ~~23.0~~	26.7	25.5	20
Wind	>15-100kW ~~15 - 50kW~~	24.1 ~~20.5~~	24.1	23	20
Wind	>100-500kW ~~50 - 250kW~~	18.8 ~~18.0~~	18.8	18.8	20
Wind	>500kW-1.5MW ~~250 - 500kW~~	9.4 ~~16.0~~	9.4	9.4	20
Wind	>1.5MW-5MW ~~500kW - 5MW~~	4.5	4.5	4.5	20
Existing microgenerators transferred from the RO		9	9	9	to 2027

* Note the microCHP pilot will support up to 30,000 installations with a review to start when the 12,000th installation has occurred.

Decc also wants to ensure that transition from FITs to the Renewables Obligation i.e. for projects close to the 5MW upper capacity cap for FITs is smooth and projects are not incentivised to downsize to have access to FITs.

Degression

Degression is where tariffs for new installations are set at a lower level than the previous year to drive reductions in technology costs. When tariffs are degressed they are only reduced for new installations from that point forward, so systems benefiting from FITs before the degression date are unaffected. Decc has listened to the industry and degression will now not be applied to PV and wind until year 3, when the tariff rates for PV will be degressed annually by 7.5%, 0.5% higher than the rate proposed in the consultation. Wind up to 100kW will be degressed between 3% and 4%. See appendix 1. All other wind bands and technologies will not be degressed.

Eligibility for FITs

Biomass

Having proposed a tariff for non AD biomass in the consultation, Decc has now decided against setting one at this time, though will continue to be supported under the Renewables Obligation at all scales. The reason for the exclusion sited in the document is,

'*Within the time available for the development of the scheme it was not viable to include non-anaerobic digestion biomass because of complex issues with accreditation and the ongoing management and monitoring of compliance for*

solid and liquid biomass plants. There are no clear existing definitions or standards that could be used, the issues are too complex to be resolved within the FIT scheme and current time constraints, and any procedures that were developed would be at least as complex or onerous for small generators as those that exist under the RO. There is also a range of wider issues (including fuel sustainability, diversion from more efficient end-point uses and air quality concerns) that cannot be effectively addressed under the FIT scheme at this time'.

Other ineligible technologies

Decc has also decided not to set tariffs for gasification, pyrolysis, geothermal, and wave and tidal technologies. However, Decc is open to considering technologies not currently eligible for FITs at future reviews.

Refurbished or second-hand systems will not be eligible for FITs.

Claiming FITs

OFGEM will create a central register of all installations for which FITs are being claimed. Entry onto this register (and therefore payment of FITs) will be dependent on:

- Technologies covered by MCS and under 50kW eligibility for FITs will be dependent on the product being MCS accredited and installed by an MCS accredited installer.
- All other installations will be covered under a process similar to that currently used for the RO called ROO-FIT. Ofgem are still working out the details as to how the process will work, but when finalised will also be used for off grid generators.

Generators can install different technologies on the same site, thus allowing them to benefit under the tariff schemes in their own right. Multiple installations of the same technology installed on the same site within twelve months of each other will be treated as if they were one. For technologies installed more than twelve months apart, the original installation will retain the existing tariff and the subsequent installations will be the aggregate of all the installations.

Generators will be able to take advantage of the fixed 3p/kWh export tariff or alternatively make their own arrangements and sell for example to the highest bidder. The decision is reversible.

Financing issues

Government will not provide upfront capitalisation and will leave it to the market to develop loans and other financial mechanisms.

As announced in the PBR, Government is investigating how Local Authorities can use future FITs income to borrow money to install renewables. We await further details, but this could be a way of kick-starting activity within the public sector.

Generators will be able to assign their rights to a third party by way of bilateral agreement.

There is also a presumption that if the property changes hands, the system stays with the property and the rights to FITs is passed to the new owner/occupier.

Supplier issues

Electricity suppliers with over 50k domestic customers will be obliged to pay FITs to generators. Those with fewer customers can choose to offer FITs, but are only obliged to offer them to existing customers with a generation capacity of 50kW or below.

The levelisation process will ensure money is transferred to ensure suppliers have sufficient funds to meet supplier's requirements to pay the generation tariff. It is envisaged that a transfer of funds will take place annually, with additional transfers taking place as required.

The cost to suppliers for administering will be decided by the Secretary of State based on cost estimates from suppliers and on the need to reduce costs to consumers. The level of allowance will be finalised before the scheme starts on 1st April 2010.

Metering

Until SMART meters become available, and if an export meter is not already installed in the property, suppliers will be able to deem the amount of exported electricity for sub 30kW plant. Decc is currently working with suppliers to finalise arrangements. However, SMART meters will need to be installed when they become available and deeming will end.

Transitional arrangements

Systems installed after 15th July 2009

Eligible installations will benefit from FITs and RHI as if they had been installed on the start-up dates of the schemes. Systems up to 50kW will automatically transfer to FITs, with systems between 50kW and 5 MW getting a one off choice.

Systems installed before 15th July 2009

Systems below 50kW and claiming ROCs will automatically transfer to FITs at a rate of 9p kWh which will be index linked, as will the export tariff, through to 2027. Installations that are not claiming ROCs will not be eligible for FITs.

Any generators whose electricity is sold under a NFFO arrangement will not be eligible for FITs but if over 50kW will remain eligible for support through the RO.

See appendix 2 for Decc's flow diagram for the arrangements.

Interaction with other policies

Developers will be able to claim FITs for installing technologies into new homes. However, for CERT and CESP funded schemes, it will have to be proved to OFGEM that the uses of qualifying technologies will provide true additionality before payment of FITs is confirmed.

In some cases eligibility for FITs may be affected by the receipt of other public body grants. This will be monitored on a case-by-case basis.

Reviews

The first major review will be in 2013. The topics for consideration at the review will be:

- tariff levels;

- degression rates and methods;
- eligible technologies;
- arrangements for exports;
- administrative and regulatory arrangements;
- interaction with other policies;
- accreditation and certification issues including the MCS.

If necessary early reviews will be set up to look to consider any significant changes to the fundamentals affecting the operation of the scheme.

To ensure that existing investors may proceed with certainty, any changes to future levels of support will apply only to investments following the review i.e. generation tariffs existing at the time of the review will be maintained for those installations already receiving them.

Next steps

The FITs Statutory Instrument will be released within the few weeks as will the changes to the electricity suppliers licence conditions.

Stuart Pocock
Head of On-site Renewables
02 February 2010

Appendix 1

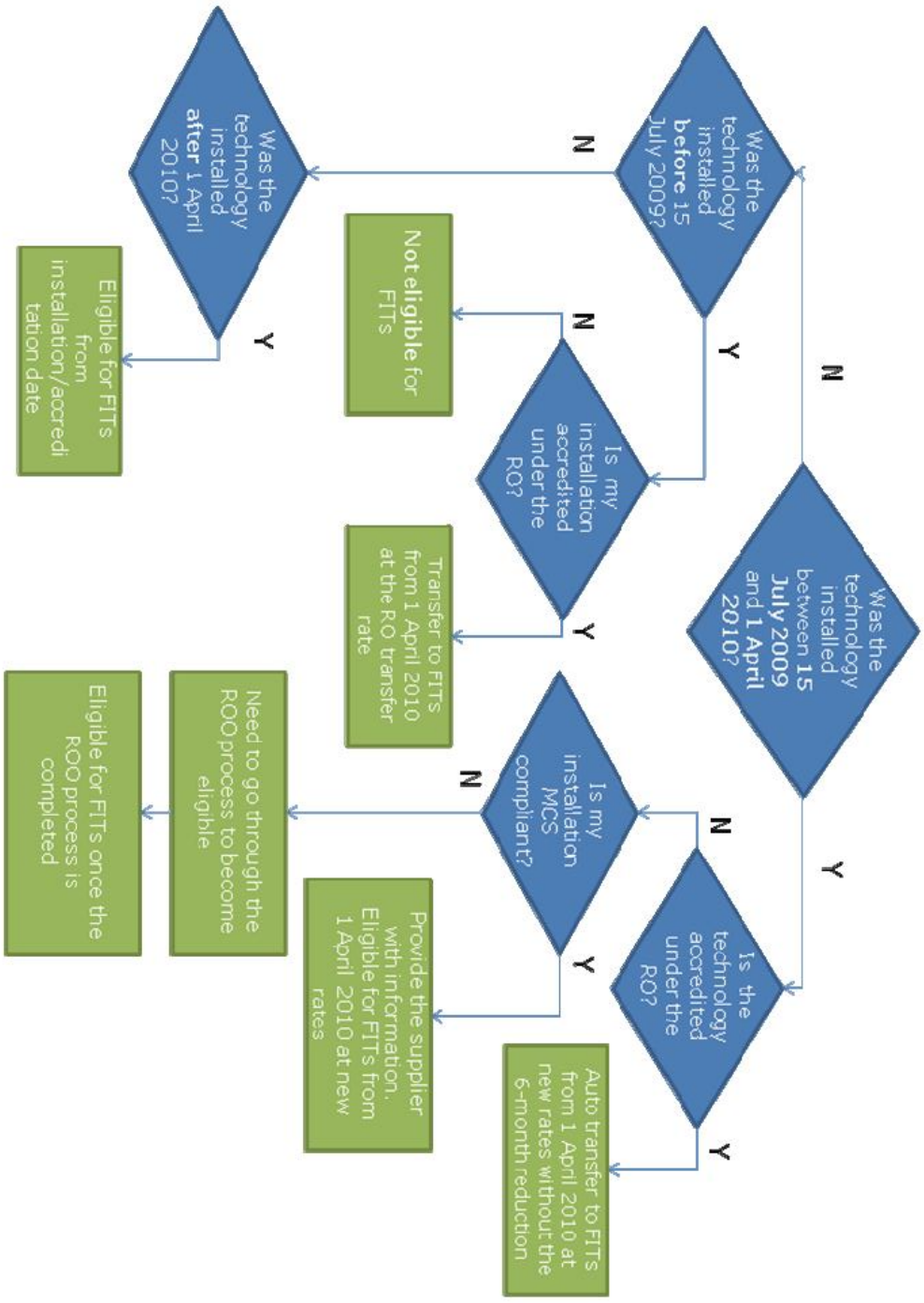
Table of generation tariffs to 2020

Technology	Scale	Tariff level for new installations in period (p/kWh) [NB tariffs will be inflated annually]										Tariff lifetime (years)
	Scheme Year	1 1/4/10 – 31/3/11	2 to 31/3/12	3 to 31/3/13	4 to 31/3/14	5 to 31/3/15	6 to 31/3/16	7 to 31/3/17	8 to 31/3/18	9 to 31/3/19	10 to 31/3/20	11 to 31/3/21	
Anaerobic digestion	≤500kW	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	20
Anaerobic digestion	>500kW	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	20
Hydro	≤15 kW	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	20
Hydro	>15-100 kW	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	20
Hydro	>100 kW-2 MW	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	20
Hydro	>2 MW – 5 MW	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	20
MicroCHP pilot*	≤2 kW*	10*	10*	10*	10*	10*	10*	10*	10*	10*	10*	10*	10
PV	≤4 kW (new build**)	36.1	36.1	33.0	30.2	27.6	25.1	22.9	20.8	19.0	17.2	15.7	25
PV	≤4 kW (retrofit**)	41.3	41.3	37.8	34.6	31.6	28.8	26.2	23.8	21.7	19.7	18.0	25
PV	>4-10 kW	36.1	36.1	33.0	30.2	27.6	25.1	22.9	20.8	19.0	17.2	15.7	25
PV	>10-100 kW	31.4	31.4	28.7	26.3	24.0	21.9	19.9	18.1	16.5	15.0	13.6	25
PV	>100kW-5MW	29.3	29.3	26.8	24.5	22.4	20.4	18.6	16.9	15.4	14.0	12.7	25
PV	Stand alone system**	29.3	29.3	26.8	24.5	22.4	20.4	18.6	16.9	15.4	14.0	12.7	25
Wind	≤1.5kW	34.5	34.5	32.6	30.8	29.1	27.5	26.0	24.6	23.2	21.9	20.7	20
Wind	>1.5-15kW	26.7	26.7	25.5	24.3	23.2	22.2	21.2	20.2	19.3	18.4	17.6	20
Wind	>15-100kW	24.1	24.1	23.0	21.9	20.9	20.0	19.1	18.2	17.4	16.6	15.9	20
Wind	>100-500kW	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	20
Wind	>500kW-1.5MW	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	20
Wind	>1.5MW-5MW	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	20
Existing microgenerators transferred from the RO		9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	to 2027

* Note the microCHP pilot will support up to 30,000 installations with a review to start when the 12,000th installation has occurred

** "Retrofit" means installed on a building which is already occupied ;"New Build" means where installed on a new building before first occupation ; "Stand-alone" means not attached to a building and not wired to provide electricity to an occupied building

Appendix 2


Was the technology installed before 15 July 2009?
N
Was the technology installed after 1 April 2010?
Y
Eligible for FITs from installation/accreditation date
N
Not eligible for FITs
Y
Is my installation accredited under the RO?
Y
Transfer to FITs from 1 April 2010 at the RO transfer rate
N
Was the technology installed between 15 July 2009 and 1 April 2010?
N
Is my installation MCS compliant?
N
Need to go through the ROO process to become eligible
Eligible for FITs once the ROO process is completed
Y
Provide the supplier with information. Eligible for FITs from 1 April 2010 at new rates
Y
Is the technology accredited under the RO?
Y
Auto transfer to FITs from 1 April 2010 at new rates without the 6-month reduction