
INTRODUCTION

The Department for Energy and Climate Change today published a raft of strategies and consultation documents relating to the development of the low carbon economy.

One of the main documents is the consultation on "Renewable Electricity Financial Incentives" and in particular the contents on the **feed-in-tariff (FIT)** due to be implemented in April 2010. This high level briefing document outlines the key proposals and highlights areas where the Government is still seeking further input from stakeholders. Rolton Group Ltd provide the following comment with due acknowledgement to the valuable assistance of the Micropower Council.

The introduction of FITs has been long awaited to enable on site power generation to become a commercial proposition. Application of renewable technologies will thus be enabled where previously not viable and particularly in the area of supporting low /zero carbon developments in compliance with legislation for the new build environment.

Rolton Group are able to advise analyse and design with regard to the application of the qualifying technologies and the commercial issues.

SUMMARY OF KEY PROPOSALS

- **Generation tariff** — each qualifying technology will be guaranteed a payment for total generation and this will vary between technology and installation size.
- **Export tariff** — generators will be paid a fixed tariff for all electricity generated and exported to the grid.
- **Electricity ownership** — the generator will own the electricity generated and can use that which is generated in-house to offset electricity import.
- **Qualifying technologies** — The following technologies are to be eligible solar PV, hydro, wind, anaerobic digestion, non-renewable micro CHP, biomass and biomass CHP.
- **Tariffs** — suggested support levels have been developed for all technologies except for non-renewable micro CHP (please see Table 1 below).
- **Simplicity** — the Government's aim is for the scheme be as simple to use as possible in order to encourage uptake. However initially existing systems may have to be used to meet the implementation date.
- **FIT/Renewable Obligation (RO)** interaction —all generators with installations below 50kw will be obligated to take the FiT and not able to access the RO (including existing installations). All generators with installations above 50kw and below 5MW will be able to make a one off choice between the RO and the FiT. All installations above 5MW will be excluded from the FiT.
- **Commencement** — Installations made from the 15th July 2009 will be eligible for the FiT from its inception in April 2010.

FINANCIAL SUPPORT

The Government estimates that 2 per cent of the UK's overall electricity demand could be met through small scale generation by 2020. The document acknowledges the need for support for micro-generation technologies and the proposed model seeks to cover the capital costs of the installation and provide a 5 to 8 per cent rate of return to the generator. The anticipated reduction in costs of the technologies over time has lead to the proposal of a (**degression rate**) by which the level of support provided to new installations will fall on an annual basis. The Government proposes setting a fixed tariff for exported electricity of 5 p kWh⁻¹. This is thought to remove uncertainty in terms of the value of exported electricity and, therefore, lower the

The Consultation on **Renewable Electricity Financial Incentives**
- Feed in Tarriffs (FIT)

required rate of return given to generators. This system is also designed to act as a driver for electricity demand reduction within households.

There are no proposals for a tiered/terraced tariff payment structure; rather there are proposed tariffs for each technology and installation size (table 1). It is anticipated that tariffs will be paid over a 20 year period.

The FIT will be financed through a levy on electricity bills.

The Government proposes that, **in the majority of cases**, there will be **no low cost Government backed capitalisation**, for the FIT.. There is, however, a suggestion that the fuel poor and vulnerable groups may be able to access such support. It is also suggested that Local Authorities, Social Landlords and Community Groups may access the FIT and in doing so increase accessibility to the scheme. There is also a proposal that a generator may assign payment rights to a third party through a bilateral agreement. This would permit models where the installer becomes the agent for the generator and takes over the administrative burden of the scheme.

The consultation contains proposals that ownership of the technology is linked to the site and, therefore, in the case where a building or homeownership changes, the ownership of the technology would also transfer to the new owner.

Table 1: Proposed generation tariffs for first year of FITs (2010-11)

| TECHNOLOGY | SCALE | PROPOSED INITIAL TARIFF (P/KWH) | ANNUAL DEGRESSION (%) |
|--|--------------------|---------------------------------|-----------------------|
| Anaerobic digestion | Electricity only | 9 | 0 |
| Anaerobic digestion | CHP | 11.5 | 0 |
| Biomass | <50kW | 9 | 0 |
| Biomass | 50kW-5MW | 4.5 | 0 |
| Biomass | CHP | 9 | 0 |
| Hydro | <10kW | 17 | 0 |
| Hydro | 10-100kW | 12 | 0 |
| Hydro | 100kWMW | 8.5 | 0 |
| Hydro | 1-5MW | 4.5 | 0 |
| PV | <4kW(new build) | 31 | 7 |
| PV | <4kW(retrofit) | 36.5 | 7 |
| PV | 4-10kW | 31 | 7 |
| PV | 10-100kW | 28 | 7 |
| PV | 100kW-5MW | 26 | 7 |
| PV | Stand alone system | 26 | 7 |
| Wind | <1.5kW | 30.5 | 4 |
| Wind | 1.5-15kW | 23 | 3 |
| Wind | 15-50kW | 20.5 | 3 |
| Wind | 50-250kW | 18 | 0 |
| Wind | 250-500kW | 16 | 0 |
| Wind | 500kW-5MW | 4.5 | 0 |
| Existing microgenerators transferred from RO | | 9 | N/A |

GENERATION ELIGIBILITY AND OBTAINING THE TARIFF

Solar PV, hydro, wind, anaerobic digestion, non-renewable micro CHP, biomass and biomass CHP are proposed as initially eligible for the scheme. Sewage and landfill gas are not included as these are

considered to operate well under the RO. The Government is seeking views as to how to cover other renewable technologies which is to be done either through a periodic review of available technologies or through a 'catch-all' tariff which will be set at a rate similar to the current micro-generation RO band of circa $\sim 9\text{p kWh}^{-1}$.

Installations made from the 15th July 2009 will be eligible for the FiT at the level proposed from introduction in April 2010. This payment does not appear to be retrospective. For domestic establishments, however, the repayment of any grants obtained under the LCBP may not to be required.

Under the proposals different generation types at the same sites will be permitted and a meter will be installed to measure generation for each technology. In circumstances where only one meter is installed the tariff paid will be that for the installed technology with the lowest tariff support level.

There are no proposals to require the installation of energy efficiency measures to qualify for the FiT but there are suggestions that advice on such measures be given as a part of the FiT process.

ACCREDITATION AND REGISTRATION

The Government proposes that there be a central registry storing details of each installation site, technology and ownership. This is intended to prevent double counting of generation, ensure that the correct tariff is assigned and confirm the identity of the generator. For micro-generators, the Micro-generation Certification Scheme (MCS) is proposed to be a requirement for eligibility. Initially, the RO registration is proposed as the registration mechanism but the complex nature of this is acknowledged and there are proposals that this be simplified in the future, although no date is put forward.

CONSUMER PROTECTION

At the micro-generation scale the MCS is envisaged as the way in which quality assurance for a given installation is provided. In addition, changes to the suppliers licence conditions will include:-

- The establishment of an arbitration scheme to resolve disputes between consumers and electricity suppliers
- Consumers will have access to all electricity import tariffs and charging structures which are available to equivalent non-FiT scheme using customers.
- Consumers will be able to switch supplier both for the FiT payment and the electricity import

FIT REVIEW

The Government has identified three possible opportunities for a review of the scheme and one or a combination of these may be used. These are:-

- Early— this would occur if there were significant changes in the costs of a given technology
- Periodic — a system whereby a review takes place at pre-defined intervals
- Milestone —where a certain level such as number of installations or total MWh generation has been reached.

ELECTRICITY SUPPLIERS

The Government proposes that the same threshold as that for CERT is applied meaning that only those with more than 50,000 domestic customers are required to pay FiTs.

Payments will be made to generators every quarter and utilise, where possible, current billing systems. The costs of the scheme will be evened out across suppliers based broadly on market share. Initially levelled payments are likely to be made on estimates for each quarter and then adjusted using correct data on an annual basis.

It is envisaged that Ofgem will take a central role in the running of the FIT.

INSTALLATION SITE DEFINITION

To prevent the splitting of installations (such as a wind farm) into component parts to claim the FIT, a site has been defined as a **single technology for a single site**. This will enable for different installation at a given site whilst preventing the arbitrary splitting of sites for financial gain. Planning applications are a possibly way to monitor this. The Government acknowledges the issue of adding to sites over time (e.g. adding new turbines at an existing site) and is seeking views on how to address this.

TIMELINE

The consultation closes on Thursday 15th October 2009. There are to be stakeholder events running during the consultation period.

The intended onward timeline is set out below:-

- From October to November the drafting of the licence modification will take place
- From November 2009 until February 2010 the licence modifications will be consulted upon
- From Feb 2010 until March 2010, the licence modifications will be laid before Parliament.

ADDITIONAL COMMENT

Certain key issues are not addressed

- The document is silent on the relationship of the proposals with the Carbon Reduction Commitment (CRC) scheme.
- The document is silent on the matter of taxation on any income created from the receipt of the incentives.

NOTE

Rolton Group Ltd have prepared this note as a commentary on the matters referred to. The information offered is in brief form, is non exhaustive and may be incomplete in many aspects. No reliance should be placed upon any of the information or its application without formal appointment of and verification by Rolton Group Ltd.