October 2009

Dear Renewable Financial Incentives Team,

We have updated the response we sent in August to reflect substantial further input received from respondents to our website.

Feed-in Tariffs Limited has been established to inform prospective beneficiaries about the FITs and to help them participate. Our website www.FITariffs.co.uk, has received approaching 10,000 visits since it was established in July, so there is clearly an appetite for this scheme.

We are also receiving a large number of queries, which we are answering to the best of our ability, and with help from the RFI Team for which we are grateful. We welcome the early introduction of the Feed-in Tariffs and find your proposals generally clear and workable.

This response is based entirely on the feedback we are receiving from such prospective beneficiaries of the tariffs, and comments in quotation marks are from individual respondents. We are also encouraging them to submit their own responses to the consultation.

We answer any of your specific questions where we have received consistent feedback below. But first, the most important points raised are:

> *"We had no idea that the time limits would mean we cannot qualify for FITs, that is very unfair as we spent all our saving putting the system in!"*

- **Existing installations** should be eligible for the tariffs – many early adopters feel betrayed by the proposal that they get nothing.
- The **return rate** of 5-8% will **not** be **enough** to encourage all those who would like to participate in this new scheme.
- Even at an 8% return rate, the tariff levels for **photovoltaics** looks too low compared with large hydro and wind (see Annex B).
- The tariffs need to be **index-linked** to ensure that they retain their value for their full life.
- The **income tax** implications need to be clarified.
- The concept of **Tariff degression** has confused many.

The issues listed above are clearly matters of concern for potential participants and investors. We hope they can be resolved satisfactorily, and will certainly play our full part in helping to make the tariffs the success, which both government and industry hopes for.

Responses to the questions in the consultation:

Q35. Do you agree that FITs should be structured in order to recognise all generation, rather than just exports?

Yes, this approach has transformed the level of interest in this mechanism.

Q36. Do you agree that the best way of delivering security for the investor is to set a long-term guaranteed price for exports?

Yes, but some are interested in the freedom to negotiate a market price.

Q37. Do you agree that FITs generators should also benefit from on-site use of their generation?

It would seem bizarre not to.

Q38. Do you have any other views on the basic structure of the FITs?

Both the production and export tariffs should be index-linked. The generation element should be linked to the RPI, while the export element should be linked to electricity prices.

The tariffs should be tax exempt in the same way that ROC income for small generators is

"I am unsure whether to apply a rate of inflation to the tariff before discounting it by the annual change shown."
(See also degression response)

Q39. Do you agree with the proposed limits of 5MW for renewable technologies and 50kW for gas fired CHP for FITs installations?

Provided these figures are DNC for equality between technologies.

Q41. Do you agree that generators off the electricity grid should be eligible for FITs? If so, what safeguards should be put in place for these generators to ensure the electricity is being used?

Yes, we have been surprised to have heard from several off-grid users.

Q42. Do you agree with the selection of technologies for which we will be providing tariffs from April 2010?

Most respondents believe that all renewable technologies should be included.

There have been specific requests for the inclusion of biofuels from a variety of renewable fuel sources, and geothermal energy in particular.

"We currently convert our spent frying oil into bio diesel. We now want to run a generator off this bio diesel and sell the power back to the grid."

Q43. Should technologies for which we do not propose to offer a specific tariff from April 2010 be handled by:

- **Providing a single tariff from April 2010 for all remaining technologies; or**
- **Considering as a new tariff band as part of regular FITs reviews?**

See above –proper tariffs should be set for each eligible technology. If this is not done there is a danger that potential renewable energy sources will not have the necessary market stimulus to develop.

Refer to proposals in Annexes A and B.

Q44. Do you agree that the FITs should not require on-site generators to comply with any energy efficiency standards as a condition for eligibility?

Yes, the entry requirements need to be as simple as possible.

Q46. Do you agree with our approach not to offer up-front capitalisation to schemes as part of the FITs? If not, what alternative approach do you propose and why?

We have received – perhaps surprisingly – no feedback on this.

Q47. Do you agree with our approach that a generator may assign the rights to their FITs payments to a third party? If not what alternative approach do you propose and why?

Yes there are many cases where generators don't want to handle this themselves.

Q48. Do you agree with the proposed model for registration and accreditation of plant claiming FITs discussed in the Accreditation, Registration and Connection section?

See Q44 above

Q49. Do you agree with the principle that all generation should be metered to qualify for FITs? Do you foresee any issues with that approach?

There has been no resistance to this, but a strong preference for Smart Meters to be rolled out alongside the tariffs.

Q51. Do you agree with the tariff levels, lifetimes and degression rates we have set out for the chosen technologies? If not, what evidence do you have for choosing alternatives?

The return rate of 5-8% is acceptable for some wealthier householders, but too low for most other prospective participants. We believe that a generous level is needed to start with and note that your consultants have shown that a 10% rate would achieve three times as much delivery and a 30% lower resource cost.

On balance, therefore we believe the FITs should be introduced at this higher level. Provided that the tariffs are adequate to stimulate a good level of activity, it will be possible to establish what changes might be needed at the first review. If the levels are set too low and little happens, you will also have no information on which to base any changes. We support the figures calculated by the REA, and shown at Annex A attached[1].

Respondents are finding that your proposed tariffs give lower returns for PV than for wind and hydro. We believe that the recalculated tariff levels listed by the REA for your 5-8% 'low achievement' scenario (see Annex B[1]) are about right.

Tariffs should also be offered for other technologies as discussed under question 42 above.

"Churches are gifted with south facing roofs so very suitable for solar PV."
"It has to be done on a parish by parish basis and the most significant obstacle is having to front the cash."

Most respondents are confused about degression, and despite the careful wording believe it means that tariff rates would go down. We suggest you leave degression out to start with and introduce it later (as the Germans did).

Q61. What do you think is the best way of defining an installation for the purposes of FITs?

This will be quite difficult, as the example on the right shows.

We recommend the definition should be 'a single owner[2]'s installation of a single technology with a single meter connection to the grid per single site'.

"Would Government accept multiple units on one site where aggregate output is >500kW but the individual <500kW turbines are in genuinely different ownerships and grid connection was not shared."

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1 We aim to co-ordinate these annexes with the Renewable Energy Association. While they show the calculations as they stand at the time of our response, it is likely that the REA may make further banding or tariff changes before final submission.

2 Defined of course to include communal, corporate or consortium ownership.

Q64. Do you agree with the proposed approach for the treatment of existing generating stations?

No. It is very unfair to exclude those pioneers who have led the way in this. The additional cost would be marginal and these early adopters should be encouraged to act as ambassadors for the scheme, rather than potentially resentful of it.

"What worries me is I may have to de-install and sell my existing set up, and then re-install a different one."

This approach also risks encouraging owners of existing plants to seek ways of 'gaming'.

Giving some benefit to RO-accredited plant, but none to those that aren't in the RO is also inappropriate. Registration for ROCs for small generators has been onerous and unrewarding and they shouldn't be penalised if they didn't bother.

For the same reason small RO-accredited plants should attract the full tariff level.

"I am confused about whether electricity generated from my PV panel will qualify for feed-in tariffs. It was installed in 2003. I have been selling electricity to <supplier>. My system is not registered for ROCs."

Q65. Do you agree with the proposed approach for the treatment of generating stations that completed installation during the interim period?

Little of this would be necessary if you agree to pay tariffs to all existing installations, as proposed above.

This is giving rise to a lot of uncertainty and confusion, especially as the supply companies do not seem to be keeping their customers informed about the implications of the introduction of FITs.

Within the constraints of your current intentions, we believe your proposals seem appropriate, but better information needs to be provided urgently to those affected.

"I am negotiating an export tariff with <Energy Supplier>. They have set 28p per kWh if I commit to using them as Agents for ROCS as well as buying my electricity from them.
At this uncertain time, will any contract I have with them now compromise my FITS arrangement in April 2010?"

Q68. Do you agree with the decoupling of support for heat and electricity for new renewable CHP plants? What are the technical issues that need to be considered in implementing transitional arrangements towards the introduction of FITs and RHI for CHP installations?

There is a lot of demand for early introduction of the RHI.

Yours sincerely,

Philip Wolfe

Director, Feed-in Tariffs Limited

Annex A: Proposed tariff levels

Recommended tariff levels to:

- Achieve a 10% rate of return (see Q 51)
- Reinstate omitted technologies (see Qs 42 and 43)
- Set more coherent capacity band thresholds (see Q 51).

Technology	Scale DNC	2010-13 Tariff p/kWh
AD	<25kW	31.0
AD	25kW-50kW	22.5
AD	50kW-500kW	15.0
AD	500kW-5MW	11.5
Biofuel power	<50kW	12.0
Biofuel power	50kW-500kW	8.0
Biofuel power	500kW-5MW	4.5
Biomass	<50kW	17.0
Biomass	50kW-5MW	15.0
CHP – all technologies	All bands	+2.5
Gasification & pyrolysis	<100kW	20.0
Gasification & pyrolysis	100-2500kW	9.0
Gasification & pyrolysis	2.5-5MW	4.5
Geothermal	<5MW	21.0
Hydro	<10kW	30.0
Hydro	10–100kW	20.0
Hydro	100kW–1MW	12.0
Hydro	1-5MW	4.5
Micro-CHP	<50KW	[tba]
PV (BiPV)	<45kW	65.0
PV (other)	<45kW	59.5
PV	5-50kW	46.0
PV	50–250kW	40.0
PV	250kW–5MW	37.5
Tidal	<5MW	27.0
Wave	<5MW	27.0
Wind	<1.5kW	35.0
Wind	1.5–15kW	29.0
Wind	15–100kW	25.0
Wind	100–500kW	16.0
Wind	500kW–5MW	4.5

If the tariff period for PV were adjusted to 20 years to match the other technologies, these PV tariffs would need to be about 12.5% higher.

Annex B: Tariff banding adjustments and levelisation

Illustrative tariff rates highlighting in red the required adjustments to:

- Levelise the rates of return across all technologies and bands (see Q 51)
- Reinstate omitted technologies (see Qs 42 and 43)
- Set more coherent capacity band thresholds (see Q 51)

We are presenting these figures for consistency, but do not advocate these levels, which are calculated only to deliver the rate of return selected by the Government. We believe this will severely curtail achievement as described in this response and we propose the alternative tariff levels detailed in Annex A.

Technology	Scale DNC	2010-13 Tariff p/kWh
AD	<25kW	29.0
AD	25kW-50kW	21.0
AD	50kW-500kW	14.0
AD	500kW-5MW	~~9.0~~ 11.0
~~AD (CHP)~~	~~<5MW~~	~~11.5~~
Biofuel power	<50kW	10.5
Biofuel power	50kW-500kW	7.0
Biofuel power	500kW-5MW	4.5
Biomass	<50kW	~~9.0~~ [tba]
Biomass	50kW-5MW	~~4.5~~ [tba]
CHP – all technologies	All bands	+2.5
Gasification & pyrolysis	<100kW	19.0
Gasification & pyrolysis	100-2500kW	8.5
Gasification & pyrolysis	2.5-5MW	4.5
Geothermal	<5MW	19.0
Hydro	<10kW	~~17.0~~ 25.0
Hydro	10–100kW	~~12.0~~ 16.0
Hydro	100kW–1MW	~~8.5~~ 10.0
Hydro	1-5MW	4.5
Micro-CHP	<50KW	[tba]
PV (BiPV)	<~~4~~5kW	~~31.0~~ 55.0
PV (other)	<~~4~~5kW	~~36.5~~ 49.5
PV	~~4~~5-50~~10~~kW	~~31.0~~ 37.5
PV	~~10~~50–250~~100~~kW	~~28.0~~ 32.5
PV	~~100~~250kW–5MW	26.0
~~PV (stand alone)~~	~~<5MW~~	~~26.0~~
Tidal	<5MW	22.5
Wave	<5MW	22.5
Wind	<1.5kW	30.5
Wind	1.5–15kW	~~23.0~~ 26.0
Wind	15–100~~50~~kW	20.5
Wind	~~250~~100–500kW	16.0
Wind	500kW–5MW	4.5

If the tariff period for PV were adjusted to 20 years to match the other technologies, these PV tariffs would need to be about 12.5% higher.