

We welcome the early introduction of the Feed-in Tariffs and find your proposals generally clear and workable.

In addition to the further responses to your various questions below, we believe the following seven improvements are important:

- The return rate used is too low – a minimum of 10% is needed to give a robust start to this new scheme (see proposed rates in Annex A<sup>1</sup>).
- Even at an 8% return rate, the tariff levels for **biomass, photovoltaics** and **AD** need adjusting to bring their returns into line with hydro and wind (see Annex B).
- Less widely used technologies such as **tidal, wave** and **geothermal** need to be included and have tariff levels set to encourage their deployment.
- The tariffs need to be **index-linked** to ensure that they retain their value for their full life.
- **Existing installations** should be eligible for the tariffs.
- **Smart Meters** should be made available for all FITs installations.
- **Tariff depression** should not be applied until the third anniversary of the start of the scheme.

Renewable Energy Tariffs Limited is a new company hoping to help businesses and consumers take advantage of the Feed-in Tariffs, and in due course the Renewable Heat Incentive. We have had a good level of interest from our initial marketing.

The issues listed above are clearly matters of concern for potential participants and investors. If they can be resolved satisfactorily, we 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:**

We have not made any response to the questions specifically on the Renewables Obligation.

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

Yes, this provides the best way of encouraging energy users to select the most appropriate systems.

**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, and with the proposal to allow an opt-out to negotiate a market price.

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

Of course!

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<sup>1</sup> Figures from the Renewable Energy Association see also footnote 2 on page 3.

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

Both the production and export tariffs should be index-linked to the cost of living. This seems more appropriate than linking to electricity prices, as renewable systems are not subject to fossil fuel costs.

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

Yes, though the 5MW limit might prevent some suitable community systems being installed under the FITs

**Q40. If you disagree with the proposed limits, what lower limits would be more suitable and why?**

Not lower, please!

**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. As long as the electricity is metered, it is unlikely it would then be dumped. The accreditation scheme could include a check on the validity of the system size.

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

No. You should cover most or all of the technologies listed in the primary legislation.

It is not appropriate to exclude technologies (such as geothermal, tidal, wave and biofuel energy), just because they are not yet widely used. If you don't set a tariff it will give them an unfair barrier to their market entry. It is better to set a reasonable tariff and give them a chance to start competing.

Suggested tariff levels are discussed under question 51 below.

We can see the logic of excluding landfill gas and waste-to-energy, because they are largely catered for by the RO. However setting tariffs for small landfill gas might nonetheless be appropriate as the fractional ROCs it now receives makes small projects uneconomic.

**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?

Neither – set proper tariffs for them

**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, but guidelines could be given to the accredited installers enabling them to provide advice on energy efficiency where appropriate.

**Q45. Are there any issues regarding eligibility that we have not foreseen here? If so, how should we address them?**

No comment

**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?**

Yes – if the tariffs are set at a suitable level (see therefore answer to question 51 below, the market will provide finance.

**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?**

In general, though the RO registration system is not really suited to participants outside the energy industry. A less onerous variant of the MCS would be a better solution in the longer term

**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?**

Yes, but this should be combined with the Smart Metering roll-out, so that all FIT installations are fitted with a Smart Meter.

**Q50. What are your views on regulating which suppliers should be required to offer FITs, and in what circumstances?**

No comment

**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 too low to provide the strong stimulus needed in the early stages of this new scheme and will exclude many prospective participants and investors, as your consultants have concluded. We note that they have also shown that a 10% rate would achieve three times as much delivery and a 30% lower resource cost.

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 believe the figures calculated by the Renewable Energy Association, and shown at Annex A attached<sup>2</sup>, are approximately right.

We presume that the capacity thresholds are based on DNC ratings, and believe that this is important to mesh with other measures in the sector.

We believe that the levels you have proposed for hydro and wind do achieve returns in the lower range you have used. However, based on the typical system

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<sup>2</sup> We have submitted these annexes as they stand at the time of our response. It is possible that the REA may revise them before submission, and we would in general support their calculation approach and therefore their figures.

data provided by the industry some of the other tariffs would need adjusting even to achieve these modest levels of return. The biomass tariffs proposed seem inconsistent with the current RO banding levels. We concur with the recalculated tariff levels listed by the Renewable Energy Association for this 'low achievement' scenario (see Annex B<sup>2</sup>).

There would be a benefit in standardising all technologies to the same period (i.e. bringing PV down to 20 years – in which case its tariffs should be adjusted accordingly).

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

We propose that degression starts on the third anniversary of the start of the scheme to allow investors and participants clarity and consistency in the early stages.

**Q52. Do you agree with our proposed guaranteed minimum price for the exported electricity? If not, what price would you propose and what is your proposal based on?**

It's not very generous, but we believe that it is important that electricity supply companies co-operate with the scheme, so we believe it is a pragmatic level, provided that it is index-linked.

**Q53. Does the proposed review structure provide the right balance between providing certainty and adapting FITs to the changing circumstances in which it operates?**

Yes

**Q54. Do you have any initial views on the relationship between FITs and those in fuel poverty or on low incomes?**

FITs should be considered to be a solution to fuel poverty. Social landlords could install systems under the FITs, using the tariff income to finance the installations, while the benefit of the savings can be passed on to the tenants.

**Q55. Do you agree that the levelisation process described above provides the best system for redistributing costs amongst suppliers? If not, what other ways can we levelise costs across suppliers?**

No comment

**Q56. How can the levelisation process facilitate participation in FITs for small suppliers?**

No comment

**Q57. Should suppliers be able to include an administration cost in the levelisation process? If so, what should the level of that allowance be and how should it be determined?**

It seems logical to ensure that suppliers are not discouraged from servicing FITs recipients.

**Q58. Should the levelisation process include consideration of large and unforeseen price differences between prices paid to generators and the market value?**

At 5p, this is probably not necessary. If a more generous level were set, then potentially it would.

**Q59. Do you agree with the proposed approach to auditing, assurance and enforcement? If not, what alternative approach do you propose and why?**

No comment

**Q60. Are there any issues regarding the role of suppliers that we have not foreseen here? If so, how should we address them?**

No comment

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

If the REA's terraced structure were adopted, this would become a minor issue. We recommend the definition should be 'a single technology with a single meter connection to the grid per single site'.

**Q62. Once an installation is defined, do you think further checks are required to verify this? If so, what would these checks be?**

It could be covered by guidelines to accredited installers.

**Q63. How could we deal with installations at a single site installed in different years?**

The terraced tariffs approach proposed by the Renewable Energy Association would cater for this and reduce the possibilities for 'gaming'.

If you don't adopt that, the only sustainable approach seems to be to give each incremental new capacity the tariff applicable to the total capacity of the installation when it is commissioned. For example a wind system of 10kW DNC installed in year 1 would gain a tariff of 23p for 20 years. If a further 10kW of capacity were added in year 2, this incremental amount would gain a tariff of 20.5p for 20 years (the original capacity staying at 23p).

**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 field – they should be eligible for tariffs. The additional cost would be marginal and it would be helpful if these early adopters act as ambassadors for the scheme, rather than potentially resentful of it.

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

If you must penny-pinch, you could define the eligibility period to start at their start-up date, thereby reducing the support period below 20/25 years.

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

Yes it seems pragmatic.

**Q66. Do you agree that, for non-household installations built during the interim period, we should make access to FITs conditional upon repayment of any central Government grant received for such installations?**

No – you’re just trying to make consumers subsidise the Treasury.

**Q67. Do you agree with the proposed approach for the treatment of new generating stations once the FITs scheme becomes operational?**

Yes, subject to our answer to questions 42 and 43 above.

**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?**

Yes. Just get the RHI operational soonest and transitional arrangements won't be needed.

**Q69. Do you agree that FITs should not restrict access for those projects covered by other schemes?**

Yes it's crucial. This also applies to CRC and carbon reporting, where renewable FITs installations should be reported as zero carbon – which they are!

**Annex A: Proposed tariff levels (minimum 10% return)**

Revisions to proposed tariff levels to:

- Give all technologies a return rate to stimulate a strong start for the FITs
- Add in the other technologies listed in the primary legislation (except those technologies excluded because they are best served under the RO)

| Technology       | Scale     | 2010-11 Tariff p/kWh | Annual change |
|------------------|-----------|----------------------|---------------|
| AD (electricity) | <5MW      | 14.0                 | 0             |
| AD (CHP)         | <5MW      | 16.5                 | 0             |
| Biofuel power    | <5MW      | 5.0                  | 0             |
| Biomass          | <50kW     | 17.0                 | 0             |
| Biomass          | 50kW-5MW  | 17.0                 | 0             |
| Biomass (CHP)    | <5MW      | 19.5                 | 0             |
| Geothermal       | <5MW      | 8.5                  | - 1 %         |
| Hydro            | <10kW     | 25.0                 | 0             |
| Hydro            | 10-100kW  | 15.0                 | 0             |
| Hydro            | 100kW-1MW | 10.0                 | 0             |
| Hydro            | 1-5MW     | 5.0                  | 0             |
| Micro-CHP        | <50kW     | [T.B.A in Autumn]    |               |
| PV (New build)   | <4kW      | 59.5                 | - 7 %         |
| PV (Retrofit)    | <4kW      | 59.5                 | - 7 %         |
| PV               | 4-10kW    | 47.5                 | - 7 %         |
| PV               | 10-100kW  | 40                   | - 7 %         |
| PV               | 100kW-5MW | 37.5                 | - 7 %         |
| PV (stand alone) | <5MW      | 37.5                 | - 7 %         |
| Tidal            | <5MW      | 21                   | - 1%          |
| Wave             | <5MW      | 17                   | - 1%          |
| Wind             | <1.5kW    | 37.5                 | - 4 %         |
| Wind             | 1.5-15kW  | 29.0                 | - 3 %         |
| Wind             | 15-50kW   | 29.0                 | - 3 %         |
| Wind             | 50-250kW  | 15.0                 | 0             |
| Wind             | 250-500kW | 10.0                 | 0             |
| Wind             | 500kW-5MW | 5.0                  | 0             |

If the tariff period for PV were 'regularised' to 20 years, these PV tariffs would need to be about 12.5% higher.

**Annex B: Low achievement tariff levels (5-8% return)**

Revisions to proposed tariff levels to:

- Give all technologies the same return on investment as hydro and wind
- Add in the other technologies listed in the primary legislation (except those technologies excluded because they are best served under the RO)

| Technology       | Scale     | 2010-11 Tariff p/kWh | Annual change |
|------------------|-----------|----------------------|---------------|
| AD (electricity) | <5MW      | <del>9.0</del> 12.0  | 0             |
| AD (CHP)         | <5MW      | <del>11.5</del> 14.5 | 0             |
| Biofuel power    | <5MW      | 4.5                  | 0             |
| Biomass          | <50kW     | <del>9.0</del> 15.0  | 0             |
| Biomass          | 50kW-5MW  | <del>4.5</del> 15.0  | 0             |
| Biomass (CHP)    | <5MW      | <del>9.0</del> 17.5  | 0             |
| Geothermal       | <5MW      | 7.0                  | - 1 %         |
| Hydro            | <10kW     | 17.0                 | 0             |
| Hydro            | 10-100kW  | 12.0                 | 0             |
| Hydro            | 100kW-1MW | 8.5                  | 0             |
| Hydro            | 1-5MW     | 4.5                  | 0             |
| Micro-CHP        | <50kW     | [T.B.A in Autumn]    |               |
| PV (New build)   | <4kW      | <del>31.0</del> 45.0 | - 7 %         |
| PV (Retrofit)    | <4kW      | <del>36.5</del> 49.5 | - 7 %         |
| PV               | 4-10kW    | <del>31.0</del> 39.5 | - 7 %         |
| PV               | 10-100kW  | <del>28.0</del> 35   | - 7 %         |
| PV               | 100kW-5MW | <del>26.0</del> 30.5 | - 7 %         |
| PV (stand alone) | <5MW      | <del>26.0</del> 30.5 | - 7 %         |
| Tidal            | <5MW      | 17                   | - 1%          |
| Wave             | <5MW      | 14                   | - 1%          |
| Wind             | <1.5kW    | 30.5                 | - 4 %         |
| Wind             | 1.5-15kW  | 23.0                 | - 3 %         |
| Wind             | 15-50kW   | 20.5                 | - 3 %         |
| Wind             | 50-250kW  | 18.0                 | 0             |
| Wind             | 250-500kW | 16.0                 | 0             |
| Wind             | 500kW-5MW | 4.5                  | 0             |

If the tariff period for PV were 'regularised' to 20 years, these PV tariffs would need to be about 12.5% higher.