Feed in Tariff Consultation
A briefing by JDS Associates – 31/10/2011

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Introduction

The Department for Energy and Climate Change (DECC) launched the Comprehensive Review of Feed in Tariffs on 31st October 2011 to consider all aspects of the current Feed in Tariff policy. This briefing document provides a summary of the announcement alongside a short analysis of some of the key issues.

Summary – Official Announcement

DECC has launched a two phase consultation to review the FiT scheme. Phase One (released 31 October) is an 8 week consultation which will focus on a rapid intervention in the >4kw solar PV sector. Phase Two is expected to be a longer consultation, launched later this year which will cover all aspects of the FiT scheme, including:

- Other technologies and scales
- Cost control mechanisms
- Changes to monitoring of prices and volumes
- Other administrative arrangements
- Whether there should be a separate tariff for community schemes

Headline changes announced today:

- <4kW installations sector will continue with permanently payable 43.3p tariff for installations that have an ''eligibility date'' before 12th December 2011.

- <4kW systems with an ''eligibility date'' thereafter will receive 43.3p for the period up to and including 1 April 2012, at which point they will then receive 21p/kWh (still index linked) for the rest of the 25 years. The basis for calibrating these <4kW tariffs is to deliver a 4.5% rate of return according to DECC models.

- A *multi-installation rate* will be applied from 1st April 2012 to those receiving benefit from more than one PV installation located on different sites. DECC that a multi-installation rate which is set at 80% of the proposed standard tariffs for individual installations, is justified.

- Basic energy efficiency measures will be required as a pre-requisite from 1st April 2012 in order to receive the FiT. Homeowners will be expected to either bring a property up to level C EPC rating, or to implement all measures identified by a Green Deal Finance assessment. If evidence that this has been done is not submitted for an individual house, the tariff for that house will reduce to 9p / kWh. As a transitional measure, those installed in 2012/13, will have 12 months within which to upgrade energy efficiency.

- Other scales of PV are to be calibrated to deliver a 5% rate of return, and changes will be implemented to the same timescale as <4kW with a cut-off date of 12th December to qualify for existing tariffs.

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What is meant by ''Eligibility Date''?

The eligibility date is the legal definition of the point at which an installation becomes eligible for FiT payments. This date is critical for determination of which tariff an installation receives. This is set out in Condition 33 of the Standard Conditions of Electricity Supply Licences as follows:

Eligibility Date means the date as regards a particular Eligible Installation from which eligibility for FIT Payments commences which shall be the later of the date:

(a) as applicable, of

(i) receipt by the Authority of a FIT Generator's written request for ROO-FIT Accreditation in a form acceptable to the Authority (Ofgem); or

(ii) receipt by a FIT Licensee of a FIT Generator's written request for MCS-certified Registration;

(b) on which the Eligible Installation is Commissioned; or

(c) of Implementation;

In practice, this means PV systems <4kW wishing to benefit from the existing tariffs for the full 25 years must have been installed, commissioned and submitted a written request for accreditation to a FiT Licencsee (typically, the energy supplier) before 12th December.

Timescales:

An eight week consultation is much smaller time-frame than typically allowed for Government consultations. DECC is likely to have applied for special Cabinet Office clearance to pursue such a short consultation period, on the basis that current uptake levels for domestic solar are rapidly eating up the remaining budget for future years. The consultation document states:

We also consider that the immediacy and extent of the risk of breaching the spending envelope makes it necessary for tariff changes to be implemented rapidly. Pg4 – FiT Consultation

With just six weeks before 12th December significant challenges are likely for many in the solar industry. For example those importing modules from abroad, or managing installation and sales forces are unlikely to have flexibility to scale down delivery smoothly within such a time-frame. We expect Government to be challenged not only over the level of the new tariffs, but also the need for such urgent intervention. **DECC indicate some willingness to consider these issues with the following:**

However, we will consider representations made during the consultation both as to (i) the principle of applying the lower tariff to new installations installed from a reference date (12 December 2011) that *comes before the legal implementation of those tariffs (1 April 2012); and (ii) whether the proposed reference date should be 12 December 2011 or some other date.* Pg20

It may therefore be in the interests of those likely to experience hardship due to the particularly short timescales to make appropriate representations to DECC.

New tariff rates

The consultation states that there is *broad agreement* that installed prices have fallen by around 30% since scheme launch. In addition, they note that retail electricity prices have increased by 13%, improving the savings from avoided electricity import. The consultation notes that both of these trends are expected to continue, and that this has been taken into account in the tariffs set.

DECC believe that private homeowners will continue to invest in solar PV at 4.5% rate of return. This is because the rate provided by FiTs is better than most (if not all) high street savings products including tax free ISAs. Alternative investments such as share portfolios may offer a higher potential return, but also come with greater risk (according to Govt) than the Government backed, 25 year Feed in Tariff. Alongside the domestic tariff reduction, those for larger scale PV systems have also been reduced to reflect falling costs.

Proposed generation tariffs for Individual Installations for Solar PV (Source, DECC FiT Consultation Phase One)

Current and proposed generation tariffs for solar PV **Band (kW)**	**Current generation tariff (p/kWh)**	**Proposed generation tariff (p/kWh)**
•4kW (new build)	37.8	21.0
•4kW (retrofit)	43.3	21.0
>4-10kW	37.8	16.8
>10-50kW	32.9	15.2
>50-100kW	19	12.9
>100-150kW	19	12.9
>150-250kW	15	12.9
>250kW-5MW	8.5	8.5*

stand alone	8.5

PV module prices have undoubtedly fallen rapidly over the past two years, however the global market for PV modules is subject to a range of factors that impact price, notably the laws of supply and demand. The global PV Module market is currently subject to substantial over-supply and thus margins are being compressed to what some within the sector describe as unsustainable levels. It is not clear from the consultation, how big a factor projected further cost reductions are in the tariffs proposed.

Why does industry believe that free solar and community PV will no longer be viable?

Put simply, the returns available through the new the new multi-installation rate tariffs will no longer be high enough to sustain PV delivery where the capital is provided through commercial lending.

Free and Community Solar Projects are a considerably different delivery model for solar photovoltaics. Typically, the homeowner signs a 25 year leasing agreement with the delivery company, enabling the siting of solar panels on the roof of the property. In return for ''renting your roof'' the homeowner can use any electricity generated by the panels for free.

Although companies offering free solar may benefit from economies of scale they must incur higher, financing, legal and administrative costs. According to commentary from leading companies in the solar sector, the prospects for free solar are now greatly constrained.

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Please contact James Higgins on +44 1564 771 554 or james.higgins@jdsassociates.com if you would like to discuss any aspect of this brief and for more information. JDS are experts in sustainable energy regulation, focused exclusively on helping those who wish to promote sustainable energy to understand and influence policy developments in the sector.