

DBULLETIN

A Guide to Feed-In Tariffs for Renewable Energy

On 1 April 2010, the government backed Feed-in-Tariffs scheme, a financial incentive scheme designed to stimulate interest from private individuals and corporate entities to invest in renewable energy generation came into effect.

The Energy Act 2008 includes specific provisions relating to the implementation of feed-in tariffs (FITs) legislation by 2010 and following a consultation process during 2009, the Department of Energy and Climate Change (DECC) announced on 1 February 2010 its programme relating to the introduction of feed-in tariffs for renewable and low carbon energy.

The scheme came into effect on 1 April 2010 and the tariffs are determined until 2021 at present. FITs will be offered for a 25 year period for photovoltaic (PV) technology and for a 20 year period for all other technologies.

The UK-wide feed-in tariffs will be implemented for renewable micro-generation (less than 5MW), to work in conjunction with the existing scheme of ROCs (renewable obligation certificates) which will remain the primary mechanism to incentivise deployment of large-scale renewable electricity generation, and the Renewable Heat Incentive (RHI) which will incentivise generation of heat from renewable sources at all scales. The Government launched the Renewable Heat Incentive consultation on 1 February 2010.

What are FITs and how do they work?

FITs are a government backed incentive scheme designed to stimulate interest from private individuals and corporate entities (Generators) to invest in renewable energy generation.

Whatever surplus energy the Generator feeds into the national grid the utility company is obliged to purchase at a premium above the current market price for fossil fuels.

The additional cost that the utility company is obliged to pay is then spread amongst its other existing customers by virtue of higher energy prices. This should make investing in renewable energy production methods attractive to the Generator by offering a return on their investment in a shorter time frame than would otherwise have been possible.

As many as 50 countries have introduced FITs in an effort to ensure that more of their energy requirements are met through use of renewable sources and methods. Germany currently produces 14% of its total energy through renewable methods and this has been attributed to the fact that Germany has perhaps the most generous and wide ranging FITs system.

The FIT Scheme

The scheme provides for two separate elements to the payments made to those who generate the electricity by the licensed electricity suppliers.

Element 1: The Generation Tariff

The first element will be the generation tariff. This will differ depending on the technology type and scope and will be paid for every kilowatt hour (kWh) generated and metered, regardless of whether this is used by the Generator on site or exported to the local electricity network.

Element 2: The Export Tariff

The second element is an export tariff. This is metered and paid as a guaranteed amount that the Generator is eligible for. If the amount exported is very small then it will be assumed to

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be part of the generation tariff without the need for further metering. With any electricity exported the Generator can decide whether to opt to receive a guaranteed payment of 3p per kWh of energy exported to the national grid or opt out of the tariff altogether and sell their electricity on the open market.

The largest electricity suppliers will be required to offer FITs whilst smaller ones may opt in if they wish.

Eligibility

In order to be eligible for the scheme the maximum capacity of the equipment is 5 megawatts (MW) and this will apply to all new solar photovoltaic (PV) projects, along with anaerobic digestion, hydro and wind projects up to that 5MW limit. There will be differing generation tariffs proposed for different scales for each of those technologies.

The cap of 5 MW means that the scheme will only benefit micro through to medium scale generation.

If a PV project's capacity is less than 50 kilowatts then it will have to use Microgeneration Certification Scheme (MCS) eligible products and be installed by accredited installers under the same scheme to be eligible.

From a legal perspective, Generators are able to assign their rights to FITs payments to another body through contractual agreements.

From 1 April 2010 FITs will be the only support available for installations with installed capacity of 50kW and below that are eligible for FITs. Technologies not eligible for FITs e.g. non-anaerobic digestion (AD) biomass, will continue to be eligible for support under the ROC scheme even at capacities of 50kW or lower.

However, larger installations - with installed capacity of 50kW to 5MW – will have the right to choose between the RO and FITs.

This will provide individuals and householders, businesses, communities and other organisations with an opportunity to select the scheme which best suits their requirements for the lifetime of the project. Generators will only be able to choose once, before they start receiving support under either the RO (Renewables Obligation – see below) or FITs.

Definition of an installation / site

Given that the Energy Act 2008 places a total capacity limit on individual FITs installations, and that the tariffs will be banded by technology and total installed capacity, we recognise the need to establish how an individual installation is defined in order to verify capacity limits per installation. We aim to avoid creating perverse incentives such as under-sizing plants or registering two installations by splitting one installation artificially into two in order to benefit from FITs or a higher tariff within FITs (e.g. a 6MW wind farm made up of four 1.5MW turbines “split” into two 3MW wind farms made up of two 1.5MW turbines). However, the DECC considers that the structure and levels of FITs and their interaction with the RO are such that the risks of this behaviour will be small.

The draft licence modifications and the FITs order will set out provisions to minimise these risks. The key provisions are:

- If a generator installs two different technologies on a single site (e.g. a PV panel and a wind turbine) they will be classed as two different installations;
- If the generator has multiple installations of the same technology, they will be classed as a single installation site when determining the tariff;
- Site is defined in relation to a number of factors including address, map reference and electricity meter identification;

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- Any expansion of an installation within 12 months (of the same technology) will be treated as an increase in the capacity of the installation; if an expansion takes place more than one year after confirmation in the Central FITs Register, the expansion will be treated as a separate station - the original installation will be treated as having continued in the same class, while the new installation will be rated at the capacity of the aggregate of the two stations.

Tariffs

All generation and export tariffs will be linked to the Retail Prices Index (RPI).

The tariffs are formulated so as they deliver an approximate rate of return of 5-8% if the installation is well sited.

As one of the considerations is the technology costs the tariffs available for new installations will decrease year on year so that all installations will achieve around the same rate of return.

Once an installation is allocated a generation tariff it will remain fixed for the life of that installation or the life of the tariff (whichever is the shorter), with the exception of fluctuations according to RPI. The Department for Energy and Climate Change will perform reviews of the scheme to ascertain whether the rates of return and tariff levels remain appropriate.

Renewable Obligation Certificates

The Renewables Obligation (RO) is the Government's main mechanism for supporting the generation of renewable electricity. According to the Department of Energy and Climate Change, since the introduction of the RO in 2002, it has stimulated growth in this sector: capacity has more than doubled, and a project pipeline of more than 11 gigawatts is in place across the UK.

The RO obligates suppliers to source an energy from renewable sources and suppliers can comply with their obligations by presenting renewable obligations certificates (ROCs), making a buy-out payment or a combination of both. Suppliers buy ROCs from renewable energy generators as a method of meeting their obligations and if it does not buy sufficient it will be obliged to pay a buy-out fee, calculated by reference to a set fee per ROC. (The price per ROC for 2010-2011 will be £36.99).

ROCs are tradable certificates issued by Ofgem, the energy regulator. Generators are awarded ROCs for the units of renewable energy they produce (whether used on site or sold back to the grid). At the end of each year suppliers have to demonstrate to Ofgem they have sourced enough renewable energy to meet the RO, therefore Generators can not only make money by selling the renewable energy they produce to suppliers, but also by selling the certificates.

RO banding was introduced in April 2009 meaning that different technologies attract a different number of ROC per MWh generated.

The introduction of the FIT scheme provides an attractive financial incentive for small scale renewable energy generation and is expected to encourage increased investment in this technology.

If you would like any further information or advice on Feed-In Tariffs for Renewable Energy, please contact:

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The content of this article is intended to provide a general guide to the subject matter and does not constitute legal advice. Specialist advice should be sought about your specific circumstances. Please contact a member of the team for further assistance.