



THE FEED IN TARIFFS

Introduction

The Government consulted on the Clean Energy Cash Back Feed in Tariffs for small-scale electricity production from renewable sources ("FITs") in July 2009. Following the close of the consultation period on 15 October last year DECC have been considering what amendments need to be made to the original proposals for the FITs Scheme which were contained in the Consultation Paper. After much consideration and a great deal of lobbying by interested parties (apparently over 700 responses were received by DECC) DECC released their decision document on the FITs scheme on 1 February. The intention is that the relevant Statutory Instrument required to enable the Scheme to enter into force on 1 April 2010 will be laid before Parliament this month.

This bulletin highlights the key provisions of the FITs Scheme as well as identifying important changes which have been made to the Scheme from the original proposals contained in last year's Consultation Paper.

How the FITs Scheme Works

The Scheme is designed to encourage deployment of small-scale, low carbon electricity generation by providing "clean energy cashback" payments to

householders, businesses and communities. The aim is to allow these constituencies to become generators of electricity rather than just being consumers of power. The Scheme will work alongside the existing Renewables Obligation ("RO") and the newly-consulted upon Renewable Heat Incentive ("RHI").

In brief, generators who are using qualifying renewable technologies (essentially anaerobic digestion ("AD"), hydro, PV, micro CHP and wind) will be entitled to receive payment for the output of their generating plant (up to 5MW maximum capacity) and the payments they will receive will be made up of two separate elements:-

- the first element is to be known as the "generation tariff" and this will be paid to all generators for all generation produced by their plant irrespective of whether the electricity is used on site or exported. The payments will be on the basis of xp/kWh where x will be different depending on the technology being used and the output of the installation. The prices to be paid range from 41.3p for the smallest PV installation on retrofit properties down to 4.5p for large wind and hydro projects. These payments and the level of the payments are guaranteed for 20 years for most technologies (PV having a 25 year guarantee and pilot projects within microCHP having a 10 year



guarantee). What is new is that these tariffs will, however, increase annually by reference to the increase in the RPI figure.

- III the second element is to be known as the "export tariff" and this will be either a guaranteed fixed payment of 3p/kWh for all electricity exported from the site to the local grid or a payment negotiated separately in the open market.

Relevant payments will be made by the large licensed electricity suppliers who are obliged to offer these tariffs to eligible generators. Smaller licence holders are not obliged to offer FITs but may choose to do so.

Changes from the Consultation Paper

DECC considered carefully the representations made by industry and particularly the Renewable Energy

Association and other trade associations and NGOs and in particular took note of the plea for the tariff levels to be increased to encourage a substantial take up of the FITs by all targeted constituents.

The key changes to the FITs Scheme are as follows:-

- 1 The tariff levels for hydro, wind and PV have all increased (other than for large hydro and wind) in response to the strong lobbying by interested parties. Secondly, DECC confirmed that the tariffs will be adjusted in line with the increase in RPI annually.
- 2 DECC confirmed that in the case of generation plant in domestic properties where the electricity was being generated mainly for the householder's own use, such payments will not be subject to income tax.

- 3 The capacity figures for wind and hydro schemes have been amended so that a new "community scale" band has been introduced to encourage development of local schemes (which, where appropriate, can also take advantage of the RHI when this enters into force in April 2011).
- 4 The introduction of degression, that is where tariffs for new installation are set at a lower level each year than for installations made in previous years will be delayed until April 2012.

Consequences of the Introduction of the FITs Scheme and the Future

There is no doubt that the introduction of the FITs Scheme heralds a real change of direction in UK energy policy as for the first time there will be in place an incentive for low carbon development which is guaranteed (as to price) for up to 25 years giving individuals, communities and businesses the opportunity to assist the Government in achieving its Low Carbon Strategy goals, to become more sustainable members of the community as well as

providing the opportunity to make some money.

It is to be hoped that the public will take up this "offer" with gusto and that this will in turn provide opportunities for UK based manufacturers and installers of relevant equipment to expand. Let us hope that we can develop the skills base to deal with the hoped for expansion of this sector.

This bulletin summarises complicated issues and should not be relied upon in relation to specific matters. You are advised to take legal advice on particular problems and we will be happy to assist.

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