A feed in tariff running alongside the RO

Introduction

The REA advocates a feed in tariff (FIT) as an appropriate policy mechanism for on-site renewables. Below we set out how a FIT can co-exist with the Renewables Obligation. By on-site renewables, we mean householders, public sector and business users who are primarily generating for their own use, within their own premises or as part of a local scheme. They are not companies whose business purpose is the generation of electricity for sale. Such companies are geared up to understand the complexities of the Renewables Obligation as it is their professional focus.

We refer to the beneficiaries of the Feed in Tariff proposal described in this document as On-site Renewable Generators – "ORGs" for short.

Why a feed in tariff is necessary for smaller generators

Existing government policy has not significantly mobilised investment in renewables beyond the traditional power sector, yet the decentralised nature of renewables, together with their efficacy at small scale means a much wider array of organisations and industries can be incentivised to invest in renewable energy. Facilitating wider investment will increase sector competition and innovation, as well as accelerate progress towards the EU 20% 2020 renewables target. The RO is not effective for ORGs because;

- The administration is disproportionate for a small generator
- The admin burden is inappropriate for Ofgem
- The RO is too complex a policy for entities for whom power generation is not their core business

A FIT is conceptually and administratively easier for the target sectors. More householders, public sector and commercial entities would be encouraged to adopt on-site generation, if a FIT were in place

Why the RO must be kept intact

The REA advocates the retention of the RO to safeguard investor confidence. The disappointing level of renewables development in the UK is predominantly a result of planning and infrastructure access issues, rather than the RO as a support mechanism. Replacement of the RO with a FIT would not solve these barriers and would also create a hiatus in the industry, delaying progress.

What is a feed in tariff?

Feed in tariffs (FITs) are commonly used in Europe as the prime means of stimulating the deployment of renewable electricity generating capacity. i.e. FITs are used *instead* of Renewables Obligation mechanism. They are a remarkably straightforward policy.

In its most simple form, a FIT works as follows:-

- Any generator that exports power to the grid is entitled to a pre-set payment for each unit of electricity "fed in" to the grid.
- The tariff level is set by Government and typically varies by technology (each getting what it needs to make it commercially attractive, without over-reward).
- The local electricity company, into whose network the generator connects, is obliged to purchase all export at that rate.

The advantages of FITs are well known and are not repeated here.

Could a FIT work in the UK?

The FIT policy would have to be adapted to work in the context we are proposing, for the following reasons:-

- There is no such entity as the local electricity company – the UK market has been liberalised and supply companies no longer have a regional basis.
- We propose that ORGs be paid for *all their generation*, not just that power exported to the grid.

We therefore propose that the *incumbent* supplier pays the ORG for all the power it generates, regardless of whether this was consumed on the premises or exported at the FIT rate. The ORG pays for all electricity it *consumes*, at the normal tariff paid by customers of that type. The incumbent electricity supply company is then reimbursed the additional costs of purchasing the renewable electricity from ORGs from a central fund. There are various ways by which the central fund could be paid for, for example;

- a levy on all power sold.
- the Fossil Fuel Levy Surplus (which accumulates at a rate of around £80 million per year, and (In England and Wales) is channelled back to the Government's consolidated fund).
- proceeds from the auctioning of emission allowances under the next phase of the EUETS.
- general taxation.

Reimbursement via a central fund does not discriminate between supply companies. Furthermore it need not interfere with the Renewables Obligation mechanism.

How would a feed in tariff interact with the RO?

ROCs, FIT or both?

Clearly there has to be clarity regarding whether an ORG goes down the feed in tariff route, or whether it would operate under the RO and earn ROCs. An ORG would not be able to earn ROCs and benefit from the feed in tariff; it would be one or the other.

There have been numerous calls for the introduction of feed in tariffs. E.g. the World Future Council (WFC), in its response to the RO banding consultation, and in several of the environmental NGO's responses.

Most recently the Conservative party's publication, *Power to the People*, proposed that all renewable generation projects of up to 250kWs should have the option of either benefiting from a FIT or earning ROCs.

The REA proposes that the FIT is compulsory for all generators of under 50kW capacity. This is because the administrative burdens involved in the RO are inappropriate for both the generators and for Ofgem which administers the scheme.

ORGs of 50kW up to (threshold tbc) have the choice of the FIT or ROCs. The REA would like to see a higher threshold than the 250kW proposed by the Conservatives but lower than the 5MW proposed by the WFC, although it has not yet consulted its members on what this should be.

Would the RO level need to be adjusted as a consequence of the introduction of a FIT?

If current capacity is removed from the RO it has the effect in the immediate term of increasing the shortfall, and thus increasing costs to consumers. However the impact is so minimal as to be non-existent.

In the longer term, if new renewable capacity is stimulated through a FIT and the RO stayed at the same level, it would be additional in terms of capacity to the RO, and

would also be an additional cost on consumers. If the shortfall in the RO remains at the same level it could be argued that consumers are paying for this additional capacity twice, once via a feed in tariff, and then again via the RO (as the shortfall is higher as a consequence of this capacity not contributing to the quota).

This will be less of an issue once fixed headroom comes into play.

It could be solved by reducing the RO by the equivalent volume that comes forward via feed in tariffs, but this would be complex and unsatisfactory.

Would the volume of capacity receiving FITs need to be capped?

Clearly there has to be sufficient money in the central fund to pay for the costs incurred by supply companies purchasing power from ORGs. Therefore there must either be a mechanism for increasing the funds - or the volume of capacity which is paid FITs has to be capped at the level of funds available.

The REA prefers the former route, but recognises that at least in the early stages, Government may wish to cap the volume of capacity, to gain experience of how the FIT works in practice.

Are there other options?

Instead of setting a size threshold up to which ORGs can benefit from a FIT, the policy could be based upon the voltage of connection. I.e. any project that can connect to the low voltage network, regardless of size, can benefit. In most circumstances this would mean that generators of up to several tens of kWs capacity of export would be able to benefit from the FIT. Each site would be different.

The REA believes a size-based threshold is preferable because

It is more transparent – if based on voltage of connection, then a potential ORG would have to undergo a site specific assessment to determine the maximum size of generator which could be accommodated.

It is more amenable to roll-out. If the FIT policy is successful, a size-based threshold could be raised at incremental levels in the future. With voltage levels the next increment is too large a step. (from 415volts which could accommodate generators of several tens of kWs, the 11kV network can accommodate generators of several tens of megawatts.)

The feed in tariff payment rate

We have chosen not to suggest payment levels at this stage, as discussion would probably focus on this aspect, to the detriment of other considerations. Suffice to say tariff levels should be high enough to result in growth in on-site renewables capacity.

We envisage a simple tariff structure, with one tariff level for each relevant technology (not subdivided according to size). I.e. a 500kW turbine would get the same payment per kWh as a 1.5kW turbine.