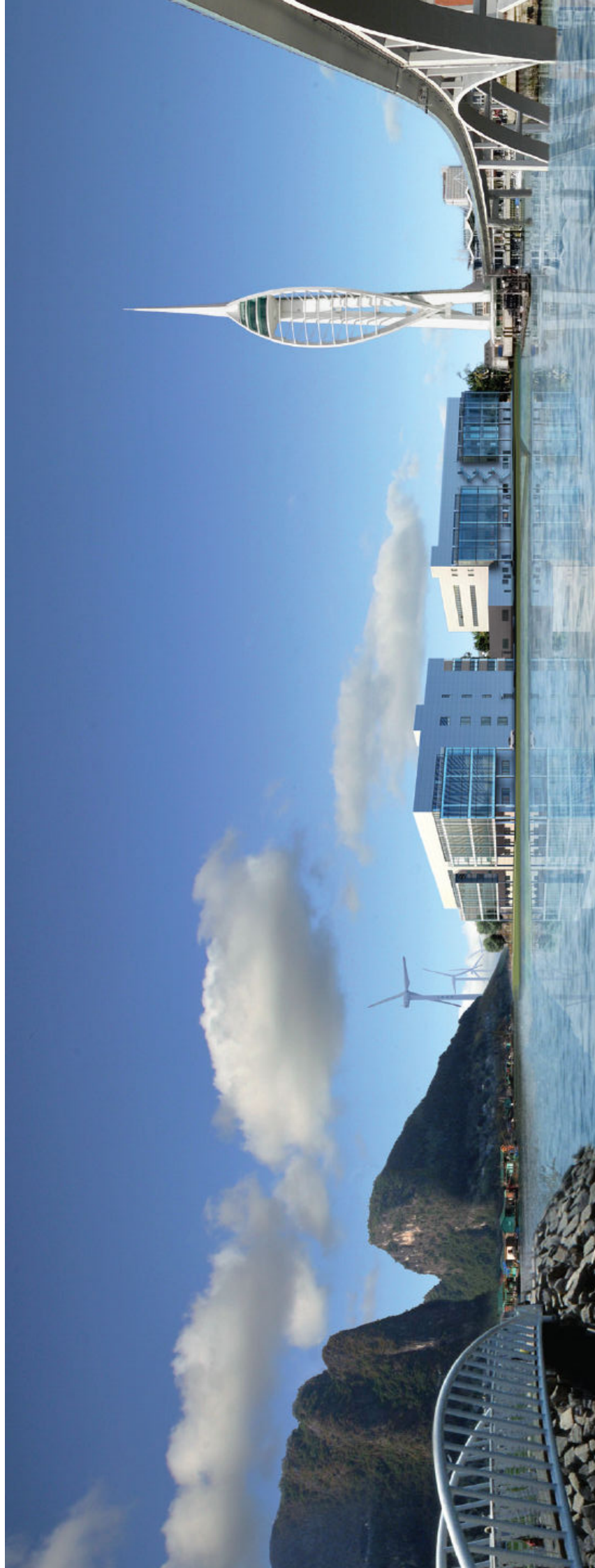
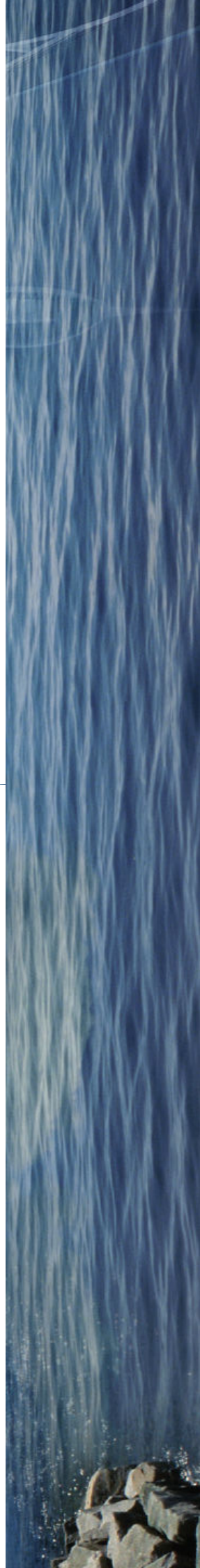


# Understanding the Finances

Scott  
Wilson



Julian Aubert, 3<sup>rd</sup> March 2010





## CONTENT

- Background
- FIT's Objectives
- Project Definition
- Funding Landscape
- Funding Requirements
- Funding Considerations
- Concluding Remarks



## Background

Energy Act introduces FITs to energy generators of up to 5MW/h for renewables and 50KW/h for fossil fuels CHP.

## Payments

- Fixed payment for every KW/h generated
  - A minimum payment for exported electricity
- } ROI 5%-8%  
Varies with technology  
Degression

## Technologies

- Wind
- Solar
- Hydro
- Anaerobic Digestion
- Biomass and Bio CHP
- Micro non-renewable CHP



## Objectives

- Encourage the adoption of a range of renewable technologies
- Localised energy generation / solution
- *Ultimately*, meet the UK emission targets



## Project Definition

- Concept
- Viability Testing (incremental cash flow)
  - Revenue
  - Capex
  - Opex
- Sensitivity Tests
- Funding Structure Debt:Equity
- Expectations



## Funding Landscape

- Capital availability, demand > supply:
  - Equity in limited supply
  - Debt with shorter tenure, higher interest rates and increase number of participants
- Increased market uncertainty
- Lower risk appetite
- Fewer major infrastructure projects

Overall, there is an increase in capital cost



## Funding Requirements

- "Stable" and secure cash flow
- "Manageable" Project risks:
  - Technology
  - Demand side
  - Investment
  - Operating costs
  - Commercial risk allocation

- "Experienced" project team

- "Right" Risk / Reward equation

## FITs Role

- Increase
  - Decrease
  - Decrease
  - No change
  - No change
  - No change
- Not applicable
- Improved



## Funding Considerations

- Regulatory stability & political support for the scheme
- Ease of implementation / operation
- Transparency & contract certainty
- RoI level and variability (revenue, capex, opex)
- Construction / physical aspects
- Technology maturity
- Resource availability
- Grid connection & metering



## So, will FITs work?

- Proposed RoI of 5%-8% is low.
- Payments made by electricity suppliers via increases in electricity bill
- Tax treatment / implications for domestic producers
- RoI level and variability (revenue, capex, opex)
- On-site consumption versus exports (transmission losses)
- Accreditation required for participation in FITs
- Domestic micro-CHP has not been fully commercially developed



**To conclude...**

**FITs is a step in the right direction but is there enough on offer to ensure its adoption rate is as desired?**



# Thanks

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