DEPARTMENT OF ENERGY & CLIMATE CHANGE

Feed-in Tariffs Scheme

Government Response to Consultation on Comprehensive Review Phase 2B: Tariffs for non-PV technologies and scheme administration issues

July 2012

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Presented to Parliament by the Secretary of State for Energy and Climate Change by command of her Majesty

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Executive Summary

Introduction

1. The Comprehensive Review of the Feed-in Tariffs (FITs) scheme was launched in February 2011. Its aim was to consider whether changes were needed both to the administration of the scheme and to the tariff levels for each technology, particularly in view of the increasing mismatch between solar PV tariffs and technology costs. Because of the immediate risk to the budget caused by the plummeting costs of solar PV and its substantially increased take-up, it was necessary to address solar PV tariff levels as a priority. Reduced tariffs were introduced for large-scale solar installations in August 2011, and for smaller-scale solar in March 2012.

2. The rapid cost reductions also highlighted a problem with the FITs scheme design: that it was not designed to respond to such rapid changes in the market. The Phase 2A consultation set out to remedy that situation, proposing a cost control mechanism for solar PV which was able to respond by reducing tariffs at three-monthly intervals (subject to deployment) to ensure that financial returns would be kept at a reasonable rate and the overall scheme budget kept under control. The relevant changes, subject to the successful completion of parliamentary procedures, will take effect on 1 August 2012.

3. The Phase 2B consultation on tariffs for non-PV technologies and scheme administration issues was also published on 9 February 2012, and closed on 26 April 2012. The consultation covered a wide range of issues including tariffs for anaerobic digestion, hydro, microCHP and wind, as well as a cost control mechanism for those technologies, the treatment of community-owned installations, a preliminary accreditation mechanism, and other administrative issues. This document sets out our final decisions following the consultation, which received 303 written responses.

Decisions

Implementation

4. Changes as a result of this process will be introduced to Parliament after the summer recess and, with a few minor exceptions, will be implemented from 1 December 2012, subject to the parliamentary procedures.

Tariffs

5. We commissioned Parsons Brinckerhoff (PB) to update their analysis of current installation costs and other parameters for the capital and operating costs of the technologies covered by the Phase 2B consultation. The updated data confirmed that, subject to the constraints that were set out at the time of the consultation, the levels of tariffs proposed in the consultation were still generally expected to deliver the target rate of return. These constraints were: that no generation tariff should be increased, except for microCHP, and that no generation tariff should be higher than 21p (the current generation tariff for domestic-scale PV). The final tariff levels are set out in the table below.

6. The final generation tariffs are on the whole consistent with those proposed in the consultation. The only exception relates to a new intermediate hydro band in the range of 100–500kW, with a generation tariff of 15.5p/kWh, which has been introduced to address

a widespread concern about perverse incentives to undersize hydro projects because of the steep drop in tariffs between the existing bands.

7. Two generation tariffs have increased from those in the consultation by 0.1p, due to a change to estimate of RPI-indexed tariffs. Generation tariffs for the largest capacity band for each technology will continue to be consistent with support under the Renewables Obligation, and will be adjusted in line with current support levels and the outcome of the RO Banding Review.

Table of generation tariffs

Technology	Band (kW)	Current generation tariffs (p/kWh)	Consultation tariffs from Oct 2012 (p/kWh, 2012 prices)	Final tariffs from 1 Dec 2012 (p/kWh, 2012 prices)[2]	Community energy tariff (see explanation in paragraphs 148-151)
Hydro	≤15	21.9	21.0	21.00	21.00
	>15-≤100	19.6	19.7[1]	19.60	19.60
	>100-≤500	12.1	12.1	15.50	15.50
	>500-≤2000	12.1	12.1	12.10	12.10
	>2000-≤5000	4.9	4.5 (2.2 from April 2013)	4.48[3]	4.48[3]
Wind	≤1.5	35.8	21.0	21.00	21.00
	>1.5-≤15	28.0	21.0	21.00	21.00
	>15-≤100	25.4	21.0	21.00	21.00
	>100-≤500	20.6	17.5	17.50	17.50
	>500-≤1500	10.4	9.5	9.50	9.50
	>1500-≤5000	4.9	4.5 (4.1 from April 2013)	4.48[3]	4.48[3]
AD	≤250	14.7	14.7	14.70	14.70
	>250-≤500	13.6	13.7[1]	13.60	13.60
	>500-≤5000	9.9	9.0	8.96	8.96
microCHP	≤2	10.5	12.5	12.50	12.50

8. Tariff changes will be introduced by amending the Standard Conditions of Electricity Supply Licences, subject to the Parliamentary process set out in the Energy Act 2008, and any necessary state aid approval from the European Commission. We will introduce these changes as soon as practicable after the summer recess and they will take effect

[1] 2012-13 tariffs in consultation calculated using previous RPI inflator to that used by Ofgem in determining final tariffs, hence slight discrepancies

[2] Current and consultation tariffs are shown to one decimal place as published. Final tariffs from December 2012 are shown to two decimal places for consistency with tariffs published in 'Government Response to consultation on Comprehensive Review Phase 2A: Solar PV cost control'

[3] Tariffs for the largest wind and hydro bands from April 2013 will be adjusted if necessary to reflect changes to level of RO support as a result of RO Banding Review.

from 1 December 2012, and apply to all installations with an eligibility date on or after that date. Some tariff changes may be dependent on final state aid approval.

Cost control

9. The final cost control system is similar to that proposed in the consultation, but modified to take account of consultation feedback and final decisions on solar PV degression (Phase 2A). There will be a system of degression of generation tariffs annually from April 2014, with a baseline degression of 5% each year (in real terms). This will be adjusted according to deployment in the previous year, with a minimum annual reduction of 2.5% in the event of very low deployment (with the exception of some wind bands which would have a minimum reduction of 5%), and a maximum of 20% for very high deployment.

10. In exceptional circumstances where there has been extremely high deployment, there will also be a mechanism for six-monthly contingent degression: this is a safety net mechanism and would not take effect with normal deployment levels.

MicroCHP and cost control

11. The degression arrangements do not apply to microCHP because the existing review process already provides sufficient cost control. We would like to clarify that the review following the installation of the first 12,000 units will be focussed on the potential level and means of support for microCHP once 30,000 units have been installed, i.e. we fully expect to maintain the 12.5p/kWh generation tariff to at least 30,000 microCHP installations registered under the FITs scheme, and 30,000 should not be regarded as a cap.

Preliminary accreditation

12. As proposed in the consultation, we are introducing a system of preliminary accreditation for certain prospective FITs generators. The system will primarily be available to solar PV and wind installations of greater than 50kW declared net capacity, and all AD and hydro installations. To be eligible, proposed installations must have planning approval and evidence of acceptance of a firm grid connection offer, if needed, and hydro installations must have any necessary environmental approvals. The system will provide a tariff guarantee for a fixed period of six months to two years depending on the technology. The tariff guarantee will apply only to the capacity that is included in the preliminary accreditation application.

13. We are also introducing a tariff guarantee system for community energy solar PV projects of 50kW or less (DNC). See paragraph155 for further details.

Communities

14. Following helpful responses to the consultation from community groups, we are introducing a package of changes to support community energy projects, noting the importance of such projects and addressing the genuine difficulties they face, especially in financing and project development. The key elements of this package are to:

    - create a definition of “community energy projects” that includes installations where the FIT generator is one of a range of small scale not-for-profit enterprises, and reflect that definition in tariff tables;
    - exempt community energy PV projects from the minimum energy efficiency requirement – this covers community energy PV projects on non-domestic buildings,

and all PV installations on schools and further education colleges; they will still need to obtain an Energy Performance Certificate, but at no specified level;

- make it possible for community energy projects to benefit from preferential tariffs in future, if we find that to be justified;
- facilitate greater access to FITs for community energy projects, recognising that the evidence from stakeholders is that their problems relate to upfront barriers rather than long term financing;
- put in place a system of tariff guarantees, similar to those provided for installations with preliminary accreditation, during the development phase for non-domestic community energy projects.

15. We will not be implementing the proposal (paragraphs 92-95 of the consultation document) to reduce the solar PV tariff for multiple installations that are not community energy or social housing projects to a level equivalent to the stand-alone tariff.

Administrative issues

16. We will be introducing a range of administrative measures that were put forward in the consultation. The following changes will be made:
    - amending the definition of "site" to prevent abuse of the scheme and to ensure that installations that necessarily share network connections, e.g. park homes and remote hydro installations, can access FITs on an individual basis;
    - amending the definition of "commissioned" to clarify that installations have to be operating in order to be eligible to claim FITs;
    - extending the definition of "hydro generating station" to include small tidal projects such as tidal mills and tidal locks that use a mixture of fluvial and tidal power;
    - extending the application of accreditation procedures administered by Ofgem (i.e. the ROO-FIT process) for micro-hydro installations to be accredited for FITs (rather than via the Microgeneration Certification Scheme). This will be implemented by 1 October 2012 to ensure that there is no gap in coverage.

Issues for further targeted consultation

17. The consultation raised a number of issues that deal mainly with the administration of the scheme and Ofgem's powers to deal with generators, suppliers and the MCS. These include:
    - Ofgem's enforcement powers;
    - mutualisation of shortfalls within the FITs levelisation arrangements among licensees;
    - in-year entry to the scheme for voluntary suppliers;
    - supplier of last resort provisions as proposed by small licensees; and
    - the role of the Microgeneration Certification Scheme (MCS) or equivalent schemes in accreditation.

18. Implementing these changes requires further detailed consideration in order that the final provisions are as effective as possible. We will hold a further brief and targeted consultation with FITs licensees and Ofgem on these issues over the summer, with a view to implementing them at the same time as the other changes outlined here to take effect from the start of the 2013/14 FITs year.

Other issues

19. A number of issues were raised in the consultation document on which we do not intend to make regulatory changes. There are also some issues that were covered in the Phase 2A consultation for PV that need to be implemented for non-PV technologies. Our final decisions on these issues are:

- to retain the 5MW upper limit for FITs in all technologies;
- to retain the system of index linking using RPI, and for non-PV technologies this will continue to apply to both existing and new installations;
- for Defra to implement the voluntary Code of Practice on anaerobic digestion and monitor it to ensure the sustainable use of purpose grown crops in AD plants;
- to raise the export tariff to 4.5p/kWh for new installations in all technologies from the time of the tariff changes, in line with the Phase 2A decision;
- not to extend energy efficiency requirements to non-PV installations;
- to keep open discussions with the small wind manufacturing industry regarding their concerns on the deliberate under-sizing of wind installations.

Policy Decisions: The financial aspects of the scheme

Timing of implementation

Consultation proposals

20. The consultation sought views on a proposed implementation date of 1 October 2012 (Question 3).

Stakeholder feedback

21. Those who responded to the question on timing were fairly evenly divided in their views. Those who disagreed mostly thought that October was too soon for change, particularly given that some changes were quite considerable. A large number wanted to postpone the changes until April 2013, to take account of the long lead-in times for some technologies, and to allow projects already in train to complete before the tariffs changed. A number of people also commented that changes were usually made to tariffs in April, and that an earlier implementation date was arbitrary and only done to try and align with solar PV. Nearly all agreed that the announcements should be made as soon as possible.

22. There were some comments that any increase for microCHP should be implemented before October.

Way forward

23. We will lay the changes in Parliament after the 2012 summer recess and most of these changes will come into force on 1 December 2012, subject to Parliamentary approval. This provides an extra two months between announcement and implementation (compared with the consultation proposals), and allows us to hold further talks with Ofgem and licensees on technical issues in order to get the detail right. We consider that an April 2013 implementation date would entail an unacceptable risk of a spike in uptake of some technologies before tariff reductions take effect. The changes to the microCHP tariffs, and to the newly created 100-500kW hydro band, are expected to take effect on 1 December alongside the other changes, but may be delayed slightly if we have not received state aid approval for the changes.

Tariffs for AD, hydro, wind and microCHP

Consultation proposals

24. The consultation set out proposals for new tariffs based on research undertaken to update the costs and other factors affecting all technologies eligible for FITs. This review was also undertaken within the context of a greater focus on fiscal responsibility across Government to ensure that we deliver value for money for energy consumers, who pay for the scheme, and to move to a more consistent approach across all renewable energy support schemes. This means that we proposed an upper limit of 21p/kWh for generation tariffs, with no tariff increases, partly on the basis that the highest PV generation tariff is

now 21p. For the highest bands we would maintain an equivalent level of support with the Renewables Obligation (RO). Accordingly:

- Generation tariffs for AD would be frozen up to 500kW, and above that would retain parity with the RO;
- There would be generally lower generation tariffs for wind across the board;
- Hydro generation tariffs would remain as they were apart from capping the smallest band at 21p and the largest band would continue to match the RO levels;
- For microCHP, manufacturing costs are still high, and look unlikely to come down in the short term, which means that production and uptake have been low. As a result, we proposed an increase in the generation tariff to 12.5p. At the same time, to provide budget security, we proposed maintaining the existing cap at 30,000 installations with a review of tariff and deployment levels at 12,000 installations

Stakeholder feedback

25. There were a number of comments regarding the accuracy and reliability of the Parsons Brinckerhoff report on technology costs. On the question of the proposed tariffs, the general view was that the proposed cuts were too aggressive to encourage positive growth, particularly as capital costs have not reduced, and in many cases have increased. It was pointed out that data set out in the consultation showed that only solar PV installations had exceeded their expected deployment. As all other technologies had fallen considerably short of their predicted deployment, it was felt that there was no reason to cap all tariffs at the small PV rate. There were also complaints that reductions triggered by additional uptake were not matched by increases where uptake was lower than anticipated.

Way forward

Tariffs linked to the Renewables Obligation (RO)

26. As proposed in the consultation we will continue to link generation tariffs for the largest capacity band for each technology to those that that apply to an equivalent installation in the RO. It is important that there are not perverse incentives to choose one instrument over the other – or to inefficiently undersize projects so that they are eligible for FITs rather than the RO.

27. From the date of implementation of these policy changes (1 December 2012), we will adjust generation tariffs for these bands to levels we consider to be equivalent to the support currently available under the RO. These are calculated using a value of £44.78 per ROC, which is 1.1 times the 2012/13 buyout price. Generation tariffs from 1 April 2013 until 31 March 2017 will be set at a level equivalent to the levels of support provided under the RO to a 5MW plant as a result of the RO Banding Review. Tariffs for 2017/8 and beyond are set at the level of 2016/17. However we expect that tariffs will be reviewed before this time, particularly given the wider context of Electricity Market Reform, so this should be taken as an indicative position in the interim.

28. Tariffs in the bands set at levels equivalent to the RO will not be subject to annual degression changes unless deployment in the relevant band in the previous year is greater than 150% of the expected level. However, deployment in these bands contributes to the deployment thresholds and may therefore affect degression rates in other bands. If degression is applied to these tariffs, later years' tariffs will be determined

according to the normal degression rules (i.e. were the RO equivalence in a band broken by the need for a 10% degression, normal degression rules would apply from that point on).

Other tariffs

29. On the basis of the information received from the consultation, we commissioned Parsons Brinckerhoff (PB) to update their analysis of current costs and other performance parameters of the technologies covered by the Phase 2B consultation. We did not find evidence to justify any significant changes to the tariffs compared with those on which we consulted.

30. However, we are introducing a restructuring of bands for hydro installations. There has been widespread industry concern about the possible perverse incentive to undersize projects because of the steep drop in generation tariffs between the 15-100kW band and the 100-2000kW band. We will address this issue by creating a new band covering the range 100–500kW, with a generation tariff of 15.5p/kWh.

Table 2: Table of tariffs

Technology	Band (kW)	Current generation tariffs (p/kWh)	Consultation tariffs from Oct 2012 (p/kWh, 2012 prices)	Final tariffs from 1 Dec 2012 (p/kWh, 2012 prices)[2]	Community energy tariff (see explanation in paragraphs 148-151)
Hydro	≤15	21.9	21.0	21.00	21.00
	>15-≤100	19.6	19.7[2]	19.60	19.60
	>100-≤500	12.1	12.1	15.50	15.50
	>500-≤2000	12.1	12.1	12.10	12.10
	>2000-≤5000	4.9	4.5 (2.2 from April 2013)	4.48[3]	4.48[3]
Wind	≤1.5	35.8	21.0	21.00	21.00
	>1.5-≤15	28.0	21.0	21.00	21.00
	>15-≤100	25.4	21.0	21.00	21.00
	>100-≤500	20.6	17.5	17.50	17.50
	>500-≤1500	10.4	9.5	9.50	9.50
	>1500-≤5000	4.9	4.5 (4.1 from April 2013)	4.48[3]	4.48[3]
AD	≤250	14.7	14.7	14.70	14.70
	>250-≤500	13.6	13.7[1]	13.60	13.60
	>500-≤5000	9.9	9.0	8.96	8.96
microCHP	≤2	10.5	12.5	12.50	12.50

31. Note that these tariffs will continue to be adjusted annually for changes in the RPI. See paragraph 63-65.

[2] 2012-13 tariffs in consultation calculated using previous RPI inflator to that used by Ofgem in determining final tariffs, hence slight discrepancies

[2] Current and consultation tariffs are shown to one decimal place as published. Final tariffs from December 2012 are shown to two decimal places for consistency with tariffs published in 'Government Response to consultation on Comprehensive Review Phase 2A: Solar PV cost control'

[3] Tariffs for the largest wind and hydro bands may be adjusted from April 2013 to reflect changes to level of RO support as a result of RO Banding Review.

Cost control and degression

Consultation proposals

32. In the consultation we proposed a degression model that followed the same form as that proposed for PV, but with less frequent and smaller steps, which would begin from April 2014.

Stakeholder feedback

33. The majority of respondents agreed with the need for cost control that was fair and transparent as it would improve investor confidence. However, because of the big differences in costs and deployment levels between the various technologies, respondents generally proposed that timings and trigger points should be specific to the technology. The idea was also put forward that tariffs could go up if they were clearly too low and there was little or no uptake.

34. Those who disagreed with the principle argued that in some technologies, such as hydro, costs were rising and that automatic degression of 5% would lead to a 50% cut in tariff levels after ten years, which was not merited. It was felt that, because of the long lead-in times for most of these projects, a cost control mechanism of this sort was not suitable. There was broad consensus that there should be no reductions until deployment actually reached the trigger.

35. There was considerable concern expressed over the existence and level of triggers for additional degression in all technologies.

Way forward

36. In response to the 2A consultation (on solar PV), some changes were made to the original proposals for PV degression. These were:

    a. that degression should be undertaken at fixed time points, with the size of the degression step, rather than the timing, contingent on deployment;
    b. deployment triggers should relate to particular periods, rather than being cumulative over the life of the scheme.

Our final decisions for other technologies reflect these improvements. Degression steps will be once a year (in April) and will be based on deployment in the previous calendar year. In addition, the mechanism allows for an additional October degression step if deployment in the first 6 months of the year significantly exceeds expected deployment.

Annual degression

37. Recognising the legitimate concerns regarding the effect on the market of degression triggers that are too tight, we are setting the baseline degression at 5% as proposed in the original consultation, but allowing for a lower rate (2.5%) in most cases if deployment is well below expectations. We will not however allow for degression to be skipped altogether in any year. Baseline degression and long-term reduction of subsidy was clearly set out in the consultation as a policy for all technologies, and all tariffs (including PV) will be subject to one degression step each year (with potentially more than one for solar).

38. We are making exceptions to this for those bands that are linked to RO tariffs, and the wind bands in the range of 100–1500kW, because of evidence of a risk of above-target

rates of return. For these bands we have decided that there should be no concession for below expected deployment, i.e. the minimum annual degression amount is 5%.

39. The tables below summarise the cost control system. Table 3 shows the expected tariff profiles if they progress at the baseline rate of degression. They generally show a default 5% degression rate except for those tariff pegged to the RO. In addition, tariff levels will need to be reviewed by 2017 to reflect interaction with the Electricity Market Reform (EMR) support mechanisms (i.e. they may need adjustment for new installations at the date when the EMR mechanisms take effect). It should be noted that these tariffs are shown in real terms. They will be adjusted each year for changes in the RPI as well as the degression percentages.

Table 3: Baseline generation tariff profile to 2020/21 based on default degression

Technology	Tariff band (kW capacity)	Generation tariff for new installations (p/kWh, 2012 prices)								
		2012/13 (from 1 Dec)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Hydro	**≤15**	21.00	21.00	19.95	18.95	18.00	17.10	16.25	15.44	14.67
	>15-≤100	19.70	19.70	18.72	17.78	16.89	16.05	15.24	14.48	13.76
	>100-≤500	15.50	15.50	14.73	13.99	13.29	12.62	11.99	11.39	10.82
	>500-≤2000	12.10	12.10	11.50	10.92	10.37	9.86	9.36	8.89	8.45
	>2000-≤5000	4.48	Tariff set at RO equivalent level							
Wind	**≤1.5**	21.00	21.00	19.95	18.95	18.00	17.10	16.25	15.44	14.67
	>1.5-≤15	21.00	21.00	19.95	18.95	18.00	17.10	16.25	15.44	14.67
	>15-≤100	21.00	21.00	19.95	18.95	18.00	17.10	16.25	15.44	14.67
	>100-≤500	17.50	17.50	16.63	15.79	15.00	14.25	13.54	12.86	12.22
	>500-≤1500	9.50	9.50	9.03	8.57	8.15	7.74	7.35	6.98	6.63
	>1500-≤5000	4.48	Tariff set at RO equivalent level							
AD	**≤250**	14.70	14.70	13.97	13.27	12.60	11.97	11.37	10.81	10.27
	>250-≤500	13.70	13.70	13.02	12.36	11.75	11.16	10.60	10.07	9.57
	>500-≤5000	8.96	Tariff set at RO equivalent level							

40. Table 4 shows the degression rates that would apply at different levels of deployment compared to that which we are currently predicting, i.e. for most tariff bands:
    a) 2.5% if deployment in the previous year is less than 7% of the predicted value
    b) 5% if deployment is in the range of 75-150% of the expected value;
    c) 10% if deployment is in the range of 75-300% of the expected value
    d) 20% if deployment is greater than 300% of the expected value.

Table 4: Annual contingent degression percentages

Technology and capacity (kW TIC)		Deployment v. Expected			
		<75%	75-150%	150-300%	300%+
Hydro	≤15	2.5%	5%	10%	20%
	>15-≤100	2.5%	5%	10%	20%
	>100-≤2000	2.5%	5%	10%	20%
	>2000-≤5000	Tariff set at RO equivalent level		10%	20%
Wind	≤1.5	2.5%	5%	10%	20%
	>1.5-≤15	2.5%	5%	10%	20%
	>15-≤100	2.5%	5%	10%	20%
	>100-≤500	5%	5%	10%	20%
	>500-≤1500	5%	5%	10%	20%
	>1500-≤5000	Tariff set at RO equivalent level		10%	20%
AD	≤250	2.5%	5%	10%	20%
	>250-≤500	2.5%	5%	10%	20%
	>500-≤5000	Tariff set at RO equivalent level		10%	20%

41. Table 5 shows the numerical values for the degression rates that would apply for each degression band.

Table 5: Degression thresholds (from 1 April 2014)

		Level of annual deployment (January-December) required to prompt degression			
Degression band		**2.5%**	**5%**	**10%**	**20%**
Hydro	all	≤12.5MW	>12.5 – 25.0MW	>25.0 – 50.1MW	>50.1MW
Wind	≤100kW	≤3.3MW	>3.3 – 6.5MW	>6.5 – 13.1MW	>13.1MW
	>100kW – ≤5MW	n/a	>0.0 – 36.7MW	>36.7 – 73.4MW	>73.4MW
AD	≤500kW	≤2.3MW	>2.3 – 4.5MW	>4.5 – 9.0MW	>9.0MW
	>500kW – ≤5MW	≤19.2MW	>19.2 – 38.4MW	>38.4 – 76.9MW	>76.9MW

42. We have set deployment thresholds based on modelling the level of deployment that we expect to come forward given assumed reductions in installation costs. The expected level of deployment by which actual MW thresholds are set is the annual average for new capacity over the 3-year period 2013 to 2015 estimated in the Option 2 central scenario in the Impact Assessment supporting this document[3].

43. The thresholds have been set such that under central assumptions, if actual deployment is as modelled under the central scenario in the Impact Assessment, there would not be degression of more than 5% for any degression band.

[3] http://www.decc.gov.uk/en/content/cms/consultations/fits_rev_ph2b/fits_rev_ph2b.aspx

44. Installations are confirmed as accredited for FITs when they are registered onto the Ofgem Central FITs register (CFR). However, there can often be a period of several weeks, or even months, between installation and confirmation on the CFR. This lag means that if degression was based on installations confirmed on the CFR only, the mechanism would not be able to respond to any rapid changes to deployment.

45. To account for this, for the purposes of the degression mechanism, deployment will be measured using data from the MCS database (which covers installations 50kW and under) and from Ofgem's Renewables and CHP database which it has determined meet the requirements for ROO-FIT accreditation (PV and wind greater than 50kW declared net capacity, and all AD and hydro installations)[4].

46. Using these data sources provides a more up-to-date measure of the level of deployment activity and how much capacity is likely to become eligible for FITs. However, it should be noted that the data will represent an approximation rather than an exact measure of the total capacity of installations that will become accredited under the FITs scheme as not all installations that are registered on the MCS database necessarily apply for or are eligible for FITs. In addition, the eligibility dates for installations on the MCS or ROO-FIT databases will not necessarily fall within the relevant period.

47. As discussed in paragraphs 104–114 and 150, we will be introducing tariff guarantees for some installations in advance of commissioning. Deployment for the purposes of the degression mechanism, including that put in place for solar PV as part of Phase 2A[5], will include capacity registered under preliminary accreditation as well as tariff fixing for community energy projects.

48. Annual deployment statistics for non-PV technologies will be published on the DECC website, with the first publication in January 2014. New tariffs will be published by Ofgem by 1 February each year, based on the published annual deployment statistics.

Six monthly contingent degression

49. We expect that the system of annual degression will provide the basis of tariffs in the longer term. However, in order to provide additional assurance that the scheme will be able to remain within budgets in instances of extremely high deployment, we will introduce, an additional mechanism which allows a mid-year degression (the first of which could occur in October 2014) based on uptake in the first six months of the year.

50. Six-month deployment thresholds will be two-thirds of those for annual deployment. This is to take account of the fact that some technologies have a construction window across the spring and summer months.

[4] Eligibility for generation tariff bands is determined by Total Installed Capacity (TIC), but the MCS database only records Declared Net Capacity (DNC). For the purposes of the degression mechanism, the DNC is therefore being used in determining the aggregate capacity of degression bands which include installations 50kW and below. For degression bands which include installations above 50kW, TIC is being used since the necessary data is available.

[5] Government Response to Consultation on Comprehensive Review Phase 2A: Solar PV cost control, 24 May 2012 www.decc.gov.uk/en/content/cms/consultations/fits_rev_ph2a/fits_rev_ph2a.aspx

51. Accordingly, we foresee that the six-monthly degression mechanism will only be needed in exceptional circumstances. Under ordinary deployment conditions, where a contingent degression is not required, degression will occur as normal in April only. Fuller details of how the six-monthly degression mechanism will operate are set out in box 1.

52. Deployment statistics for six monthly contingent degression for non-PV technologies will be published on the DECC website, with the first publication in July 2014. If deployment is high enough to prompt degression, new tariffs will be published by Ofgem by 1 September, based on the published six month's deployment statistics.

Box 1: How a six-monthly contingent degression would operate

A 5% degression would be prompted if installed capacity had reached the expected annual level (as forecast by modelling) in the first half of the calendar year.

A 10% degression would be prompted if installed capacity had reached double the expected annual level in the first half of the calendar year.

Deployment after 6 months	**Resulting degression**
Below or equal to expected annual deployment	None- annual degression only
Above expected annual, but below or equal to double expected annual deployment	5%
Above double expected annual deployment	10%

The deployment thresholds for a six-monthly degression are set out below:

		Level of 6 calendar month deployment required to prompt degression	
Degression band		**5%**	**10%**
Hydro	**all**	>16.5 – 33.1MW	>33.1MW
Wind	**≤100kW**	>4.3 – 8.6MW	>8.6MW
	>100kW–≤5MW	>24.2 – 48.5MW	>48.5MW
AD	**≤500kW**	> 3.0 – 5.9MW	>5.9MW
	>500kW–≤5MW	>25.4 – 50.7MW	>50.7MW

If deployment at the six month point causes an October degression, this is taken into account in calculating the end of year degression based on deployment over the course of the whole year.

Two examples of six-month contingent degression scenarios

The following examples illustrate how the degression mechanism might operate for a hypothetical set of deployment figures in the period January to June 2014, were deployment to occur at much higher than anticipated levels in this period.

Example 1

- Deployment of 5MW in the ≤100kW wind band from January to June 2014 prompts a 5% tariff degression in October 2014.
- Total deployment of 6MW across the whole year qualifies for a 5% tariff degression in April 2015 (i.e. deployment in second half of the year was low, such that deployment over the year was less than 150% of expected annual deployment).

This would mean **no degression** would occur in April 2015, because it had been brought forward.

Example 2

- Deployment of 5MW in the ≤100kW wind band January to June 2014 prompts a 5% tariff degression in October 2014.
- Total deployment of 7MW across the whole year qualifies for a 10% tariff degression in April 2015 (i.e. deployment in second half of the year was sufficient that total annual deployment exceeded 150% of expected annual deployment).

This would mean that in April 2015, a **10% annual degression of the April 2014 tariff** would occur.

Cost control and microCHP

53. The arrangements outlined above do not apply to microCHP because the existing review process already provides sufficient cost control for that technology. There is a clear potential for the future development of microCHP, which DECC will be exploring through our work to develop a Heat Strategy. We are also looking to ensure that any barriers to further investment in the industry are removed, so that the cost efficiencies through high volume production will allow microCHP to become highly competitive in the marketplace.

54. To encourage growth of microCHP, we therefore confirm that we are raising the level of the generation tariff while also excluding it from the automatic degression mechanism. We are retaining the current review process given the need for cost control in all technologies. However, we want to give greater certainty to investors and to take account of the outcomes of the Heat Strategy. We therefore want to clarify that the review following the installation of the first 12,000 units will be focussed on the level and means of Government support for microCHP once 30,000 units have been installed, i.e. we fully expect to maintain the 12.5p/kWh generation tariff until at least 30,000 microCHP installations have been registered under the FITs scheme.

Energy efficiency

Consultation proposals

55. Questions 8 and 9 asked about a potential energy efficiency requirement for non-PV installations, following the introduction of such a requirement for PV installations. We asked about long-term goals to extend energy efficiency requirements to some or all non-PV projects, and specifically about applying it to microCHP and wind installations.

Stakeholder feedback

56. The majority of responses disagreed with the aim of applying an energy efficiency requirement to all or some non-PV technologies in the future. Most non-PV technologies are not necessarily linked to buildings, with an example of a remote scheme which exports all of its output.

57. On the specific issues of microCHP and wind, respondents generally did not support the introduction of energy efficiency standards, although there was some support in relation to building-mounted wind. For microCHP, people argued that it should not be subject to an energy efficiency requirements as it competed with other primary heating technologies that do not have these requirements, including conventional gas boilers. It was suggested that the added factor of distress purchases would deter consumers if there were additional efficiency requirements.

Way forward

58. We have noted the views expressed in the consultation, and confirm our position that we will not introduce energy efficiency requirements for non-PV technologies at this time, though in line with Government objectives on energy efficiency, we intend to move towards an energy efficiency requirement for microCHP in the future.

Index linking

Consultation proposals

59. The use of index linking was raised in the Phase 2A consultation, which asked whether tariffs should continue to be index-linked for solar PV. The Phase 2B consultation went on to seek views on whether this should apply to all technologies, and if so what model should be applied i.e. RPI/CPI/other

Stakeholder feedback

60. The overwhelming response here was against any change to index linking. FITs are made attractive in the first instance as it is an investment protected from inflation. Removing index linking would be totally against what was originally set out and would be seen as unfair.

Way forward

61. The outcome of the Phase 2A consultation was that new PV installations with eligibility dates between November and March will now have to wait over a year for their first RPI uplift. We have decided that for non-PV technologies, we will maintain the status quo on index linking once installations have entered the scheme, i.e. no change will be made to the current system of RPI indexation. Annual adjustment to tariffs will continue to apply to both existing and new non-PV installations, the latter will of course also be subject to annual degression from 2014.

Export tariff

62. As announced in the Phase 2A response, the changes to the export tariff (to 4.5p/kWh for all new entrants to the scheme) will also be implemented for non-PV technologies as part of the changes outlined in this document (i.e. from 1 December 2012).

Eligibility and Accreditation

Eligibility

Consultation proposals

63. The consultation asked whether 5MW remained the appropriate upper limit for FITS eligibility or whether that limit should be lowered (Question12). There was also a question on whether there were other technologies that should be supported by the FITs scheme (Question 13), and a specific question about extending the definition of hydro to include tidal mills and locks that use both fluvial and tidal energy to generate energy (Question 14).

Stakeholder feedback

64. About half of those responding to the consultation answered the question about the 5MW cap, and the majority of those (approximately 65%) agreed that it remained the most appropriate limit given all other factors. Of those who agreed, a number wanted changes for particular technologies, e.g. raising the 2kW limit for microCHP to 50kW, or even to 5MW in line with other technologies. There were very mixed views amongst those who disagreed with the 5MW cap, with some wanting an increase and others wanting a decrease.

65. Of the small number of respondents in support of including new technologies, the majority supported the inclusion of tidal mills and locks (Question 14). Most felt that, given the scheme objective of supporting proven technologies, there were no other technologies at the moment that had reached the stage where they might be included.

66. A small number of respondents claimed that the current banding structure creates a perverse incentive to artificially reduce the capacity of turbines (referred to as “de-rating”) to take advantage of smaller bands. They proposed that band boundaries should be based on a combination of swept area and electrical capacity.

Way forward

67. Since the consultation responses generally supported a 5MW limit for FITs, there was no common view amongst those that disagreed, and we have no real evidence that the 5MW is not appropriate, we have decided to leave the cap at 5MW.

68. On the basis of responses received, we have decided to extend the definition of hydro to include tidal mills and locks. Beyond that we will not include additional technologies in the list of eligible technologies for FITs.

69. In regard to the so-called de-rating of turbines. We have examined the proposal and we do not consider that the technical proposals put forward to address the issue would necessarily bring net benefits. and could potentially limit access to the FITs scheme. However, we propose to keep open discussions with the industry about the issue in future.

New equipment versus second hand

Consultation proposals

70. Question 15 asked for views on whether second-hand and refurbished equipment should be permitted for FITs Accreditation. Such equipment is in fact already allowed, but only if it has not received support under the RO or FITs previously. Because such equipment has a different cost base, Question 16 asked whether there was any support for a lower tariff, what that should be, and how it might be calculated.

Stakeholder feedback

71. Over 75% of those responding to this question expressed support for second-hand and refurbished equipment to be permitted to receive FITs. The reasons behind the sentiments varied, with most stating that it was a better option for lowering overall carbon emissions and was the greener approach to take. However, terms would need to be clearly defined for it to work well in practice. Most respondents favoured the inclusion of equipment that was remanufactured, rather than equipment that was refurbished, to be eligible for FITs. Many respondents also felt that there should be some method of certification of second-hand equipment to assure efficiency and quality before it could become eligible for FITs.

72. There were some arguments presented regarding how a tariff could be applied. Opinions were divided. In general, suggestions on how tariffs could be calculated included:

- based on the scale of the refurbishment;
- based on the age of the equipment; or
- linked to ROI as with the other tariffs.

73. Respondents acknowledged that it would be difficult to implement and most likely complicate the scheme. Some respondents stated that the overall cost base was similar to new installations so second-hand installations should receive the same tariff. While the capital costs may be lower, other costs such as operation, warranty and insurance may be higher. Others thought that the cost base differed and so a new tariff structure would be needed. Suggestions were for tariffs between 10% and 50% of the standard tariff

74. Other respondents who agreed with the general principle of second-hand equipment being eligible suggested that it should only be considered on specific circumstances such as where a turbine needed to be relocated to a better suited location or a generator relocated and wanted to take the installation with them. In these instances, the views were that the installation should continue under the same FITs arrangement as before.

75. A few respondents did not support the proposal to have second-hand equipment eligible for support under FITs at all. The general view was that it could potentially open the scheme to abuse, fraud and gaming. There was also the view that second-hand equipment is available cheaply on the open market, so there is no need for a subsidy as the investor would be able to achieve a reasonable return on their investment and there would be the risk of overcompensation.

Way forward

76. If second-hand equipment generally were able to be accredited for FITs there would be a risk that equipment that had already received a subsidy could receive another, leading to double subsidy and problems with state aid rules. Even those that supported a system to include second-hand equipment acknowledged that any such scheme would be complicated and difficult to administer, and there were diametrically opposed views on whether such equipment was more or less expensive. We will therefore maintain the status quo for the time being, where there is no ban on second-hand equipment per se,

apart from where it may have previously received support under FITs or the Renewables Obligation.

Metering issues

Consultation proposals

77. Question 17 asked whether changes needed to be made to metering requirements to include DC meters for installations that are not connected to the national electricity network to access FITs without having to convert and meter in AC form.

78. Question 18 proposed that installation standards under the MCS or ROO-FIT accreditation routes should take account of the issue of local losses from meters located either upstream of transformers and feeding directly into grid, or long distances from grid connection points, so that only usable energy was eligible for FITs.

Stakeholder feedback

79. The majority of those responding to the question on metering were of the view that the position on metering should not be changed. While the majority supported the status quo, there were concerns that there was no readily available listing of approved meters and that this lack of information adds further complication to the non-energy professional. There were also suggestions for the strengthening of metering requirements under MCS.

80. Although a minority were of the view that the position on metering should be changed, they presented more arguments to support their view. Comments included:

- DC meters are more efficient, particularly for off-grid users. DC meters should be allowed as it is very inefficient to convert DC to AC and back to DC again;
- But available DC meters that meet FITs requirements are unable to gain approval;
- allowing DC meters would encourage take-up of off-grid installations;
- Rules on metering should be reviewed. There are frequent instances where meters are running backwards following installation;
- Off-grid installations must comply with the relevant accreditation standards for FITs.

81. There was also general support that FITs payments should be for useable energy and should be net of line and transformer losses, although some expressed concerns in calculating this because of the difficulty in ascertaining transmission losses. In addition, those expressing this view thought that exports should be measured and the level of the export tariff should be increased to reflect the true value of the electricity. There was also wide support for the use of smart meters and the potential benefits.

Way forward

82. Given the wide support for no change on this issue, we have decided not to make regulatory changes to metering at this time.

Definitions

Site

Consultation proposals

83. Questions 19-21 asked questions around the definition of site: whether it was sufficient; needed further definition; and specifically how the private wire issue (where individual units are treated as one because they all feed into the same electricity supply point) could be resolved.

Stakeholder feedback

84. There was wide support for clarification of issues around the definition of site where there are multiple installations on a single MPANs. Some of these respondents felt that a preliminary accreditation process would provide further clarity and alleviate some of these issues. Some said that whilst they felt that the current definition was not sufficient, they recognised the difficulties in formulating a definition that could be applied to all of the technologies eligible for FITs, and that doing so might further complicate the FITs scheme. Several of these respondents also believed that a pre-accreditation process would alleviate some of the issues raised.

85. A number of respondents felt that including ownership as a criterion would address the issue of multiple generators on a single MPAN. Others suggested grid location, separate planning and environmental licenses, no shared civil works, separate generation meters, and local generation meter.

86. On the issue of private wires, suggested solutions included assessing projects on a case by case basis, metering generation at the inverters or supply point for each building with an MCS certificate for its installation, or defining sites by the local generating meter and ownership of an installation.

Way forward

87. From the start of the scheme, the objective of a multi-factor definition of site was to "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)."[6] Our assessment of the outcomes of the current definition and its administration by Ofgem suggests that the definition generally meets the policy intention. However, in a small number of cases there may be unintended outcomes from this approach. We looked at other ways of defining it such as "installation" or "generating station", but our explorations found that this was likely to be complex and have broader implications and that it was unnecessary in the majority of cases. Instead we are making amendments to the definition to ensure that:

- several installations e.g. wind turbines or solar panels at a single location are not treated as separate sites because they register separate MPANs;
- separate residential units on a private wire network (i.e. park homes) are treated as separate sites; and
- hydro installations that are physically separate are not treated as a single site because of DNO constraints that do not allow them separate connections.

Stand-alone solar PV installations

Consultation proposals

[6] Feed-in Tariffs: Government's Response to the Summer 2009 Consultation

88. Questions 22 and 23 asked whether the description in the FIT payment rate tables for stand-alone solar photovoltaic installations needed to be clarified, perhaps by specifying a minimum amount of onsite use, and whether consideration should be given to the use of the building and whether it is occupied or not.

Stakeholder feedback

89. There was a misunderstanding evident in some responses that "stand-alone" referred to off-grid installations, rather than installations that feed direct into the grid without providing for onsite use (as is the case). Other respondents were divided in their views on the definition of stand-alone installations, with a small majority saying that further clarification was required. Many of these respondents felt that the definition should ensure that the higher tariff applied only to installations which provided electricity to a building for consumption onsite. Suggestions on the minimum amount of onsite use varied from 5 to 50%.

90. Others argued that it would be too complex and burdensome to administer a scheme where minimum onsite use was monitored and verified. Several respondents said that special consideration needed to be given to hydro installations as they are often classified as standalone installations because they are located in remote locations.

91. Of those who responded to question 23, a higher proportion felt that consideration should not be given to the occupancy of a building. Many of these respondents felt that doing so would disadvantage installations on unoccupied industrial and agricultural sites with high energy use such as water utility sites, milking parlours and buildings housing data servers. Other respondents felt that such an approach may disadvantage schools, public buildings, churches and community centres that may not be classified as permanently occupied. A number of respondents who felt that consideration should be given to the occupancy of a building said the stand-alone rate should only apply to installations on structures that themselves had no energy use, but fed electricity straight to the grid.

Way forward

92. Because the FITs scheme is designed to encourage onsite use of generated electricity, this category, which only applies to PV, already receives the lowest tariff, so some installations use a minimal amount of electricity onsite in order to access the higher tariffs. However, any requirement to use a certain percentage of electricity generated onsite would be difficult to implement and enforce, so we do not believe that it would offer value for money. We are making minor changes to the tariff description as we consider that it is irrelevant whether or not the installation is physically attached to a building[7]. The important factor is whether it provides electricity to the building, and this will be reflected in the legislation by amending the 'stand-alone' tariff description so that it applies to all installations which are not wired to provide electricity to a building. This change will only apply to new installations from 1 December. On the question of whether account should be taken of whether the building is occupied or not, we do not believe that this would necessarily improve the scheme and could potentially exclude schemes that are large onsite energy users, depending on how "occupied" is defined.

Mobile/moving installations

[7] We are making a similar change to the tariff descriptions for the two <4kW solar bands by removing the reference to being attached to buildings.

Consultation proposals

93. Question 24 was a general question about our current policy on mobile installations, which does not allow mobile installations to register for FITs, and whether we should consider an alternative

Stakeholder feedback

94. Of the third of overall respondents giving a view on the definition of mobile installations, the majority of responses supported the current position. Many respondents stated that the effort required to administer FITs for mobile installations would be disproportionate to any benefit that could be achieved by including them, as well as increasing the risk of fraud. Of the respondents who argued that mobile installations should be included in the FITs scheme, several argued that installations requiring containerised or movable components, such as anaerobic digestion plants, should not be excluded from the FITs scheme. Another respondent said that consideration needs to be given to moored turbine systems so that they were not excluded from the FITs Scheme. Other respondents felt that mobile sites switching from diesel generators to renewable energy generation should be supported by the FITs scheme.

Way forward

95. The definition of site tends to preclude mobile installations from accessing FITs, but also allows some potentially mobile installations such as houseboats with permanent or very long-term mooring agreements. Since this reflects our policy, we will not be making any changes at this time.

Commissioned

Consultation proposals

96. Question 25 asked about clarifying the definition of “commissioned” to specify that the installation needs to be in operation and generating electricity on which FITs generation/export can be made.

Stakeholder feedback

97. Many respondents believed that the definition of “commissioned” should be further clarified and agreed that this should be the date on which the installation in question is in operation and generating electricity. However, some respondents felt that the definition needed to take into consideration wind, hydro and anaerobic digestion installations that might be fully functional but unable to generate energy due to a lack of adequate wind, water flow or long lead-in times. These respondents argued that the definition needed to take into account when such installations were capable of generation. Several others argued that delays in obtaining a grid connection on an otherwise complete installation would lead to an unfair delay in the commissioning of a system.

Way forward

98. We will therefore alter the definition very slightly to make this clear to remove ambiguity and to make it clear that installations must be operational.

Preliminary accreditation

Consultation proposals

99. We proposed in the consultation (Questions 26-29) to set up a preliminary accreditation system along the lines of that operated for the Renewables Obligation. We proposed that this would be offered to wind, hydro and AD installations, and possibly solar, above 50kW and that unlike the RO may provide a guarantee of tariffs. The consultation also asked at what stage projects should be eligible, how long any tariff guarantee should last, whether a penalty should be applied to projects that were not finalised, and what modifications would be acceptable when looking at the original application and finished installation.

Stakeholder feedback

100. The majority of respondents considered preliminary accreditation to be a good idea because it would create a more stable platform from which to secure investment. It would provide stability of investment for AD, hydro and wind due to the long lead-in periods.

101. Some respondents did not think that planning permission should be used as qualification for preliminary accreditation, as it was not representative of true deployment figures for AD installations. According to these respondents, data from WRAP had highlighted that there was over 200MW of AD capacity with planning permission, but conversion from planning to construction was only around 1–10%.

102. A small majority of respondents agreed that preliminary accreditation should be limited to ROO-FIT installations because they felt that PV developments had shorter lead times and would not really need preliminary accreditation.

103. A large majority of those replying to this question agreed that the preliminary accreditation provision should involve fixing tariffs for a set period of time. Because some schemes had very long lead-in periods, time periods were suggested from six months to four years depending on the technology.

104. On the question of when it would be possible to apply for preliminary accreditation, the clear majority thought planning consent and grid offer acceptance would be sufficient, though some suggested the ordering of equipment or the payment of a deposit of perhaps 30% as additional requirements. It was generally thought that including robust criteria for applying for preliminary accreditation should prevent speculative applications, as significant investment would have already been made before reaching that point.

105. Respondents thought that some changes should be tolerated since developers needed the flexibility to adjust capacities up to a defined maximum such as 20%.

Way forward

106. We welcome the constructive comments we have received from the consultation and the active engagement from the various industry associations. We consider that because of the need to provide certainty on both sides, preliminary accreditation should be available only to projects once they have a high probability of proceeding to completion. If this is the case, there is no need for penalties, bonds etc.

107. We have decided to include solar PV as an eligible technology because of the introduction of three-monthly degression, and noting that some larger-scale projects have longer lead-in times.

108. Following detailed discussions with the industry and Ofgem, the system of preliminary accreditation will have the following features.

- Ofgem will administer a system of preliminary accreditation for all installations eligible for the ROO-FIT accreditation process, i.e. PV and wind greater than 50kW declared net capacity, and all AD and hydro installations.

- Entitlement to seek for preliminary accreditation will be narrower than it is for the RO. Proposed installations will be required to have planning approval (as for RO preliminary accreditation), and will also need to have met the following pre-requisites:
  - evidence of acceptance of a firm grid connection offer, if a grid connection is needed; and
  - for hydro installations: an environmental permit from the Environment Agency in England and Wales, including an abstraction licence, impoundment licence, flood defence consent and fish pass approval as necessary; and in Scotland, a Controlled Activities Regulation (CAR) authorisation from SEPA (Scottish Environment Protection Agency) for abstractions, impounding works (weirs and dams) and any other engineering works associated with the scheme.

- Operators will be required to have the relevant prerequisites in place before making an application for preliminary accreditation to Ofgem. If the prerequisites are not in place, an application cannot be made and preliminary accreditation cannot be granted.

- Once accredited, installations found to be eligible for preliminary accreditation, will receive the tariff that they would have received if they had accredited at the time they applied for preliminary accreditation. However, installations that are granted preliminary accreditation with an effective date in the period 1 January to 31 March each year will be eligible for the tariff that applies from the following April. Tariff lifetimes will apply from the eligibility date.

- Tariff guarantees will apply for a fixed period from application for preliminary accreditation. These will be (i) six months for PV, (ii) one year for AD and wind; and (iii) two years for hydro. Tariff lifetimes will still apply from the installation's commissioning date.

- The tariff guarantee will apply only to the capacity, site and technology that is included in the preliminary accreditation application, i.e. changes to site or technology or increase in capacity will result in cancellation of preliminary accreditation, decreases in capacity will be permitted only if they are in the same tariff band.

- An application for (or approved) preliminary accreditation may be withdrawn.

- Installations with preliminary accreditation will count towards degression triggers. In order to ensure that the cycle of degression triggers is consistent with the cycle of preliminary accreditation, there will be a three-month lag in eligibility. For example, in order to be guaranteed the tariff for a particular FITs year (e.g. 1 April 2013 to 31 March 2014), an installation must have applied for preliminary accreditation in the period 1 January 2013 to 31 December 2013.

- In order to convert preliminary accreditation to final accreditation, installations must meet all other relevant eligibility criteria at the time.

109. We also propose to introduce a tariff guarantee for small scale community energy PV installations. This is explained in paragraph 152.

MCS or equivalent

Consultation proposals

110. Questions 30 to 32 asked about the MCS accreditation scheme: first, whether it should continue to be the route for FITs accreditation; and secondly, because the legislation allows for accreditation schemes equivalent to MCS, whether we should introduce legal criteria to determine whether a scheme was "equivalent".

111. The final question asked for other comments on the current operation of the MCS-FIT accreditation process.

Stakeholder feedback

112. The majority of respondents were happy with MCS in its current form and did not want a new body to start all over again, although some felt that some improvements might be needed to make MCS accreditation a more robust process. The major exceptions to this pointed out that, for bespoke and low volume products for which one size does not fit all (such as hydro, and to a lesser extent AD) , the MCS is not sufficient and an alternative is required.

113. On equivalence to MCS, there was a very low response rate (about 20% of respondents). Those that did respond noted that the list of criteria for recognition of MCS equivalence did not mention cost, independence or reference to national/international standards. They also pointed out that the success of MCS depended largely on the development and maintenance of standards and processes that were specific to the technologies and industries that the scheme supports.

114. Despite the generally supportive responses to question 30, question 32 elicited a number of negative comments about the robustness of the MCS system and its suitability for all technologies.

Way forward

115. This issue is technically complex. We will continue with the current system for the time being, and it will be considered as part of the summer consultation with Ofgem and licensees, which we intend to do to finalise the detail on a number of outstanding issues.

Certification of micro-hydro installations

Consultation proposals

116. Question 33 asked for views on the best way to accredit micro-hydro installations for FITs. When the FITs scheme started, the relevant standards were not ready and in June 2011 it was decided to break the link based on the fact that each hydro project is unique, and that lead-in times tend to be much longer than for other MCS technologies. An interim provision was made to use the ROO-FIT accreditation system until any final decision was taken on how to accredit these installations.

Stakeholder feedback

117. The majority of respondents thought that continuing to provide accreditation through the ROO-FIT accreditation process was most suitable for micro-hydro. It was generally

accepted that MCS standards are more geared towards standardised rollout of a technology that is not always appropriate for such bespoke systems. There were also suggestions for additional industry-based criteria.

118. A few believed that more effort needed to go into the development of an MCS process, building on work that has already been done. Others thought that a Post Installation Certification Scheme (PICS) offering an alternative mechanism for individual generators to demonstrate the quality of their hydro project and its performance via a third party inspection and audit process, could be used.

Way forward

119. Because the majority of respondents favoured continuing with the ROO-FIT accreditation process, we have decided to extend the ROO-FIT accreditation for micro-hydro indefinitely. This will come into effect on 1 October to ensure that there is no gap in the accreditation process for micro-hydro. This change to a more permanent arrangement also means that the eligibility date will be brought into line with other technologies, removing the transitional arrangement of using the commissioning date. This does not rule out the development of an alternative accreditation system in the future if there was sufficient support for it.

Sustainability issues

Consultation proposals

120. The consultation set out our proposed approach to ensuring the sustainable development of both hydro and AD developments, and asked (Question 34) specifically about AD issues.

121. It stressed the need for hydro generation to work within the framework of legislation aimed at protecting fish and the ecology of a rivers, as well as enhancing water quality and biodiversity.

122. In regard to AD, it explained that, because of the concern that the use of purpose-grown feed stock for AD is not sustainable, DECC and Defra have worked with industry and environmental NGOs to look at evidence in this area. Under the current framework, we did not believe that there would be anything other than a modest increase in the use of such feedstocks as agricultural AD plants mainly used manure, slurry and residue feedstocks, co-digested with crops. There was a recognition that purpose grown crops as feedstock can improve the economic, and in some cases, the technical viability, so we did not wish to ban them entirely. Instead the consultation proposed putting in place a voluntary Code of Practice for AD operators using purpose grown crops, aimed at avoiding or mitigating risk. Ministers would consider other options if the voluntary approach was not successful.

Stakeholder feedback

123. Just over 20% of respondents gave views on question 34. The majority were not in favour of purpose grown crops as a feedstock on the basis that far greater benefit could accrued to the nation by using the land to produce food. However, others pointed out the important role of purpose grown crops as a feedstock used in co-digestion with food and most typically, agricultural wastes to improve the economic and in some cases, technical viability of AD plants. In some cases it was also true that low grade/marginal

agricultural land could be more usefully applied to AD feedstock crops than for pasture or arable use.

124. There was general support for a voluntary approach, at least to start with, although some pointed out the difficulties of enforcing such a Code. A few wanted more control than a voluntary system offered and thought that plants should be inspected regularly, and even a fee charged. For instance, plants above 1MW should require an annual feedstock audit to ensure that they are not growing or importing a significant percentage of feedstock.

Way forward

125. The government considers that it is important that the FITs scheme supports energy that is both renewable and sustainable, and this applies across all technologies. It is therefore important that all FITs generation, including hydro, complies with the relevant environmental regulation.

126. In regard to AD and the use of crop-based feedstocks. We confirm at the government position is that we will implement a voluntary Code of Practice in the first instance. Defra will work with industry and other stakeholders to monitor uptake of different AD systems, the effectiveness of the voluntary code. DECC and Defra will work together to develop and evaluate other options to be considered if necessary. If evidence emerges that this voluntary approach is not achieving its aims, these other options, including regulatory controls, will be pursued. We also note that if a rapid expansion of AD were to take place, the higher degression steps would be triggered.

Community and Multi-installation Projects

Consultation proposals

127. Questions 35 to 41 of the consultation proposed developing a definition for "community-owned" installations potentially covering the non-profit community energy sector, charities and social housing, and also sought views on the potential benefits that might be provided to these installations.

128. We specifically sought views on:
- whether social housing projects should receive a higher rate than commercial multiple installations (with commercial installations potentially receiving the stand-alone rate);
- whether it would be possible to fix tariffs for community energy and social housing developments for a set period of time at some point in the project development process, and which technologies that should apply to; and
- whether there were other ways that we could help community-owned projects outside the FITs scheme itself.

Stakeholder consultation

Definition

129. About 50% of respondents replied to the questions about definition. Overall there was support for a definition of "community" installations that included social enterprises, charities and social housing. However, the general view was that the definition should be broader so as to also specifically include schools, co-operatives, community buildings, village halls, local clubs (leisure centres), and council-led consortia and social landlords. On the other hand there was also recognition of how complex this could be, with support for a clear and easily enforceable provision.

130. It was recognised by about half of respondents that "social enterprises" was possibly rather a wide definition for the purpose in question and that it would need to limited in some way to capture the right participants. The remainder favoured a wide, inclusive definition.

131. There was some support for a proposal put forward by the Co-operative Group and Co-operatives UK for a set of criteria based on legal form and ownership rather than via a 'community benefit test' ; this would include community interest companies, industrial and provident societies (IPSs), Northern Ireland IPSs, registered charities and their wholly owned subsidiaries, and Scottish charitable incorporated organisations. It pointed out that all of these had community benefits and limited or no profit distribution, guaranteed through a statutory regulator. Another proposal was to start with the HM Revenue and Customs definition, as proposed in the consultation. There was a general belief that all proposals for a subjective community benefit test in, for example, the articles of association would unnecessarily restrict the notion of what constitutes community benefit and would be open to abuse.

132. However, there was also some agreement with our position that it would be difficult to justify making special provision for all charities regardless of their reason and purpose.

Others were keen that we should keep things simple and not to appear to discriminate, as this would be going against the intention of the policy.

Application

Multi-installations

133. There was a fairly even split between those respondents that agreed that commercial multi-installations should only receive the stand-alone tariff ,and those that disagreed.

134. Several respondents said that community installations had been identified as a special case because they provided direct investment that was likely particularly to benefit the fuel poor. Usually such projects were more difficult and more costly to plan, administer and deliver, and the benefits from economies of scale were substantially diluted. Some thought that commercial installations did not provide these benefits, nor did they experience the additional complications of installation. On this basis they argued that there was no rationale for any form of enhanced tariff for commercial installations. On the other hand the argument was also made that commercial aggregators also can benefit the fuel poor, who did not have the capital to pay the upfront investment needed.

Energy efficiency requirements

135. There was support for a proposal that the energy efficiency requirement should be consistent throughout FITs policy.

Higher tariff

136. About 70% of respondents agreed that community-owned multiple installations should receive a higher rate of tariff than commercial ones because of the extra consultation costs and longer lead-in times for community schemes.

Fixing tariffs for community organisations

137. Nearly 90% of respondents agreed that it would be possible to design a cost effective mechanism to fix tariffs for community organisations, of which a significant number stated that this would improve investor certainty. As projects could take several years to reach fruition because of delays in planning permission, grid connection, finance, obtaining extraction licences and their complexity, they took the view that the minimum period for fixing tariffs should be 12 months. It was argued that reductions to tariff levels as a result of contingent degression created an uncertainty, which could lead to non-profit organisations losing money.

138. Of those who disagreed, a few respondents stated that fixing tariffs would create extra administration costs. One respondent believed that there could be a risk of many schemes being registered but never reaching completion.

139. A large majority of respondents believed that any proposal to fix tariffs should also apply to wind projects up to 50kW, with some suggesting that it should apply to all technologies as they should be treated equally. A small number of respondents (around 10%) believed the proposal should just apply to solar.

Other ideas for helping community projects

140. There were a number of suggestions for how community projects might be helped outside the FITs scheme. A popular suggestion was for support services such as step-

by-step fact sheets to help understand all stages of the process, which could be produced by Ofgem, Carbon Trust or the Energy Saving Trust. Another suggestion was for a helpline which could cover legal and tax issues or workshops for community projects for energy, making people aware of energy use in their homes and potential improvements they could make. General support could be provided by the Government, local authorities or trade bodies.

141. Other suggestions included: providing grant funding through either Lottery funding, LGA, Defra and DCMS; allowing projects to benefit both from grants and FITs payments; and the removal of energy efficiency requirements for community projects.

Way forward

Decisions on community issues

142. As a result of the consultation and further discussions with community energy and social housing industry representatives, we will implement the following package of changes. These are designed to underline our commitment to supporting community energy in a way that is tailored to addressing the genuine difficulties faced by such projects without compromising value for money.

Community energy

Definition

143. We will set in place a definition for **community energy projects**, which makes use of based on proposed tax legislation so that these projects can be identified as such in the FITs register. We will use a definition based on that currently proposed in Finance Bill 2012 for similar purposes i.e. to include whether the FIT generator is:
    - a community interest company (CIC);
    - a co-operative society; or
    - a community benefit society

    In practice, this will mean those companies registered as a CIC on the Companies House register, or co-operatives or community benefit societies registered on the FSA Mutuals Public Register, who will be able to provide their incorporation/registration certificate.

144. We will further limit the definition to small companies and societies by setting a maximum number of employees. To be defined as a community energy project within the FITs scheme, eligible entities must have no more than 50 employees, which is the number of employees cited in the Companies Act 2006 definition of a “small company”. We have decided that this is the only additional criterion that will be applied, as criteria based on turnover or balance sheet may exclude newly formed companies.

145. Given the difficulty of justifying the inclusion of all charities, and the absence of a clear, simple way of separating out different kinds of charities, we are not including these in our final definition. We do not believe that this is a barrier for charities, as they should in most cases be able to set up specific purpose vehicles for the purposes of delivering community energy projects that could be classified under the new definitions.

Tariff differentiation

146. The consultation responses provided little evidence that the actual costs faced by community energy projects are any higher than for commercial projects, despite the

existence of other barriers, and it would therefore be difficult to justify a tariff differentiation given potential value for money and state aid issues. We will therefore not be providing higher tariffs for community energy projects at this stage. However, a community energy tariff will be included in the structure so that if it becomes justified we will be able to offer a preferential tariff in the future.

147. In addition, we propose a number of other non-tariff provisions for the community energy projects.

Energy efficiency

148. A number of consultation respondents put forward evidence about the difficulty of delivering energy efficiency improvements for community buildings. We have therefore decided to exempt all community energy solar PV projects on ***non-domestic*** buildings from the requirement to reach EPC level D. We believe that the uncertainty about achieving a level D EPC is preventing some community energy projects from going ahead that would have done so otherwise. However, it is important that FITs is seen as part of a total package of improving the carbon performance of these buildings, so we will require that prospective generators must at least obtain an EPC (with no specific level required) dated on or before the eligibility date so they are aware of the potential improvements they may wish to pursue.

149. Additionally we will extend this provision to apply to schools and further education/sixth form colleges, even where these establishments do not meet the community energy project definition.(A separate definition based on existing legislation will be drawn up for this). This is to acknowledge the important role that schools can play in educating young people about addressing climate change, and the particular difficulties in improving the building fabric of schools in the short term. Their buildings also have high daytime electricity consumption and we would therefore expect a high proportion of onsite use.

Tariff guarantees

150. Preliminary accreditation (see paragraphs 104-114) will benefit larger FITs installations and will allow them to fix tariffs during their development phase. Because of the difficulties of implementation, and the generally short lead times, we will not be extending this to small PV installations across the board. However, recognising that community energy projects have longer lead times than commercial projects, we will extend tariff guarantees to community energy solar projects on non-domestic buildings with a DNC of less than 50kW. This will not be extended to all schools; only those schools meeting the definition of community energy project as set out in paragraph 148-149 above will be eligible for fixed tariffs. The fixed tariff will be available for one year once developers have provided a current EPC and a letter of intent.

Working with the community energy sector

151. DECC is working hard to assist access to FITs for community energy projects. Evidence from stakeholders is that their problems relate more to upfront barriers than long term financing. We therefore need to address these barriers, rather than through tariffs. A range of government initiatives can help community energy developers in the early stages of project development, planning, scoping and developing the project, and then getting planning approval. These include LEAF, and the communities revolving fund, which is aimed at helping projects to the planning consent stage.

152. Such support can be developed in liaison with the Community Energy Contact Group, and Greg Barker announced recently that DECC would be drawing together a Community Energy Strategy Document over the coming months.

153. The GIB intends to offer loans to the community energy sector where there are real problems with getting finance. These loans would be at a commercial rate, so there will be no barrier to projects funded in this way subsequently applying for FITs[8].

154. Big Society Capital, which launched in March, also has a key role to play in growing a sustainable social investment market in the UK, through investing in social investment finance intermediaries (SIFIs). One such is the Community Generation Fund run by the FSE Group, which offers commercial loan funding and will issue periodic calls for proposals for community energy projects. It is designed to supplement rather than replace traditional investment, but aims to provide access to capital at project stages or scales where funding is needed most, but is not readily available. This is one of the greatest difficulties for community energy projects.

Multi-installation tariffs and social housing

155. The Phase 2A consultation on solar PV tariffs established that the savings made by aggregators compared with one-off installations are less than originally thought, and concluded that the generation tariff for multi-installation PV projects should be increased to 90% of the standard tariff from 1 August, subject to the completion of parliamentary procedures for the Phase 2A changes. In addition, evidence shows that the increased administrative burden experienced by the social housing sector also applies to the commercial rent-a-roof sector, who will also have additional costs that reduce their returns.

156. Through the phase 2B consultation, we have therefore decided to treat both sectors in the same way, and not reduce the generation tariff for commercial multi-installation projects to the equivalent of the stand-alone tariff. This means that all multi-installation projects, including social housing, will be able to a generation tariff equal to 90% of the standard tariff.

157. We have also looked carefully at other barriers facing social housing projects, and whether it is appropriate to provide them with tailored incentives through the FITs scheme. Our research shows no specific evidence that the costs of developing and installing PV on social housing is greater than for other developers, and on this basis it is not possible to justify a specific tariff level.

158. However, we recognise that social housing providers do face particular difficulties in developing projects both for FITs and in other policy areas such as energy efficiency. DECC will work with social housing providers across a range of policy areas to ensure that they can play a full part in delivering low carbon housing.

159. As we are not putting in place any special tariff measures to provide an additional benefit for social housing, we are not planning to put a definition in place within the FITs legislation.

[8] This needs to be confirmed following State Aid approval of the current changes.

Consumer Issues

Compliance and enforcement

Consultation proposals

160. Questions 42 to 44 asked about Ofgem's enforcement powers. Although the scheme has worked well to date from that perspective, some potential issues that may arise in the future had been highlighted. We specifically considered as part of the consultation whether Ofgem should be able to attach conditions to accreditation. We also asked more generally what additional provisions might be helpful to enforce the scheme and prevent fraud and malpractice.

Stakeholder feedback

161. The majority of respondents thought that Ofgem needed their powers clarified and enhanced to give them increased powers of enforcement, particularly where this would help protect consumers. Even where people thought that Ofgem had sufficient powers to enforce the FITs scheme, they noted that there was often a gap in enforcement resource, and lack of transparency over exactly what powers Ofgem currently held. Others thought that the burden of proving malpractice currently falls disproportionately on suppliers, and investigations are protracted because of the lack of definition of the responsibility of the generator in demonstrating compliance.

162. It was generally thought that the FITs system should also be able to suspend payments or withhold them for a period until the generator was compliant with the legislation, where there are breaches of FITs legislation or if the installation is operating unlawfully e.g. without planning approval.

163. Some respondents pointed out that additional powers would only be effective if matched with additional resource for enforcement. It was also suggested that any extra powers should include a requirement on energy supply companies to make FITs payments following a meter reading more quickly than at present.

Way forward

164. We believe that there is a strong case for giving Ofgem some additional powers in the areas indicated. However, to make sure that they are given the right powers to do the job properly, we will hold a further, more limited consultation with Ofgem and suppliers, on what exactly these additional powers should include.

Advice and support for generators

Consultation proposals

165. Questions 45 to 47 asked about the provision of advice and guidance to generators. They addressed concerns about the quality of advice from installers. We asked generally what people thought about the current advice available, who should be responsible for issuing advice to generators, and how this dissemination of advice should be monitored.

Stakeholder feedback

166. Most respondents felt that the provision of information and advice regarding FITs was not sufficient. They felt that there was confusion between the roles of DECC and Ofgem, and people were not sure that the Energy Saving Trust would be able to provide such a high quality service under the revised arrangement for advice on DECC programmes as they had done previously.

167. New generators needed clear advice on the roles of each agency, and what could be expected from their chosen installer, REAL and their chosen FIT provider (licensee). It was suggested that a single booklet outlining the above and the responsibilities of the generator (including what they are required to do to register for FITs payments in layman's terms) would help. This should be readily available and should be given out by installers when giving customers quotations.

168. Attempts to find answers to technical points on which the legislation has no clear answer had proven difficult, because DECC cannot comment on individual projects or proposals, and Ofgem's role is to uphold the legislation and they can give no comfort to developers or community groups as to the potential eligibility of their proposal until they submit a FIT registration application (i.e. post-installation). A simple guide to each of the technologies for consumers and installers was suggested with clear navigation about where to go for more detailed information.

169. There was a mixed response to the question about who should be responsible for drawing up and providing advice to generators. The majority of respondents suggested that the responsibility should be for Ofgem, although some respondents suggested that it should be MCS or REAL. A number of respondents stated that the Government/DECC should be responsible for the decisions in the consultation and advice on operation of the FIT scheme as well as ensuring that relevant advice was available and accessible for consumers, even if they were not actually producing that advice. Some respondents believed that the Energy Saving Trust and Carbon Trust should continue to give advice and outline information, but they also wanted the involvement of an organisation representing the industry for each technology.

170. On the question of monitoring the dissemination of advice, again there were mixed views, with a number of respondents stating that Ofgem should monitor, and be responsible for the advice, and ensuring it was carried out correctly, and others stating that this should be done by DECC/Ofgem with the industry bodies. Other suggestions included: accreditation bodies who provided the installer with accreditation should monitor installers; random spot checks on the quality of installations; and that the advice being disseminated should be mandatory. Others acknowledged that monitoring of advice can be costly and complicated.

Way forward

171. Although there was a general recognition that there is information available, we have noted a general feeling was that it was not sufficient and people did not always know where to go for it. Although we do not think that this requires a regulatory solution, we will assess the extent and quality of the information available, with a view to ensuring that it is easier to find and access and to fill in any gaps.

Statement of FIT terms

Consultation proposals

172. Questions 48 and 49 asked for views on the licensees' Statement of FIT Terms issued to generators. These make generators aware of their rights and obligations, as well as those of the FIT licensee. We also asked about the frequency of payments made, and whether licensees should be obliged to make payments more or less frequently than the current three-month period.

Stakeholder feedback

173. About 35% of respondents addressed these questions. The majority (over 80%) of those giving views thought that the Statements of FIT Terms issued by suppliers were sufficiently clear, and not onerous. Of those who believed that the FITs terms were too complex or onerous most thought that they were too wordy and should be set out in bullet points to encourage generators to read them. There were also a number of comments on information around the FITs scheme generally.

174. On question 49, a large majority thought that the three-month period was acceptable, but some thought that monthly payments would improve cash flow and financial reporting. To keep the system fair, there needed to be consistency between the frequency with which suppliers are levelised and generators are paid, and therefore three months is considered a good option.

175. Several respondents commented that it takes a very long time for schemes to receive their initial FIT payments and it was suggested that Ofgem should guarantee to register new projects within three months of application.

Way forward

176. The evidence suggests that the Statement of FIT Terms is generally seen to be clear and reasonable. Many of the problems raised in response to this question were not about the Statement of FIT Terms itself, but about other problems people had with licensees. The majority were also satisfied with the three-monthly period for payment, so we do not plan to make any changes to these at the moment .

Complaints

Consultation proposals

177. Questions 50 to 53 asked for views on the complaints process for the FITs scheme. We set out our belief that generally all complaints can be dealt with by the relevant participant in the FITs scheme, but recognised that people do not always find it easy to know who they should approach, despite the availability of DECC's guide to the complaints procedure. We therefore asked whether people thought the current arrangements were satisfactory, and if not, what more could be done.

Stakeholder feedback

178. The general feeling was that the DECC guide was very useful but could potentially be improved on, and the complaints procedure needed to be clarified.

179. Very few people (about 17% of all respondents) responded to the questions on the complaints procedure. The majority thought that the dispute resolution procedure was adequate but thought greater ownership of each area was required, which could provide further clarification. One of the issues generators have faced was how to know where they should direct a complaint, given the number of organisations involved in the process of installing, registering and receiving FITs. Others were not clear about the difference between REAL and MCS.

180. A number of improvements were suggested, including:

- The imposition of penalties by Ofgem on FITs licensees who do not perform adequately;
- Better information provided to clearly identify the role of the certification body (MCS scheme operator) and REAL;
- More clarity on how to complain if an installer is no longer in business.

Way forward

181. Having considered the various views expressed, we agree that DECC might be able to do more to make sure that people know where to go when things go wrong and what recourse is open to them. We will therefore assess the extent and quality of the information available on the complaints process, with a view to ensuring that it is easier to find and access and to address any gaps.

Licensee Issues

Thresholds for licensees

Consultation proposals

182. The consultation asked whether the threshold at which suppliers become mandatory FITs licensees should increase from 50,000 domestic customers to 250,000 customers.

Stakeholder feedback

183. Very few responses to the consultation commented on this issue. Responses were generally supportive of the change. Of those who agreed, the majority of the respondents believed that it would bring the thresholds in line across the board. A few respondents stated that the proposal would encourage competition and would help the smaller suppliers to grow within the energy market.

184. The majority of the respondents who disagreed argued that this would not encourage competition in the electricity supply market. A few respondents argued that many small suppliers are voluntarily becoming FITs licensees, therefore the threshold should not be increased. It was stated that other models should be considered e.g. tapering or buy-out provisions. Stakeholders also proposed that the FITs legislation should be clarified to allow voluntary licensees to join the scheme at any time within a FITs year.

Way Forward

185. We considered that the impact of the threshold within FITs is minimal because the obligation to contribute to costs applies to all electricity suppliers in proportion to the amount of electricity supplied, whether they participate in the scheme or not, and there is the option for small suppliers to join the scheme. However, we note that there are particular impacts and risks imposed on small suppliers which result from a requirement to take on larger FITs generators. In order to avoid placing unnecessary burdens on new entrant suppliers, **we decided to make this change, and have included this in the legislative changes made for the Phase 2A consultation and currently before Parliament.** We did this on an accelerated timescale as we wished to minimise the uncertainty and disruption for businesses and consumers who were directly affected by this change. Subject to the parliamentary process required by the Energy Act 2008, the threshold at which suppliers become mandatory FITs licensees will increase from 50,000 to 250,000 customers with effect 1 August 2012. The issue of in-year entry for voluntary FITs licensees is one that primarily affects Ofgem and licensees, and will require further detailed consideration. We will therefore do more work on this over the summer, including further targeted, informal consultation with Ofgem and licensees, before introducing the changes.

Data collection

Consultation proposals

186. The consultation asked whether individual installation data should be collected centrally, and for suggestions on the most cost-effective way to do it.

Stakeholder feedback

187. Overall, 68% of respondents answered the first part of this question. 46% agreed that generation data should be collected, 14% disagreed and the remainder had a mixed view. A number of respondents felt that making this data available would be beneficial to the whole industry as it would allow an accurate assessment of technology performance and enable a clearer picture of standards to form along with how individual installations are performing against these. However, some of these respondents stated that the collection of this information would have to be economically viable and not pose too much of a burden. Of those respondents that disagreed with the collection of this data, their main concern was the potential cost.

188. 35% of respondents made suggestions on methods to collect individual installation-level data. The most frequently suggested method was to obtain the data directly from FIT licensees as they collect meter readings on a regular basis in order to make payments. Other suggestions included collecting the data directly from generators via an online form, collecting the data via a third party such as the MCS, and creating a survey to be sent to a representative sample of generators only. There was also a broad consensus that the collection of this data will be more straightforward once smart meters have been rolled out.

Way Forward

189. The value of these data has been recognised and, as a first step, it is our intention to consult with all FIT licensees regarding the data they hold on generation at an individual installation level and to explore the potential cost and additional burden it would place on them to provide this data to DECC for analysis on a regular basis.

Licensee of last resort and mutualisation

Consultation proposals

190. One of the potential issues brought to our attention during the review was what happens if a licensee fails. If a supplier fails, arrangements are in place to ensure the transfer of all consumers so there is no break in supply, but there is no specific provision equivalent to this within FITs legislation., which can mean generators may have a gap in payments and it was suggested that financiers may discriminate against small licensees, feeling that their risk of failure is greater. There is also no provision to recalculate the levelisation fund to take account of a failed licensee. Therefore we asked about support for provisions equivalent to the supplier of last resort arrangements, and for mutualisation of shortfalls within the levelisation process.

Stakeholder feedback

191. There were very few responses to this question, although the overwhelming majority of those that responded were in favour of some system of mutualisation of shortfalls. There was recognition that there are already mechanisms in place for other schemes such as the Warm Home Discount, which could be adapted and applied to the FITs scheme. However, people would also welcome further work and more detail.

Way forward

192. This issue is one that primarily affects Ofgem and licensees, and will require further detailed consideration. We will therefore do more work on this over the summer, including further targeted, informal consultation with Ofgem and licensees, before introducing the changes.

Frequency of levelisation

Consultation proposals

193. Levelisation currently takes place every quarter as a minimum, although Ofgem may carry it out more frequently. We asked whether respondents supported the continuation of this position, and if not, what alternative would they propose.

Stakeholder feedback

194. This question attracted very few responses, and the majority thought that the current arrangements were still fit for purpose, especially during a period while licensees are moving towards more automated processes. Levelisation still required a significant amount of manual intervention and the current proposed changes to the treatment of tariff rates will require a period of bedding in before it would be possible to consider a more frequent periodic of levelisation.

Way forward

195. This issue is one that primarily affects Ofgem and licensees, and will require further detailed consideration. We will therefore do more work on this over the summer, including further targeted, informal consultation with Ofgem and licensees before introducing the changes later in the year.

Annex A – List of Questions

Consultation Questions: *Please support your response with arguments and evidence*	
1.	Do you have any comments on the data used to develop these tariffs?
2.	Do you agree with the proposed tariffs?
3.	Do you agree with the proposed timing for implementation?
4.	Do you agree that the cost control mechanism should apply across all technologies?
5.	Do you agree with the proposal that all tariffs will be subject to a minimum degression rate of 5% per year beginning in April 2014?
6.	Do you also agree that there should be an element of capacity-based triggers that could accelerate the degression mechanism? Do you agree with the proposed triggers?
7.	If not, can you propose an alternative model, e.g. contingent degression or quotas that would deliver certainty for investors and confidence that we can meet our Levy Control Framework obligations?
8.	Do you agree that it should be a longer term objective to have an energy efficiency requirement for some or all non-PV technologies? How might this be done?
9.	Do you consider that equivalent energy efficiency requirements to those required for solar PV should be applied to microCHP and wind installations?
10.	Do you think that tariffs should continue to be index-linked for all technologies?
11.	If index-linking is maintained what would be the best model? RPI, CPI, or another model e.g. time-limiting of indexation?
12.	Do you agree that the 5MW cap remains the appropriate limit or should a lower limit apply?
13.	Are there other technologies you think should be supported under the FITs scheme?
14.	Should the definition of hydro generating station be extended to include small tidal projects such as tidal mills and tidal locks that use a mixture of fluvial and tidal power?
15.	Should second-hand and refurbished equipment be permitted for FITs accreditation?
16.	As this equipment has a different cost base, would you support the payment of a lower tariff for such equipment, and how much lower should the tariff be compared with the standard tariffs? How would this tariff be calculated?
17.	Do you think that the position relating to metering should be changed?
18.	Do you agree that FITs should only be payable for usable energy and that metering

	installation standards should reflect this?
19.	Is the existing definition of site sufficient? Do any of the criteria require further definition?
20.	What additional criteria or definitions could be used?
21.	How would you resolve the private wire issue? Should there be a separate definition?
22.	Do you think that the definition of stand-alone needs to be clarified, for example to specify a minimum amount of onsite use?
23.	Should consideration be given to the use being made of the building, such as whether it is occupied?
24.	Do you agree with DECC's position on mobile installations? If not, what alternative would you propose?
25.	Do you think that the definition of "commissioned" needs to be clarified, for example to specify that the installation needs to be in operation and generating electricity on which FIT generation/export payments can be made?
26.	Do you agree with our proposal to allow a preliminary accreditation process for certain defined installations in the FITs Scheme?
27.	Do you agree that preliminary accreditation be limited to ROO-FIT installations and not allowed for PV developments?
28.	Should preliminary accreditation also involve fixing the level of tariffs for a set period of time at the point at which preliminary accreditation is achieved?
29.	What are your views on the key design issues for preliminary accreditation i.e. (a) at what stage would projects be eligible e.g. with planning approval, grid connection offer? or other factors? (b) how long should the guarantee of tariffs last? (c) should there be a penalty for uncompleted projects to prevent speculative applications? (d) what modification to the original application should be tolerated and still receive the tariff guarantee?
30.	Should MCS continue to be the route for FITs accreditation for micro-generation under the scheme or should there be a new body?
31.	Are the criteria listed above sufficient to be used to determine if a scheme is equivalent to MCS? Are there alternative criteria that could be used?
32	Do you have any other comments on the current operation of the MCS-FIT accreditation system.?
33.	What do you consider is the best way for micro-hydro installations to be accredited for FITs?

34.	Do you support the principle of a voluntary approach to ensuring sustainable use of purpose grown crops in AD plants that benefit from FITs and to prioritise plants using waste feedstocks? If not, what alternative controls should be put in place?
35.	Which organisations do you consider should be included in the definition of “community” installations? Should the definition include social enterprises? Charities? Non-profit social housing providers? Any other groups?
36.	Should other factors be taken into account e.g. scale and primary purpose?
37.	Do you agree that non-community multi-installations should receive a basic stand-alone tariff? Should the energy efficiency requirement still be applied to these installations once they are receiving the stand-alone tariff?
38.	Do you agree that “community” multiple installations should receive a higher rate of multi-installation tariffs than commercial installations?
39.	Would it be possible to design a cost effective mechanism that would allow ”community” projects to fix their tariff for a set period of time at some point earlier in the development process?
40.	Should this apply to just solar, or also to wind projects below 50kW (DNC)?
41.	What other ideas do you have for helping one-off community projects?
42.	Do you believe that the current enforcement provisions of Ofgem's powers are sufficient?
43.	Do you believe that a power to remove individual installations post-accreditation would provide a more proportionate penalty to deal with individual cases of malpractice?
44.	If further provisions are required, what form might these take?
45.	Do you believe that the current provision of information and advice regarding FITs is adequate?
46.	Who do you think should have the responsibility for drawing up and providing advice to Generators?
47.	How should the dissemination of advice be monitored, and who should have the responsibility for ensuring this is carried out correctly?
48.	Are the FITs terms set out in the Summary of Terms appropriate and sufficiently clear or are they too complex or onerous, requiring the Generator to accept too many obligations?
49.	Is payment to generators at least every 3 months reasonable? Should it be obligatory to make payments more or less frequently?
50.	Are there any issues that are not taken account of in the DECC guide?

51.	Do you think that the current complaints/dispute resolution arrangements for the FITs Scheme are adequate?
52.	If the current arrangements are not adequate, what changes should be made?
53.	Do you support changing the thresholds for mandatory licensees to 250,000 residential consumers? If not what alternative do you propose?
54.	Should individual installation data be collected centrally, and what do you think the most cost-effective way of doing this would be?
55.	Do you support the establishment of provisions equivalent to the supplier of last resort arrangements for FITs payments?
56.	Do you support the mutualisation of shortfalls within the FITs levelisation arrangements among licensees?
57.	Do you support the continuation of the current arrangements on the frequency of levelisation, i.e. at least quarterly but more frequency at the discretion of Ofgem? If not, what alternative to you propose?

Annex B – List of Respondents[9]

#	**Organisation Name**
1	: B.Spoke eWaterpower Company Limited
2	1 Stop Renewables Ltd
3	3R Energy Solutions Ltd
4	A Shade Greener
5	Aberdeenshire Council
6	Action in rural Sussex, Community Action Surrey, Community Action Berkshire, Rural Community Action Kent, Community Action Hampshire
7	Action with Communities in Rural England
8	ADAS
9	Aegis Energy Ltd
10	Agri Energy
11	Alternative Energy Store UK Limited
12	AlternEnergy / F.T Gordon Building Services Ltd
13	Ampair
14	Anglesey Against Wind Turbines
15	Angling Trust
16	Ardtornish Estate
17	Baldowrie Renewables (800) Ltd
18	Bates Wells and Braithwaite London LLP
19	Bath & West Community Energy (BWCE)
20	Beneco Energy Ltd
21	Bespoke Community Development CIC
22	Big Green Jewish
23	Bluenergy
24	Brighton Energy Co-op
25	Bristol Energy Cooperative
26	British Gas
27	British Hydropower Association
28	British Photovoltaic Association
29	British Property Federation
30	Broadland Properties Limited,
31	Broadland Renewable Energy Ltd
32	Brooklinn Hydro Limited
33	Burdens
34	Campaign to Protect Rural England
35	Carbon Leapfrog
36	Cardryne Farm
37	Carillion
38	Cattle Holderness Ltd

[9] Respondents are only listed here if they did not request anonymity

39	Central Association of Agricultural Valuers (CAAV)
40	Ceres Power
41	Charities' Property Association (CPA).
42	Chartered Institute of Housing
43	Chemical Industries Association
44	Chesterfield Borough Council
45	Church of England (Shrinking the Footprint)
46	Combined Heat and Power Association
47	Community Energy Scotland
48	Community Energy Wales
49	Community Energy Warwickshire
50	Community Power Cornwall
51	Community Transition City group working with University of Lancaster
52	Co-operatives UK
53	Coriolis Energy LLP
54	Cornwall Council
55	Council of Mortgage Lenders
56	Country Land and Business Association (CLA)
57	Craigiebank Farm
58	Cymric Ltd
59	Dane Valley Renewable Energy Products
60	Davies Implements Ltd
61	DC Associates Ltd
62	Derwent Hydroelectric Power Limited
63	Dorrell Renewables Limited
64	Dorset County Council
65	Dragon Power Services
66	Dulas Ltd
67	Dunbar Community Energy Company
68	Dwr Cymru Welsh Water
69	E.ON
70	Earthmill
71	East Bridgford Community Energy IPS Ltd
72	Ecolectric ltd
73	Ecotricity Ltd
74	Ecowave Systems…Hydro Turbine and equipment manufacturers
75	EDF Energy
76	Electrical Contractors' Association
77	Elexon
78	Empirica Investments Limited
79	Endurance Wind Power (UK) Ltd
80	Enercon GmbH
81	Energetix Group plc
82	Energy Agency
83	Energy Alton
84	Energy4All Ltd
85	Engensa Ltd
86	Envirolink Solar PV Special Interest Group

87	Environmental Justice Foundation (EJF)
88	Esk Energy (Yorkshire) Limited
89	Fine Energy Limited
90	First Utility
91	Friends of the Earth
92	Future Biogas Limited
93	Gaia-Wind Ltd,
94	Gamlingay Community Turbine
95	G-CEL
96	Gemserv Limited (MCS Licensee)
97	Global Developments Holdings International Ltd
98	Gloucester City Council
99	Good Energy
100	Gormack Energy Ltd
101	Green Generation Ltd
102	Greenearth Energy Ltd
103	Green-Tide Turbines
104	Guto Owen
105	Hallidays Hydropower
106	Hallmark Power Ltd
107	Hart District Council
108	Health Facilities Scotland (on behalf of NHS Scotland Boards)
109	Heating & Hotwater Industry Council (HHIC)
110	Herefordshire Hydro Group
111	Highland Eco-Design Ltd
112	Highland Hydro Services
113	Hydro-Gen Ltd T/A Hydroplan UK
114	ICE Renewables
115	Inazin (Formerly Low Carbon Developers)
116	Inherent Energy Ltd
117	Inspirit Energy Ltd
118	Investment Renewables
119	iPower
120	J. C. Hydro Ltd
121	Johnson Matthey Fuel Cells
122	Just Power for Communities CIC
123	juwi Renewable Energies Limited
124	Keep Britain Tidy
125	Kingussie Community Development Company
126	Kirklees Council and Kirklees Neighbourhood Housing (Joint response)
127	Kiwa GASTEC at CRE
128	Leeds City Council
129	Lind Management Limited
130	Lithgow Energy Ltd
131	Local Government Association (LGA)
132	Longhurst Group
133	Maolachy Hydro

134	MEG Renewables
135	Mendip Power Group
136	Messrs J & W Wilson
137	Methanogen UK Ltd.
138	Micro Hydro Association
139	Micro Hydro Services
140	Mill Green Renewable Energy Trust
141	MMC Engineering Services Ltd
142	Mor Hydro Ltd / Inverliever Hydro Ltd
143	MORE Renewables
144	Myriad CEG
145	National Farmers' Union
146	National Housing Federation
147	Natural Generation
148	New River Corporate Finance LLP
149	NFU Scotland
150	NICEIC
151	North London Waste Authority (NLWA)
152	North Wales Hydro Power Ltd
153	Northumbrian Water
154	On behalf of an association of residents and business people from Anglesey
155	On behalf of C&F Green Energy Limited
156	Origin Energy CIC
157	Orkney Micro Renewables
158	Osspower Limited
159	Our Community Enterprise
160	Oxford City Council
161	Oxfordshire County Council
162	Partnerships for Renewables Development Company Limited
163	Peel Energy Limited
164	Pembrokeshire South East Energy Group
165	PETERBOROUGH CITY COUNCIL
166	Potential Energy Projects Ltd
167	Priorletham Farm
168	Puragen
169	Regeneco
170	Renewable Energy Association (REA)
171	RENEWABLES DIRECT LTD TRADING AS WIND DIRECT
172	Renewables First Ltd
173	RenewableUK
174	RES Group
175	Retrofit For Housing
176	Ribble Fisheries Consultative Association
177	Rinibar Wind Turbines
178	River Energy Networks
179	Roof Energy Ltd
180	RWE

181	Scottish Energy Installers Alliance
182	Scottish Federation of Housing Associations Ltd
183	Scottish Land & Estates Limited
184	Scottish Natural Heritage
185	Scottish Renewables
186	Scottish Water
187	SEPEL
188	SmartestEnergy Limited
189	Solarcentury
190	South Brent Community Energy Society Limited
191	South Somerset District Council
192	South Somerset Hydropower Group
193	Southern Solar Ltd
194	SSE
195	Stockport Hydro Ltd
196	Sykamore Small Wind Ltd
197	TGC Renewables Ltd
198	TGVHydro
199	The Anaerobic Digestion and Biogas Association (ADBA)
200	The Association for the Conservation of Energy
201	The Baptist Union of Great Britain, the Methodist Church, the United Reformed Church
202	The Churches' Legislation Advisory Service (CLAS)
203	The City of Edinburgh Council, Services for Communities
204	The Community Energy Practitioners Forum (CEPF)
205	The Co-operative Group
206	The Low Carbon Hub
207	The Micropower Council
208	The Minister's Community Energy Contact Group
209	The Royal Agricultural Society of England (RASE)
210	The Scotch Whisky Association (SWA)
211	The Wise Group
212	Tidy Planet Limited
213	Transition Town Letchworth
214	UK Hydrogen and Fuel Cell Association
215	Via Verde Limited
216	W & F Webster
217	Warrington Borough Council
218	Welsh Government
219	WESSEX WATER SERVICES LTD
220	West Tytherley Village Store Association
221	Wind Harvest Limited
222	Windberry Energy Operations Limited
223	Windcrop Ltd
224	Windflow Technology Limited
225	WindScout
226	Wood Farm (Hatfield) Limited
227	World Wide Wind Turbines b.v.

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