



Department
of Energy &
Climate Change

Consultation on changes to Feed-in Tariff accreditation

Removing preliminary accreditation from the Feed-
in Tariff

21 July 2015



The consultation can be found on DECC's website:

<https://www.gov.uk/decc>

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General information

Purpose of this consultation:

This consultation proposes action to limit the risk to bill payers of a deployment surge under the Feed-in Tariff through the removal of pre-accreditation. We are seeking a broad range of input from industry and from consumers.

DECC will carry out a full review of the Feed-in Tariff scheme later in 2015 and will consult on a package of further cost control measures in due course.

Issued: 22 July 2015

Respond by: 19 August 2015

Enquiries to:

Feed-in Tariff Review Team

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Consultation reference: URN 15D/362 – Consultation on changes to Feed-in Tariff accreditation

Territorial extent:

Great Britain

How to respond:

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Where possible, responses should be sent electronically to the e-mail address above.

Hardcopy responses sent to the postal address above will also be accepted.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/Changes-to-Feed-in-Tariff-accreditation> .

Other versions of the document in Braille, large print or audio-cassette are available on request. As there is a need to consult promptly on this issue a Welsh version of this document has not been produced.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation

(primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

Removing preliminary accreditation from the Feed-in Tariff

Background

Preliminary accreditation

- 1.1. Tariff degeneration was introduced as a cost control measure as part of the comprehensive review of the Feed-in Tariff (FIT) scheme in 2011/12. The degeneration mechanism means that tariffs available to new generators across all FIT technologies reduce automatically over time without the need for a formal tariff review. As well as set “baseline” degenerations, additional tariff reductions are contingent on deployment levels (tariffs can decrease by up to 28% for solar PV and 20% for other technologies).
- 1.2. To offer greater certainty to industry, preliminary accreditation (pre-accreditation) was introduced alongside degeneration, to help with the uptake of the scheme among groups lacking experience of deploying low carbon technologies. Pre-accreditation is available to solar PV and wind projects above 50kW as well as to all hydro and anaerobic digestion (AD) projects.
- 1.3. Pre-accreditation gives generators a guaranteed tariff level in advance of commissioning their installation, provided a project is commissioned and full accreditation applied for within a specified window.
- 1.4. To qualify for pre-accreditation, a project must have planning consent and a grid connection agreement (and, for hydro installations, environmental permits). The duration of the pre-accreditation validity window for each technology reflects expected construction times: six months for solar PV, twelve months for wind and AD and two years for hydro. Since 1 April 2015, community projects have been eligible for an additional six months on top of the validity window for the technology in question, to reflect the extra time it takes for a community organisation to raise finance for renewable electricity projects.
- 1.5. For community groups and schools with solar PV installations not exceeding 50kW, a version of pre-accreditation is available called pre-registration. This also guarantees a tariff rate as at the date the application for pre-registration is received by Ofgem.
- 1.6. Assuming pre-accredited projects progress to full accreditation, their support under the FIT scheme is funded through the Levy Control Framework¹ (LCF), a cost that is ultimately passed on to consumers. Because the level of pre-accreditation applications provides an indication of future budget spend, the capacity of pre-accredited installations is counted towards committed spend under the scheme and therefore contributes to degeneration triggers for the period during which they pre-accredit. This

¹ Government funding for the Feed-in Tariff and other renewable electricity incentive schemes, is paid for through consumer energy bills. The LCF is designed to ensure the costs these schemes put on consumer bills are kept under control. It covers the FIT, the Renewables Obligation and Contracts for Difference (CFDs)

capacity is counted regardless of whether installations then go on to achieve full accreditation².

Deployment under the FIT scheme

- 1.7. Since its launch in 2010, the FIT scheme has seen deployment, and therefore expected spend, significantly outstrip expectations. The pre-implementation Impact Assessment in 2010 for the scheme anticipated that, by 2020, the scheme would deliver approximately 750,000 renewable installations; as of May 2015, over 700,000 installations had deployed. Pre-accreditation has contributed towards those elevated deployment levels.
- 1.8. At the same time, the latest projections of spend under the LCF are now forecast to be £9.1bn in 2020/21 (2011/12 prices). These latest forecasts have shown that uptake of Government's renewable energy schemes continues to be higher than previously expected. This is combined with lower than expected wholesale electricity prices and accelerated developments in technology efficiency.

Table 1 - Projected spend on environmental levies (£m, nominal figures)³

Environmental levies							
	£ billion						
	Outturn		Forecast				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Carbon reduction commitment	0.6	0.8	0.7	0.6	0.6	0.6	0.5
Warm homes discount ¹	0.0	0.3	0.3	0.3	0.3	0.3	0.4
Feed-in tariffs ¹	0.0	1.1	1.3	1.5	1.7	1.9	2.1
Renewables obligation	3.1	3.9	4.7	5.3	5.9	6.1	6.3
Contracts for difference	0.0	0.1	0.3	0.6	1.1	2.3	3.1
Capacity market	0.0	0.0	0.0	0.0	0.6	1.1	1.3
Environmental levies	3.6	6.0	7.3	8.3	10.2	12.3	13.6

¹ The ONS have yet to include Warm Homes Discount and Feed-in Tariffs in their outturn numbers.

Note: This is consistent with the 'Environmental levies' line in Table 4.5 of the July 2015 *Economic and fiscal outlook*.

- 1.9. As required by the EU State aid approval for the FIT scheme, we are currently preparing a review to consider the appropriateness of current tariff levels and the scope for further cost control measures. We will consult on a wider package of proposals as part of this review later this year. However, given that both deployment and spend under the scheme have outstripped expectations, we are looking at the role of pre-accreditation in bringing forward deployment under the scheme.

² For projects pre-accrediting before December 2013, we recorded attrition rates of 15% for sub-100kW wind, 25% for wind between 100kW and 5MW, 11% for sub-500kW AD and 0% for AD between 100kW and 5MW. For solar PV projects pre-accrediting both before December 2013 and June 2014, the average attrition rate was 9%.

³ All OBR figures are in nominal prices, whereas LCF spend is normally calculated in 2011/12 real prices. Using OBR's published inflation series out to 2020/21, £9.1bn in 2011/12 prices translates to £11.4bn in nominal prices.

Proposed changes

- 1.10. We propose to remove pre-accreditation and pre-registration from the FIT scheme. This will have the effect of removing the link to the tariff guarantee for installations currently able to pre-accredit under the FIT, such that installations will only receive the tariff rate as at the date they apply for full accreditation. This will mean that a developer will not be certain of the level of support they will receive under the scheme until the point at which their application for accreditation is received by Ofgem. This corresponds to the existing situation for most sub-50kW solar and wind projects as well as installations under the Renewables Obligation.
- 1.11. As noted above, earlier this year an extended pre-accreditation period was introduced for community projects deploying under the FIT, and we are aware that these changes will have a particular impact upon the community sector. As part of the later FIT review which will take place later this year, we may consider whether there is a case for reintroducing pre-accreditation and pre-registration for communities or other groups as appropriate.

Rationale for intervention

- 1.12. Across all schemes under the LCF, spending projections have been increasing. As spending on the LCF is a levy on consumer bills, there is a need to control spending. In this context, we consider it essential to ensure the FIT scheme is affordable and place it on a sustainable footing. Further deployment under the scheme beyond projected levels creates a significant additional risk of overshooting the LCF and putting pressure on consumer bills. The ability to pre-accredit under the FIT scheme facilitates deployment under the scheme, and as we are in the process of reviewing the whole FIT scheme, it is appropriate to consider whether this mechanism is still of use under the scheme.
- 1.13. The introduction of pre-accreditation as a result of the review in 2012 removed a large degree of the risk created by the introduction of the degeneration mechanism and mitigated the impact of cost control measures on developers in the eligible sectors. Since then, each of these sectors has demonstrated the ability to deploy at scale. (See Figure 1, showing deployment across all tariff bands eligible for pre-accreditation.) However, by making it easier for prospective generators to secure tariffs under the scheme, pre-accreditation has also fuelled deployment spikes preceding tariff changes under degeneration. Overall, this offers poor value for money for consumers as larger than expected numbers of projects deploy at higher tariffs.
- 1.14. It is important that we strike the correct balance between encouraging investment via the certainty offered to industry via pre-accreditation, and the cost risk borne by electricity consumers. In the context of current pressure on the LCF we consider there is a strong rationale for taking action in the short term to rebalance the risks between consumers and industry, prior to consulting on a wider review of the scheme.
- 1.15. It is our assessment that developers across all sectors are better placed now than in 2012 to handle the risks inherent in the degeneration mechanism. Removing pre-accreditation will enable deployment under the FIT scheme to continue but with lower risk to consumer bills. This is because we would be able to implement the change in a timeframe which will reduce the risk of spikes as future planned tariff degenerations come into effect. Removing pre-accreditation will also reduce the time lag between the point of tariff degeneration and when an installation would have the time to deploy at the new

tariff, encouraging industry to bring down costs faster, thereby providing better value for money for consumers.

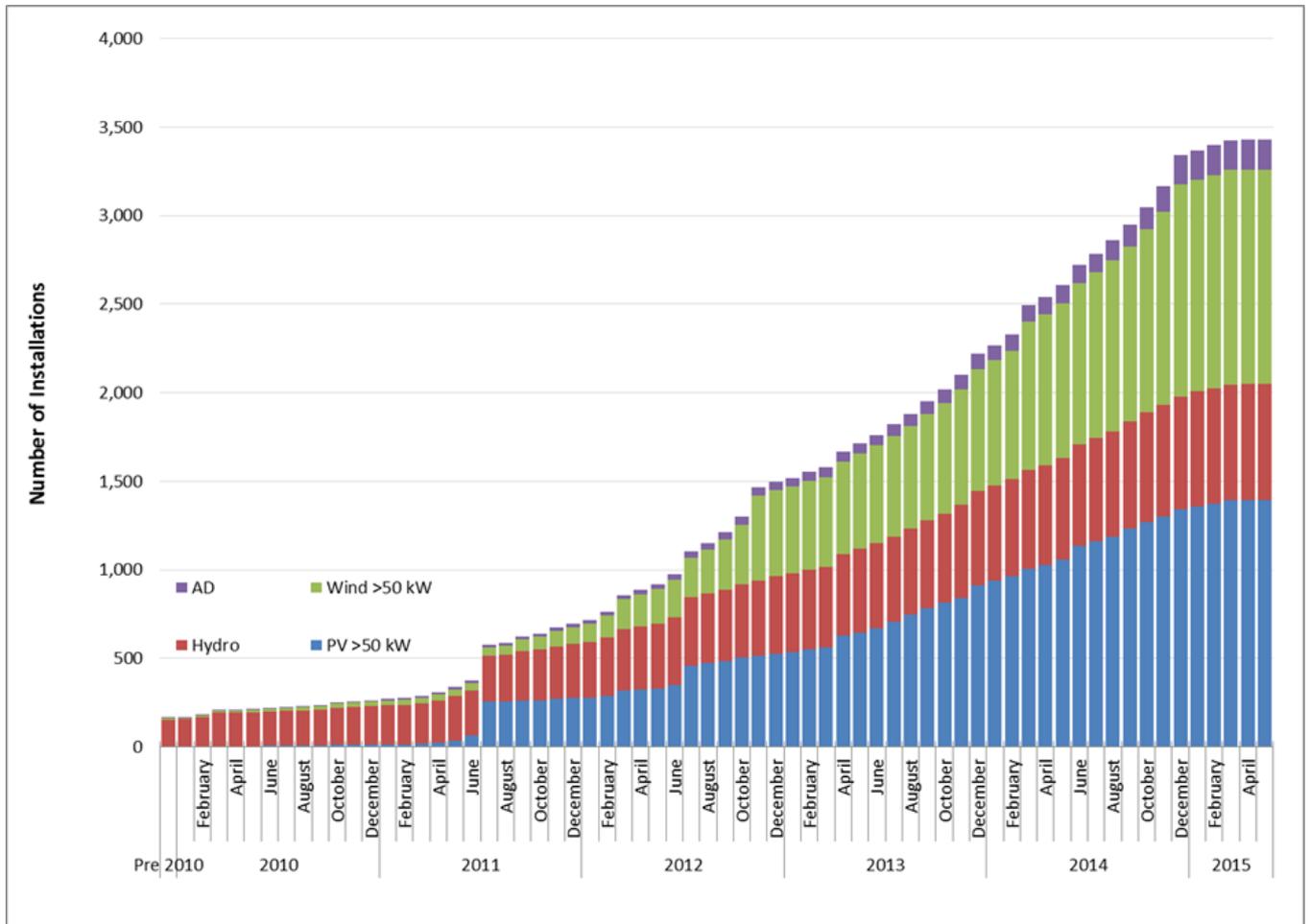


Figure 1- Cumulative deployment under the FIT scheme of technologies eligible for pre-accreditation

Impact of measures proposed

- 1.16. By removing the possibility for projects to pre-accredit, there is less certainty on offer to developers. When they begin to develop a project, they will not be certain as to what tariff they will receive, as there may be tariff degenerations between then and the point of accreditation. DECC considers this to be an acceptable commercial risk for developers to take and it reflects the risks currently faced by generators with sub-50kW solar and wind projects not exceeding 50kW as well as installations under the Renewables Obligation.
- 1.17. Such a change is likely to affect medium-scale commercial stakeholders and larger developers' ability to secure funding, and to secure it under similar terms as are currently available in the market.
- 1.18. Although we are aware that investors and lenders currently tend to require pre-accreditation before approving financial close, we do not consider that the lack of certainty over the tariff available upon completion will prevent projects being funded. It is likely, however, that funding providers will apply higher discount rates to expected project cash flows, making funding more expensive. This change may also mean that projects will either be able to raise less debt (assuming that debt providers will size

their loans on the worst possible tariff scenario) or have to be equity-funded for longer, with debt (or cheaper equity) only coming in at a later stage of construction, when the risk of a tariff change is seen as lower.

- 1.19. In our assessment of the impact of these measures, the decrease in certainty would therefore be represented by an increase in the rate of return required for a project to go ahead. In turn this is likely to lead to a decrease in deployment levels, as some projects which would have previously gone ahead will now be considered marginal – or not economically viable – at these revised hurdle rates.
- 1.20. There is considerable uncertainty around how individual developers might respond to this proposal – some may go ahead anyway, and indeed get the tariff that they would have pre-accredited at; others may accredit at a lower tariff; some may not deploy at all. Owing to this uncertainty around the exact effect this change would have on the rates of return required by developers, DECC has not attempted to estimate the likely impact of this change on deployment and therefore on potential savings. In September and December 2014, around £120m worth of projects pre-accredited ahead of tariff depressions in October 2014 and April 2015 respectively. We believe that removing pre-accreditation could reduce the scale of this increase in deployment before future tariff depressions.
- 1.21. DECC has recently been updating the assumptions around costs, cost reduction profiles, load factors, plant lifetime, hurdle rates and other parameters across all FITs technologies. These will be published in due course as part of the FIT review. The figures above should therefore be taken as indicative only.

Other options considered

- 1.22. In the context of the forthcoming FIT Review, we have looked at other options for amending pre-accreditation under the FIT, but do not consider that these would meet our overall aims:
 - **Restricting pre-accreditation to only the largest projects** (e.g. above 500kW). We do not consider this would be appropriate as a key objective of the FIT scheme is to give people a direct stake in moving to a low carbon economy. Restricting pre-accreditation to just the largest developments, which are more likely to be run by larger energy companies with sufficient resources to handle the risks, would not necessarily support this.
 - **Introducing tighter application criteria** (i.e. evidence of financial close). Applicants would have to provide evidence as part of their application for pre-accreditation to show that they have the finances available or on offer to complete the project. This may slow the pre-accreditation process but we would not expect it to have the necessary impact on the overall cost of the scheme within the LCF.

Next steps

- 1.23. This consultation will run for four weeks, from 22 July to 19 August. During this time we will engage directly with industry. We will aim to publish our decision as soon as possible after the consultation closes. Any changes to pre-accreditation would be implemented through secondary legislation via changes to the Feed-in Tariffs Order 2012.

- 1.24. In line with the EU State aid approval for the FIT scheme, DECC intends to carry out a full review of the scheme later in 2015, which as part of our consideration of the most effective means of allocating Government support within the cost-control arrangements will include a package of further cost-control measures.

Questions

Consultation Question	
1.	Do you agree that, in the context of deployment and spend under the FIT scheme significantly exceeding expectations, it is appropriate to remove the ability to pre-accredit from the FIT scheme?
Consultation Question	
2.	Are the assumptions made above on the impact of removing pre-accreditation reasonable? Please provide robust evidence to support your response.
Consultation Question	
3.	Are there additional measures which could achieve the objectives of encouraging deployment under the scheme while ensuring value for money under the LCF?
Consultation Question	
4.	Are there groups or sectors where it may be appropriate to reintroduce pre-accreditation in the future?

