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Our reference: [12/0226](#)

5 March 2012

Dear ,

RE: What is the true cost of “socialisation” of the PV solar tariff on consumer electricity bills

Thank you for your Freedom of Information request received on 11 February 2012 as set out below. In your request you stated:

“Since DECC threw the UK solar industry into turmoil with the announcement last year of slashing all PV solar feed in tariff rates, there have been heated debates in the House of Commons and huge media coverage surrounding the reasons why your department has instigated such a move.

It is my understanding that PV solar feed in tariffs in the UK are funded by a small “eco tax” on consumers electricity bills and this is referred to as “socialisation” within your own documentation.”

And then you asked for clarification on the following 3 points, stating:

“I would therefore be grateful if you could give further clarity to the solar industry and consumers at large, by answering the following questions:

1. Can you confirm the true cost of “socialisation” on consumers electricity bills at the present time?

2. Can you confirm if there is a “cap” in place on the amount that this socialisation amount can rise to within consumers utility bills and the timescale, if any, for reaching this cap?

3. Can you explain why Greg Barker continually makes reference to the "Treasury" and how much the feed in tariff is costing government, if indeed the feed in tariff is paid for by "socialisation" as described above and is therefore NOT coming out of the Treasury budget?"

The Feed-in Tariffs Scheme is administered via an obligation on licence electricity suppliers, which takes effect through two legal instruments:

- 1). The Feed-in Tariffs (Specified Maximum Capacity and Functions) Order 2010 and associated amendments. These documents set out the eligibility requirements for the scheme and the role of Ofgem in administering the scheme.
- 2). The Modifications to the Standard Conditions of Electricity Supply Licences, which sets out the tariffs and the role of the electricity suppliers.

While terms such as "eco tax" and "socialisation" are not used in documentation on FITs, a general response to your questions is set out below. These should be considered in parallel with the "*Government Response to the Summer 2009 Consultation*" on the FITs scheme, which gave an overview of how the scheme would work on its implementation on 1 April 2010. That document can be accessed from the *FITs Implementation* page at www.decc.gov.uk/en/content/cms/meeting_energy/renewable_ener/feedin_tariff/implementation/implementation.aspx.

Question 1

Your first question has been considered under the Environmental Information Regulations 2004.

FITs policy places an obligation on suppliers to make FITs payments, but does not specify a mechanism for suppliers to recoup those costs. We therefore assume that the costs would be passed on to those paying electricity bills.

An obligation is also on Ofgem to publish annual FITs reports at the end of each calendar year following each FITs year. For FITs Year 1 (1 April 2010 – 31 March 2011), this report can be accessed at:

www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=26&refer=Sustainability/Environment/fits.

During each FITs year, Ofgem also publish cost information on a quarterly basis following the process by which the burden of costs is levelised across suppliers which can be viewed at www.ofgem.gov.uk/Sustainability/Environment/fits/Newsletter/Pages/Newsletter.aspx and from which information up to 30 September 2011 is currently available.

Questions 2 and 3

We do not consider your second and third questions to be FOI requests as they are not asking for recorded information. We consider these to be for an explanation of the policy

position, the Minister's statements and the legal situation and so they have been treated as business as usual and answered as normal correspondence.

Where a 'request for information' contains an enquiry, rather than a specific request for copies of information held by DECC / BIS, we deal with such requests as a 'normal course of business' enquiry rather than a formal request for information under the FOIA or EIR.

This is in accordance with the guidance given in the ICO publication 'Freedom of Information & Environmental Information Regulations – Hints for Practitioners handling FOI/EIR requests' http://www.ico.gov.uk/upload/documents/library/freedom_of_information/practical_application/foi_hints_for_practitioners_handling_foi_and_eir_requests_2008_final.pdf (page 6).

FITs payments are made to generators under the scheme by licensed electricity suppliers, so FITs is not a direct charge on Government. However, because the payment of FITs to eligible generators is something that electricity suppliers are obliged to do by legislation, the FITs scheme is classed as 'imputed tax and spend'. This means that the costs of the scheme are considered in the country's overall tax burden, and can affect HM Treasury's ability to raise revenues elsewhere. DECC has responsibility for managing expenditure on FITs through a framework which applies to all consumer levies of this kind (currently also including the Renewables Obligation and Warm Home Discount). Details of this framework and how it works are available at http://hm-treasury.gov.uk/psr_controlframework_decc.htm.

In addition, licensed electricity suppliers can be expected to pass on the cost of participating in the FITs scheme to their customers. It is important that we make every effort to make the scheme as effective as possible to ensure value for money for consumers, especially in the present fiscal climate. You may also find it helpful to review a question and answer document produced by the Department on the levy control framework which can be viewed at www.decc.gov.uk/assets/decc/11/funding-support/fuel-poverty/3290-control-fwork-decc-levyfunded-spending.pdf.

Yours sincerely,

Feed-in Tariffs Policy Development
Office of Renewable Energy Deployment
Department of Energy and Climate Change – www.decc.gov.uk

Appeals Procedure

If you are unhappy with the way the authority has handled questions answered under the Environmental Information Regulations, you may ask for an internal review. Please contact the **Information Rights Unit** (foi@decc.gsi.gov.uk) who will arrange an internal review of your case. If you are not content with the outcome of the internal review, you have the right to apply directly to the Information Commissioner for a decision. The Information Commissioner can be contacted at:

Information Commissioner's Office,
Wycliffe House,
Water Lane,
Wilmslow,
Cheshire
SK9 5AF

If you have any queries about this letter, please contact me.