

## **Feed-in Tariffs Scheme**

# **Consultation on Comprehensive Review Phase 2B: Tariffs for non-PV technologies and scheme administration issues**

Date: 9 February 2012

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# Executive summary

- i. The FITs scheme was introduced in April 2010, to work alongside the Renewables Obligation (RO) and the Renewable Heat Incentive (RHI). It provides financial support for generation of electricity from anaerobic digestion (AD), hydro, solar photovoltaic (PV) and wind generation up to 5 megawatts capacity, as well as domestic-scale (up to 2 kilowatts electrical capacity) non-renewable micro combined heat and power (microCHP). Details of deployment under the scheme so far are summarised in Chapter 1.
- ii. The Renewable Energy Roadmap, published in July 2011, sets out a targeted plan of actions for delivery of the UK's 2020 renewable energy target. It focuses on eight key technologies which, at the time of drafting, were estimated to provide most cost-effectively around 90% of the energy necessary to meet our 2020 commitment under the Renewable Energy Directive.
- iii. The FITs scheme complements the aims of the Roadmap by promoting take up of small-scale low-carbon electricity technologies by the public and communities. Aimed at individuals and relatively small installations, this generation capacity will play a role, albeit more limited than for larger technologies, in meeting the UK's 2020 renewable energy target. In considering the overall renewable energy mix, it is crucial to be mindful of the need to meet targets cost-effectively, as well as the different benefits that each technology can bring
- iv. Regular reviews are a key part of the scheme; this is particularly important if circumstances change. In February 2011, the Secretary of State announced the start of the first comprehensive review of FITs in response to expectations that uptake of PV would be faster than predicted and the general need to work within a framework of strict fiscal discipline. He also announced that the review would include fast-track consideration of FITs for solar PV above the microgeneration threshold of 50kW and tariffs for farm-scale AD. This fast-track review has now concluded and the resulting changes have been implemented.
- v. The comprehensive review has considered all aspects of the scheme, to ensure that:
  - the FITs scheme continues to deliver a contribution to DECC goals;
  - the scheme complies with the Levies Control Framework (LCF) and delivers value for money for electricity consumers, who pay for it;
  - data on which tariffs are based is up-to-date and forms a sound basis for tariffs;
  - a cost control mechanism is put in place to regulate future tariffs and review periods; and
  - the scheme continues to work smoothly and fairly for all participants.
- vi. Phase 1 of the Comprehensive Review was launched on 31 October 2011, covering the tariffs for solar PV, responding to continued reductions in solar PV

costs and increases in uptake. Changes resulting from Phase 1 of the review will be implemented on 3 March (for PV tariffs) and 1 April 2012 (for other energy efficiency and multi-installation projects).

- vii. The Phase 2 consultations cover all other aspects of the scheme. They are separated into two parts because the consultations have different response deadlines. The first Phase 2 consultation (2A) proposes a cost control mechanism for solar PV that will provide more certainty, predictability and transparency to the market. Subject to consultation and parliamentary consideration, this will be implemented in July 2012.
- viii. The present consultation (2B), published alongside the Solar PV Cost Control consultation, but with a later closing date, proposes tariffs for anaerobic digestion, hydro, wind and microCHP, and looks at various scheme administration issues.
- ix. The proposed tariffs reflect our conclusions on the costs and characteristics of each technology, taking into account the need for fiscal restraint and cost-effectiveness. The cost control mechanism proposed for non-PV technologies is consistent with that proposed for solar PV in the parallel consultation, but is designed to take into account the differences between technologies in terms of take-up and timescales.
- x. We are in part seeking general confirmation of the features of the FITs scheme as it currently operates. However, a number of issues have arisen in the administration of the scheme for which we propose to consult on changes. These are:
  - to allow for preliminary accreditation of installations so that investors can be sure of how they will be treated in terms of factors that potentially affect which tariff band they are allocated to e.g. definition of site, multi-installations, “community-owned” status etc in advance of the commitment of major funds;
  - whether preliminary accreditation should also fix the level of tariff at the point of accreditation;
  - how to define “community” and how this definition will be used to help community projects;
  - clarification of the definition of “site” to address issues raised by hydro installations, and installations on private wires networks such as mobile home parks;
  - clarification of the criteria to be used to determine the accreditation process as “equivalent to the Microgeneration Certification Scheme (MCS)” to ensure that new entrants to the market are not disadvantaged;
  - resolution of the issues around a replacement for MCS accreditation for micro-hydro installations.
- xi. We are also looking at the oversight and accountability elements of the FITs scheme as it currently operates, involving the role of DECC, Ofgem, MCS, electricity companies, generators and installers. This framework has been subject to internal scrutiny and review over the operation of the scheme and no serious fraud risks have been identified.

- xii. However, a number of specific proposals have been made by those with a role within the operation of the FITs scheme and we propose to consult on these in addition to the general features. These are:
- ability to set conditions of accreditation on installations;
  - clarification of the statements of FITs terms;
  - strengthening the powers and potential sanctions available to Ofgem, including ensuring that installations operating without proper authorisation can have FITs withdrawn; and
  - the provision of information on cost and generation output in order to assist the management and monitoring of the scheme.
- xiii. Finally, we are consulting on minor amendments regarding relationships between the key organisations involved in administration and enforcement of the scheme i.e. Ofgem, the MCS, and licensees, specifically:
- thresholds for the split between mandatory and voluntary licensees;
  - need to protect the levelisation pot in the case of licensee failure;
  - need for a licensee of last resort provision;
  - the frequency of levelisation of FITs costs among the licensees.

## How to respond

**The closing date for responses is:  
26 April 2012**

Online responses are preferred and can be submitted via DECC's consultation hub: at the following link: <https://econsultation.decc.gov.uk/office-for-renewable-energy-deployment-ored/fits-review-phase2b>.

If you are unable to submit your response online please send it in an email to: [fits@decc.gsi.gov.uk](mailto:fits@decc.gsi.gov.uk). Please use the template provided to record your response, which can be found at the consultation webpage alongside the other consultation documents: [http://www.decc.gov.uk/en/content/cms/consultations/fits\\_rev\\_ph2b/fits\\_rev\\_ph2b.aspx](http://www.decc.gov.uk/en/content/cms/consultations/fits_rev_ph2b/fits_rev_ph2b.aspx).

Alternatively, hard copy replies should be sent to:

FITs Team, Office of Renewable Energy Deployment,  
Department of Energy and Climate Change,  
4th Floor, Area A,  
3 – 8 Whitehall Place,  
London, SW1A 2AW.

## Additional copies

You may make copies of this document without seeking permission. Further printed copies of the consultation document can be obtained from:

FITs Team, Office of Renewable Energy Deployment,  
Department of Energy and Climate Change,  
4th Floor, Area A,  
3 – 8 Whitehall Place,  
London, SW1A 2AW.  
Telephone: 0300 068 5733

An electronic version can be found at:  
[http://www.decc.gov.uk/en/content/cms/consultations/fits\\_rev\\_ph2b/fits\\_rev\\_ph2b.aspx](http://www.decc.gov.uk/en/content/cms/consultations/fits_rev_ph2b/fits_rev_ph2b.aspx)

Other versions of the document are available on request.

## Confidentiality and Data Protection

When this consultation ends, members of the public may ask for a copy of responses under freedom of information legislation. If you do not want your response – including your name, contact details and any other personal information – to be made publicly available, please say so clearly in writing when you send your response to the

consultation. Please note, if your computer automatically includes a confidentiality disclaimer, that will not count as a confidentiality request.

Please explain why you need to keep details confidential. We will take your reasons into account if someone asks for this information under freedom of information legislation. But, because of the law, we cannot promise that we will always be able to keep those details confidential.

We will summarise all responses and place this summary on our website at [www.decc.gsi.gov.uk](http://www.decc.gsi.gov.uk). This summary will include a list of names of organisations that responded but not people's personal names, addresses or other contact details.

### Help with queries

Please direct any queries about this consultation to our dedicated e-mail address:

[fits@decc.gsi.gov.uk](mailto:fits@decc.gsi.gov.uk),

or in writing to:

FITs Team, Office for Renewable Energy Deployment,  
Department of Energy and Climate Change,  
4th Floor, Area A/B,  
3 – 8 Whitehall Place,  
London, SW1A 2AW  
Telephone: 0300 068 5733

If you have any comments or complaints about the consultation process, please address them to:

DECC Consultation Coordinator  
Area 6A  
3 Whitehall Place  
London, SW1A 2AW  
Email: [Consultation.coordinator@decc.gsi.gov.uk](mailto:Consultation.coordinator@decc.gsi.gov.uk)

A copy of the Code of practice on Consultations can be found at:  
<http://www.berr.gov.uk/files/file47158.pdf>

# Introduction

1. This document is part of a package of announcements on the comprehensive review of the FITs scheme which includes:
  - the Government response to the consultation on Comprehensive Review Phase 1 regarding tariffs for solar PV;
  - a consultation on solar PV cost control (Phase 2A), with a closing date of 3 April 2012; and
  - this document (Phase 2B), which is consulting on proposals on tariffs for anaerobic digestion, hydro, microCHP and wind installations, and administrative aspects of the scheme.
2. The FITs scheme was introduced in April 2010 and works alongside the Renewables Obligation (RO) and the Renewable Heat Incentive (RHI). Following unexpectedly high take-up of large scale and stand-alone solar a fast-track review was undertaken and a decision document was published on 9 June. Substantially reduced tariffs and bands for large scale and all stand-alone solar PV were implemented on 1 August 2011 for new installations. Changes were also made to the rules on extension of installations within 12 months of original installation on 18 October 2011.
3. The FITs scheme is designed to promote take up of small-scale low-carbon electricity technologies by the public and communities. This is part of a portfolio approach to meeting the UK's renewable energy target that must be affordable in the context of the control framework for DECC levy-funded spending and provide value for money to consumers.
4. The FITs scheme is also intended to contribute to other low carbon goals. These wider aims are central considerations in justifying any level of subsidy that is above the cost per unit of energy generated considered necessary to meet the renewable energy target cost-effectively. Specifically, the FITs scheme aims to:
  - empower people and give them a direct stake in the transition to a low-carbon economy;
  - help develop a supply chain that offers households a wide range of cost-effective measures to lower their energy use and carbon emissions; and
  - assist in public take-up of carbon reduction measures, particularly measures to improve the energy efficiency of buildings.
5. This document begins by providing an overview of the performance of the scheme to date. It then considers the tariffs and cost control options for anaerobic digestion, hydro, microCHP and wind installations, and various administrative issues, with the aim of any resulting changes being implemented later in 2012.



## Chapter 1. Overview of Performance to Date

<b>Summary</b>	<ul style="list-style-type: none"><li>Shows how the scheme has performed since it started in April 2010</li></ul>
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### Overview of the Scheme Performance to 31 December 2011

- At the end of FITs Year 1 (31 March 2011) there were 30,201 installations registered in the scheme with a total generation capacity of 108.3 MW that generated 68.6 GWh of electricity over the period 1 April 2011. This generation resulted in a CO<sub>2</sub> saving of 27 tonnes CO<sub>2</sub>e, and over their lifetime, these installations are expected to deliver total emissions savings of 1.1 MtCO<sub>2</sub> over a business as usual scenario. More details of the year 1 performance can be found in Ofgem's Feed-in Tariffs Annual Report<sup>1</sup> for 2010-11.
- The remainder of the data presented here relates to installations made between 15 July 2009 and 31 December 2011. Information on the FITs accredited installations from April to December 2011 has been extracted from the Central FITs Register<sup>2</sup>. This is a live database and is continually being updated and revised, so statistical reports extracted at a later date may not exactly match the totals presented here. The data on the Central FITs Register also include those that were previously receiving support under the Renewable Obligation.
- At 31 December 2011 (21 months into the FITs scheme), 662 MW of capacity across 147,231 installations, were accredited under the scheme. The table below shows the data broken down by number of installations and capacity, before the scheme start, during the first year, and to end 2011.

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<sup>1</sup> [www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=26&refer=Sustainability/Environment/fits](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=26&refer=Sustainability/Environment/fits)

<sup>2</sup> [www.renewablesandchp.ofgem.gov.uk/Default.aspx](http://www.renewablesandchp.ofgem.gov.uk/Default.aspx)

**Table 1: Number of FITs Installations to 31 December 2011**

Technology	Number of Installations				Capacity (MW)			
	Pre-FITs	FITs Yr 1	FITs Y2 to Q3	Cumulative Total	Pre-FITs	FITs Yr 1	FITs Y2 to Q3	Cumulative Total
Solar Photovoltaic	2,811	25,656	116,100	144,567	7.8	69.9	519	597
Hydro	122	84	49	255	1.7	8.2	8.2	18.1
Wind	740	588	752	2,080	5	14.2	15.7	35
Micro-CHP		100	215	315		0.1	0.22	0.32
Anaerobic Digestion		3	11	14		1.8	9.8	12
<b>TOTAL</b>	<b>3,673</b>	<b>26,431</b>	<b>117,127</b>	<b>147,231</b>	<b>14.2</b>	<b>94.2</b>	<b>552.9</b>	<b>661.3</b>
Total Yr 1 (inc Pre-FITs)		<b>30,104</b>				<b>108.4</b>		

*Key:*

*Pre FITs: Installation in place at the time of the publication of a consultation of the FITs scheme (15 July 2009) up to the 31 March 2011 before the launch of the scheme and which were transferred into the scheme from the RO;*

*FITs Yr 1: Installations made in the first full year of the FITs scheme (1 April 2010 – 31 March 2011)*

*FITs Yr 2-Q3: Installation in the first three quarters of the current (second) FITs year (1 April 2011 – 31 December 2011)*

- As the table below shows, the number of installations in the first 21 months of the scheme far exceeded the number predicted at the start of the scheme. Taking into consideration the number of solar PV installations in the pipeline, the number of installations was five times the predicted number and eight times the predicted installed capacity. There is another 65.1 MW of large scale PV installations that has pre-accreditation and is still to get final accreditation through the ROO-FIT accreditation process.

**Table 2: Predicted FITs Take-up Compared to Actual as at 31 December 2011**

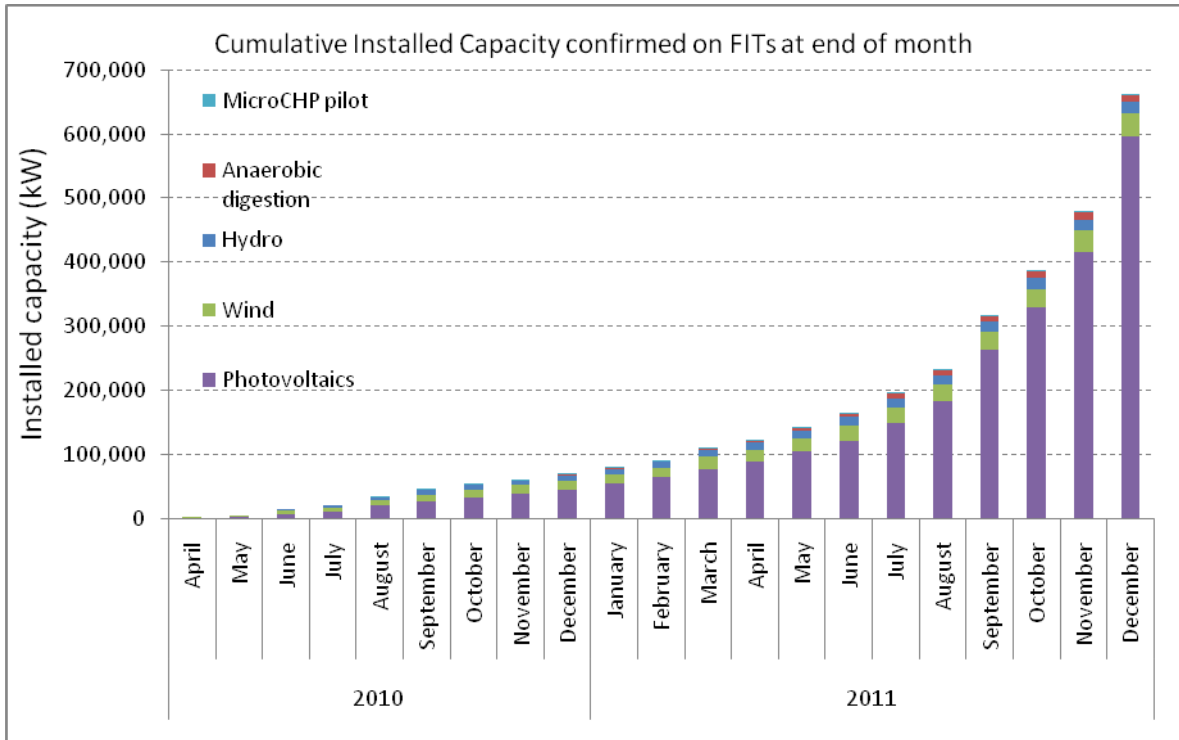
	Number			Capacity MW		
	Predicted <sup>2</sup>	Actual FIT take-up <sup>3</sup>	Pipeline <sup>4</sup>	Predicted	Actual FIT take-up	Pipeline
PV < 4kW	46,216	138,095	84,673	116	396	232.1
PV 4 kW-<10 kW		2,097	2,717		15.2	24.7
PV 10kW – 50kW		841	2,044		26.4	67.6
PV 50kW – 5MW		114	190		46.6	65.1
PV stand-alone		451			104	
Wind <50kW	3,095	1,260	341	25	13.5	2.5
Wind 50kW - <100kW	35	17	46	3	0.4	3.7
Wind 100kW+ <sup>5</sup>	139	19	25	104	15.7	24.5
Hydro <15kW	110	77		1	0.5	
Hydro 15kW - <100kW	5	27		0	1.1	
Hydro 100kW+	10	20	14	30	14.8	9.4
AD <500kW	16	7		4	2.7	
AD 500kW – 5MW	3	7	4	3	9	7.5
Micro CHP	8,250	315	129	8	0.3	0.1
Total <sup>1</sup>	57,879	143,347	90,183	292	646.1	434.7

Notes:

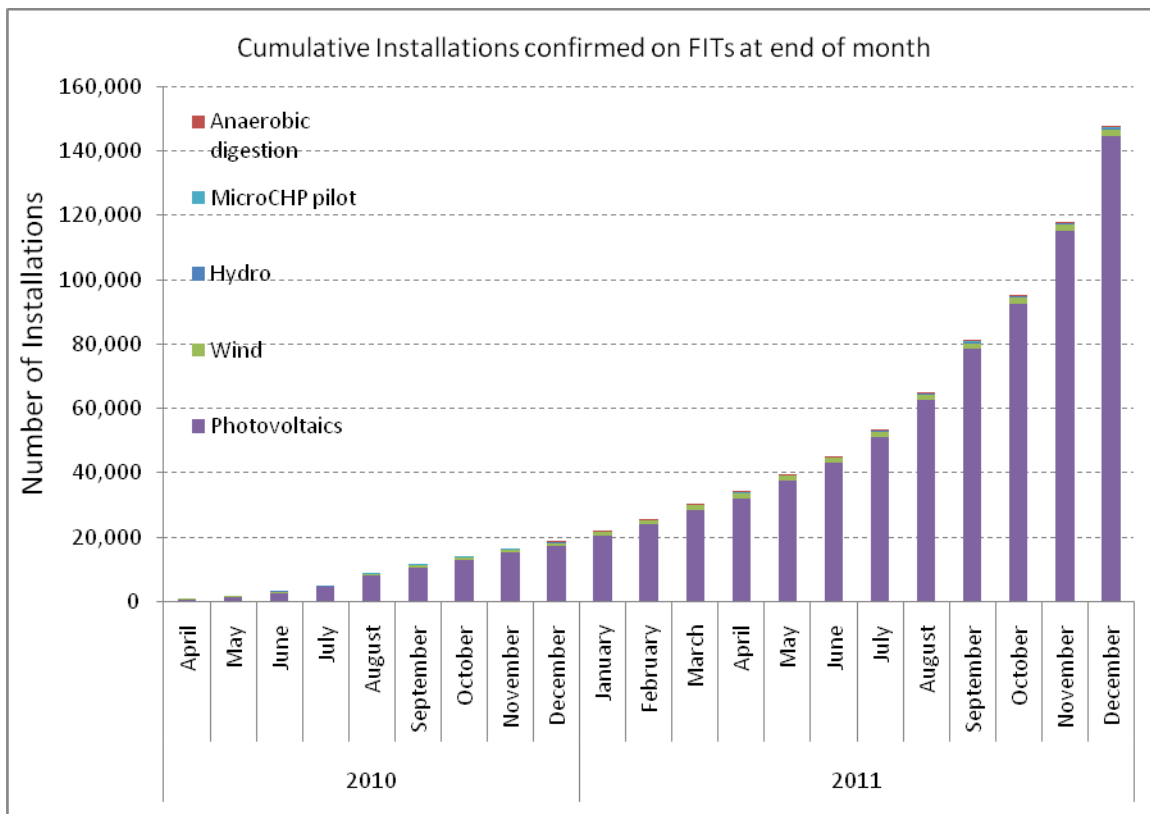
- (a) Capacity may not add up exactly due to rounding
- (b) Predictions were produced on an annual basis, so predicted uptake to end December calculated as 9/12 of annual uptake
- (c) RO transfers onto FIT have been excluded, so figures are lower than table 1 that includes RO transfers
- (d) Pipeline data comprises installations on the MCS database but not yet on Ofgem's Central FIT Register, plus information from Ofgem on larger scale installations (>50kW) that are currently in the ROO-FIT accreditation process. Note that these accreditation applications are in process and may not all realize FIT support.
- (e) 32 MW of sub 5 MW wind installations joined the RO instead

10. Of the installations that have been incentivised by the FITs scheme up to the end of December 2011, 141,598 (96.2%) of the installations were solar PV, with 136,530 of these being retrofit installations less than or equal to 4 kW (mainly on domestic properties). This translates into 60% of total capacity of 662 MW for all solar PV installations. Figures 1 and 2 shows the cumulative total installed capacity and cumulative number of installations over the first 21 months of the scheme.

**Figure 1: Cumulative installed capacity confirmed for each month up to December 2011.**



**Figure 2: Cumulative total number of installations confirmed for each month up to December 2011.**



11. At 31 December 2011, there were 255 hydro installations with a total installed capacity of 18MW covered by the FITs scheme. Of these, 71 were non-domestic schemes which represented 16 MW of capacity, 2.4% of the total overall capacity. Of overall capacity, wind turbines represented 5.2% of capacity (34.7 MW), from 2,081 installations. Of these, 485 are non-domestic installations with 22 MW of capacity, 3.3% of total overall capacity. There were 565 PV installations with capacities above 50 kW, totalling 150 MW accredited for FITs.

## Cost

12. The announcement of the Phase 1 consultation which set out proposals for changes to solar PV tariffs on 31 October saw the number of solar PV installations increasing by more than six times as much as was originally projected at the start of the scheme. The number of installations with total installed capacity confirmed on the FITs Central register over the period is shown in Table 3.

**Table 3: Number and Capacity on FITs Central Register at end of December 2011**

Technology	Number		Capacity	
	N	%	MW	%
Photovoltaic	144,567	98.2%	596.6	90.2%
Hydro	255	0.2%	18.2	2.7%
Wind	2,080	1.4%	34.7	5.2%
Micro-CHP	315	0.2%	0.3	0%
Anaerobic digestion	14	0%	11.6	1.8%
<b>Total</b>	<b>147,231</b>	<b>100%</b>	<b>661.4</b>	<b>100%</b>

**Table 4: Lifetime CO<sub>2</sub> emissions savings of FITs installations accredited to 31 December 2011**

	Total installed capacity to Dec 2011 (kW)	Expected output per year (MWh)	Expected output over lifetime (MWh)	CO <sub>2</sub> saving over lifetime (MtCO <sub>2</sub> e)
<b>Anaerobic Digestion</b>	11,631	81,417	1,627,740	0.621
<b>Hydro</b>	16,399	43,047	859,839	0.328
<b>MicroCHP</b>	317	1,794	17,435	0.001
<b>PV</b>	588,359	500,020	12,501,504	4.389
<b>Wind</b>	29,581	46,366	925,415	0.353
<b>Existing (Transfer from RO)</b>	15,327	19,185	306,953	0.174
<b>TOTAL</b>	<b>661,614</b>	<b>691,828</b>	<b>16,238,886</b>	<b>5.867</b>

## Chapter 2. The Financial Aspects of the Scheme

### Summary

- Sets out proposed tariffs for non-PV technologies
- Sets out proposed future way of setting tariffs and cost control measures.

### Tariff Proposals for AD, hydro, wind and microCHP

13. Over the course of the comprehensive review we have commissioned research to re-assess the costs and other issues affecting all technologies eligible for FITs. This research is reported in a report that will be published shortly. We have also maintained regular contact with a range of industry representatives across all technologies. We are seeking views on the research provided in this report. On the basis of this work, we propose to introduce new FIT rates to take effect from 1 October 2012. We are seeking your views on this timing and on the levels proposed.
14. Some stakeholders have suggested that we consider a more flexible approach to the banding of tariffs. We do not propose to take these proposals forward at this time, but we will keep the issue under consideration
15. We propose that tariffs for all technologies should conform with key principles that ensure that they deliver value for money. These are set out below, along with the specific proposals for each technology.

### Value for money

16. The comprehensive review is being undertaken within the context of a greater focus on fiscal responsibility across Government. We need to ensure that we deliver value for money for energy consumers, who pay for the scheme, and to move to a consistent approach across all renewable energy support schemes. We propose that, in order to emphasise the Government's commitment to cost-effectiveness and the overriding need to ensure affordable energy for consumers, there should be a general move towards fiscal restraint across the board.
17. Long-term value for money in delivering a low carbon economy also depends on continuing improvement in the costs of all technologies. This is a theme that runs

across the Renewables Roadmap, the Renewables Obligation (RO) banding Review, and the Electricity Market Reform (EMR) process. We are proposing therefore to set an upper limit to support provided under FITs of 21p/kWh for generation tariffs. This is based on the highest level of tariffs proposed for solar PV that have been introduced in the Phase 1 review.

18. We are proposing that all technologies should be subject to a tailored version of the cost control regime that is being put in place for PV technologies, including annual automatic degression and capacity triggers (this is set out in detail in the following section);
19. We are seeking views on how to ensure that (as for PV) all small scale generation is considered as part of a holistic approach to carbon reductions in buildings that prioritises energy efficiency see paragraphs 44-47 below.
20. We will continue to ensure that there is a smooth transition in support levels between FITs and the RO. At the crossover point (5 MW) 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. This applies to all of the renewable technologies included here.

### Anaerobic Digestion

21. We are proposing to freeze tariffs for AD of up to 500kW, consistent with the constraint that no tariffs are increased from their current levels. They will however increase by RPI from 1 April 2012. Tariffs for AD above 500kW will continue to be set at the 2ROC equivalent level i.e. 9.0p/kWh.
22. There is a high degree of uncertainty on all aspects of AD, including cost assumptions and load factors as well as non-financial drivers of uptake such as planning. Reflecting this uncertainty, FITs were increased for farm-scale AD in September 2011 as a result of the fast-track review. Following that there has been an increase in deployment, which is evidence that the current tariffs are providing a reasonable return for at least some investors and that maintaining tariffs at current levels should support further uptake.
23. There also continues to be debate around the use of purpose-grown crops for AD and for this reason, we are proposing a cautious approach to tariff changes (see Chapter 3).

### Wind

24. Tariffs for wind have been re-based as a result of our updated analysis of costs and performance. Information on the capital costs has been updated to reflect recent price data. Other adjustments have been made including changes to load factors and export fractions compared to the assumptions underpinning the 2010 tariffs.
25. Capital costs for <1.5kW building-mounted wind are significantly lower than in the previous version of the model, based on actual market prices for turbines of this type and size. Costs for larger installations are somewhat higher than the previous model, particularly for mid-sized projects, again reflecting actual market prices.



26. Operating costs for the <1.5kW and 1.5-15kW bands are lower than the previous assumptions on the basis that servicing may be less frequent and more likely to be based on the need to repair faults rather than a regular annual service. Operating expenditure for larger installations is in line with the previous model.
27. Assumed load factors are generally higher than those in the previous model, based on modelling representative turbine power curves for the different wind speed bands, and on the view that projects will, and should, tend towards better sites with higher wind speeds.
28. Tariffs for 1.5kW to 1.5MW wind installations are set to provide an approximate 8% rate of return for reference wind installations located at sites with an average 6 m/s wind speed. This target rate of return at the high end of the 5-8% target rate of return is justified because of the portfolio risks experienced by wind developers.
29. Final tariffs recommendations have been capped at 21p/kWh, the rate proposed for smallest scale PV from 1 April 2012, in order to emphasise the need for fiscal discipline and cost effectiveness. This capping of tariffs affects the levels proposed for wind installations up to 100 kW. We propose that tariffs for wind installations above 1.5 MW will continue to be set at the 1 ROC equivalent (4.5p/kWh). The RO banding review, which is currently open for consultation, has however proposed reducing support for wind to 0.9 ROCs, equivalent to approximately 4.1p/kWh from April 2013. Subject to the final outcome of the RO banding review, we propose to adjust the tariffs accordingly.

## Hydro

30. Under the re-calibration of hydro costs, capital costs are slightly higher than those in the previous assumptions, reflecting industry reports of increases in raw material and project costs. Operating costs are in line with those from the previous estimates. Load factors are slightly higher than those in the previous model to reflect typical values for UK hydro sites, on the assumption that projects will, and should, tend to favour sites with reasonable load factors.
31. Recalculation of tariffs using the revised estimates based on an 8% rate of return would result in a profile of tariffs that was very similar to the existing tariffs. The recent RO consultation has highlighted the considerable debate regarding technology assumptions for hydro, particularly in regard to the expected load factors for installations that are expected to be built in the future. It is therefore proposed not to change tariffs for hydro in the short term, other than to apply the 21p cap, and to continue the tapering of tariffs to RO levels.
32. We propose that hydro installations in the range of 2–5 MW will continue to receive the equivalent of 1 ROC/MWh i.e. 4.5p/kWh. The RO banding review, which is currently open for consultation, has however proposed reducing support for hydro stations to 0.5 ROCs, equivalent to approximately 2.3p/kWh from April 2013. Subject to the final outcome of the RO banding review, we propose to adjust the tariffs accordingly. Further evidence on costs of hydro in this range has been submitted to the Department as part of the RO consultation and is being considered. The analysis of this data will also be taken into account when considering responses to the FITs consultation and considering final FIT levels.

## MicroCHP

33. The Government considers that microCHP could play a useful part in a portfolio approach to supporting lower-carbon technologies in the domestic context. Specifically, it may be a useful transitional alternative to gas boilers, particularly in urban areas where there are significant barriers to heat pumps, and which are not yet covered by district heat.
34. Given the low production volumes, manufacturing costs are still high and look unlikely to come down in the short term. Given these small numbers, we propose to raise the support level to 12.5p. This increase will allow a rate of return for  $\mu$ CHP comparable to other low carbon domestic technologies. We propose, however, because of the uncertainties regarding future costs, that the existing cap of 30,000 installations should be retained in order to provide budget security. We do not intend that this should limit the total deployment of the industry and the review of tariff and deployment levels triggered at the point of 12,000 installations will be retained,
35. We will keep the situation under close review as our overall heat strategy and the technology evolves.

**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?           |

## Summary of 2012 tariff proposals

36. The starting tariffs from which the proposals apply is shown in Table 4 below.

**Table 4: Proposed generation tariffs for October 2012**

Technology	Tariff band (kW capacity)	Current tariffs (i.e. no change to current policy)	Proposed tariffs from Oct 2012
Hydro	≤15	22.0	21.0
	>15-≤100	19.7	19.7
	>100-≤2000	12.1	12.1
	>2000-≤5000	4.9	4.5
Wind	≤1.5	35.9	21.0
	>1.5-≤15	28.1	21.0
	>15-≤100	25.4	21.0
	>100-≤500	20.7	17.5
	>500-≤1500	10.4	9.5
	>1500-≤5000	4.9	4.5
AD	≤250	14.7	14.7
	>250-≤500	13.7	13.7
	>500-≤5000	9.9	9.0
Micro-CHP	≤2 kW	11.0	12.5

\*Current tariff levels are indicative only. Official tariff rates for 2012/13 will be calculated and published by Ofgem by 1 March 2012.

## Future Tariff-setting and cost control

37. As announced at the launch of this review, ensuring that FITs spending stays within the Levies Control Framework (LCF) is a major priority for the comprehensive review – and was the main driver of the urgent action on PV in the fast-track review. It is also important that the scheme delivers value for money in the longer term.
38. The Phase 2A consultation document on PV Cost Control sets out detailed proposals for the future setting of FITs for solar PV installations and for minimising the risk of breaching the LCF. In this consultation we are seeking views on how these principles for cost control should apply to technologies other than solar PV.
39. Based on the experience of the fast track review, and Phase 1 of the comprehensive review, the main focus of cost control is the risk to the LCF of solar PV deployment. However, there may be some budgetary risk from other technologies that can be deployed quickly such as micro-wind installations.
40. All technologies need to be able to demonstrate that they can deliver a cost-effective contribution to meeting our targets in the longer term and eventually to survive without assistance. We are therefore proposing that the principles for the cost-control model to be applied to PV should be applied flexibly across the board to all other technologies as well. This includes a baseline rate of depression going

forward as well as capacity based triggers that may result in the acceleration of the degression timetable.

41. We propose that from April 2014, all tariffs should be subject to a minimum degression rate of 5% per year. This makes clear the Government's position that support for any technology above the marginal cost of meeting the renewables target is a transitional measure, albeit with different transition periods for different technologies. Table 5 shows the trajectories for all of the proposed tariffs to 2020/21. It should be noted however, that these tariffs will be subject to review within that time.

**Table 5: Baseline tariff profile to 2020/21**

Technology	Tariff band (kW TIC)	Generation tariff for new installations (p/kWh, 2012 prices)								
		Oct 12	Apr 13	Apr 14	Apr 15	Apr 16	17/18	18/19	19/20	20/21
Hydro	≤15	21.0	21.0	20.0	19.0	18.0	17.1	16.2	15.4	14.7
	>15-100	19.7	19.7	18.7	17.7	16.8	16.0	15.2	14.4	13.7
	>100-2000	12.1	12.1	11.5	10.9	10.4	9.8	9.4	8.9	8.4
	>2000-5000	4.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Wind	≤1.5	21.0	21.0	20.0	19.0	18.0	17.1	16.2	15.4	14.7
	>1.5-15	21.0	21.0	20.0	19.0	18.0	17.1	16.2	15.4	14.7
	>15-100	21.0	21.0	20.0	19.0	18.0	17.1	16.2	15.4	14.7
	>100-500	17.5	17.5	16.6	15.8	15.0	14.2	13.5	12.8	12.2
	>500-1500	9.5	9.5	9.0	8.6	8.1	8.1	8.1	8.1	8.1
	>1500-5000	4.5	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
AD	≤250	14.7	14.7	14.0	13.3	12.6	12.0	11.4	10.8	10.3
	>250-500	13.7	13.7	13.0	12.4	11.7	11.2	10.6	10.1	9.6
	>500-5000	9.0	9.0	9.0	8.6	8.1	8.1	8.1	8.1	8.1

42. In addition, consistent with the approach to cost control proposed for PV tariffs we propose capacity based triggers for each technology that could accelerate the degression steps. These will have longer notice periods than those proposed for PV (three months rather than two) and will be based on the best estimates available of pipeline data. Proposals for the process and methodology for determining these estimates are set out in the Phase 2A consultation document on PV Cost Control. Further certainty for investors is provided by our proposal that the tariff changes would not apply to installations that have received preliminary accreditation (see Chapter 3).

43. We are seeking views on the proposed capacity triggers. The proposed values are based on the expected deployment for each technology at the time of the scheduled degression step. Table 7 shows the proposed triggers. This means for example, that the first degression step for all hydro tariffs would be implemented in April 2014, or three months after total hydro deployment reaches 55 MW. Consistent with the approach to PV, it is not proposed to set these triggers beyond 2014/15. We do not propose to include micro CHP in this framework because of the pilot nature of the programme, and the fact that the installation ceiling imposes sufficient cost control.

**Table 6: Proposed tariffs depression triggers for non-PV technologies 2013–2015**

Technology	Tariff band (kW)	Proposed Tariffs (October for 2012 installations, April for future year installations), 2012 prices			
		2012	2013	2014	2015
Hydro	≤15	21.0	21.0	20.0	19.0
	>15-≤100	19.7	19.7	18.7	17.7
	>100-≤2000	12.1	12.1	11.5	10.9
	>2000-≤5000	4.5	2.3	2.3	2.3
<b>Hydro trigger (MW)</b>		-	-	<b>55</b>	<b>73</b>
Wind	≤1.5	21.0	21.0	20.0	19.0
	>1.5-≤15	21.0	21.0	20.0	19.0
	>15-≤100	21.0	21.0	20.0	19.0
	>100-≤500	17.5	17.5	16.6	15.8
	>500-≤1500	9.5	9.5	9.0	8.6
	>1500-≤5000	4.5	4.1	4.1	4.1
<b>Wind trigger (MW)</b>		-	-	<b>111</b>	<b>137</b>
AD	≤250	14.7	14.7	14.0	13.3
	>250-≤500	13.7	13.7	13.0	12.4
	>500-≤5000	9.0	9.0	9.0	8.6
<b>AD trigger (MW)</b>		-	-	<b>56</b>	<b>75</b>

Notes: Proposed automatic depression of 5% per annum starting April 2014.

Depression steps are triggered earlier if projected cumulative uptake to the end of the previous financial year arises sooner than the planned timing for automatic depression.

E.g. projected uptake for hydro is 55MW by the end of March 2014. Automatic depression is scheduled for April 2014, but will be triggered earlier if 55MW is reached before this date.

**Consultation Questions: Please support your response with arguments and evidence**

- |           |   |
|-----------|---|
| <b>4.</b> | Do you agree that the cost control mechanism should apply across all technologies?  |
| <b>5.</b> | Do you agree with the proposal that all tariffs will be subject to a minimum depression rate of 5% per year beginning in April 2014?  |
| <b>6.</b> | Do you also agree that there should be an element of capacity-based triggers that could accelerate the depression mechanism? Do you agree with the proposed triggers?                                 |
| <b>7.</b> | If not, can you propose an alternative model, e.g. contingent depression or quotas that would deliver certainty for investors and confidence that we can meet our Levy Control Framework obligations? |

## Energy Efficiency

44. The final proposals for Phase 1 include requirements for energy efficiency of buildings to which solar PV installations are attached. It should be expected that equivalent principles should apply across all technologies. However, there are a number of specific issues that need to be considered before these requirements could be applied to non-PV technologies.
45. Firstly, the larger scale technologies such as hydro and the larger scale wind bands are generally not associated with domestic or commercial buildings and are in generally remote locations. They may be associated with other buildings e.g. farm sheds, mill buildings etc, but methodologies and capacities to assess the energy performance of these buildings through EPCs do not currently exist in many cases. A tariff penalty that applied to an installation that was attached to a low EPC-rated building relative to a stand-alone installation would create a perverse incentive not to seek out opportunities for on-site use, which is clearly the most cost effective and environmentally beneficial use of small-scale renewable generation.
46. The only significant exception to this is the smallest categories of wind generation where they are building mounted, and microCHP. We are seeking views on whether energy efficiency requirements equivalent to PV should be applied. However, it should be noted that there may be significant barriers to implementing this policy, including the fact that in the case of microCHP, installations are likely to be distress purchases at the time of boiler failure; imposing an energy efficiency requirement may therefore be a major disincentive. In addition, for both of these technologies there is no clear default tariff rate to apply if the energy efficiency requirements were not met.
47. We proposed to revisit this question in the future, in the light of emerging policy on energy efficiency and the Green Deal.

### Consultation Questions: *Please support your response with arguments and evidence*

- |    |  |
|----|--|
| 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?          |

## Indexation of tariffs

48. The Phase 2A consultation seeks views on whether tariffs for solar PV should continue to be indexed for inflation. We are seeking views here on whether this should also apply to other technologies.

**Consultation Questions: *Please support your response with arguments and evidence***

**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?

## Chapter 3. Eligibility and Accreditation

### Summary

- Sets out some key definitions considered during the review
- Examines matters on pre-accreditation for eligibility for FITs
- Considers the role of the Microgeneration Certification Scheme or equivalent.
- Proposes requirements for micro-hydro for FITs.
- Covers a range of sustainability issues

### Eligibility

49. Under the Energy Act 2008, the specified maximum capacity for installations accredited under the scheme may be set at any level up to 5 megawatts (MW). This was set as the maximum level for the scheme when it began operation in 2010. Renewable technologies supported by FITs currently comprise new anaerobic digestion, hydro (excluding wave and tidal and pumped storage), solar photovoltaic (PV) and wind projects up to that 5 MW limit, with differing generation tariffs for different scales of each of those technologies. The scheme also supports a pilot scheme for non-renewable microCHP with an electrical capacity of 2 kilowatts (kW) or less, on which a cap of 30,000 micro installations has been set. The scheme does not support solid and liquid biomass technologies, though these continue to be supported under the Renewables Obligation (RO), at all scales.<sup>3</sup>
50. Currently, installations in the range of 50kW to 5 MW may choose to be in either the RO and FITs. The interaction of tariffs between those proposed by this review and those that may emerge from the current RO banding review may lead to confusion and/or to perverse incentives. We will need to consider further how to address these boundary issues, including whether it makes sense to retain this choice
51. The FITs scheme was designed to support the widespread deployment of proven technologies that can be realistically and effectively deployed in the short term, rather than to support the development of unproven technologies. We do not believe that there are other technologies currently at this stage of development, so we propose that the list of eligible technologies remains unchanged.
52. The current definition of “hydro generating station” in the FITs Order excludes tidal mills and locks that tend to use both the fluvial flow/head and the tidal energy to

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<sup>3</sup> See [www.ofgem.gov.uk/Sustainability/Environment/RenewablObl/Pages/RenewablObl.aspx](http://www.ofgem.gov.uk/Sustainability/Environment/RenewablObl/Pages/RenewablObl.aspx)



generate power, but are instead more akin to micro or small hydro schemes, which are eligible for FITs, than they are to tidal stream or tidal range projects, whose size makes them more appropriate for ROCs. A number of representations have been made to DECC that this excludes the redevelopment of several potential sites that may provide useful small scale renewable generation and broader community benefits.

**Consultation Questions: Please support your response with arguments and evidence**

12.	Do you agree that the 5 MW 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?

**New equipment versus second hand**

53. Under the current scheme the use of generating equipment that has previously received support under the RO or FITs is not permitted. This restriction is in place because a key objective of the FITs Scheme is to encourage new installations, the cost of which is factored into the generation tariff. Second-hand technology has a different (lower) cost base and may have received other financial support during its life. Ofgem’s consultation on the term “generating equipment”<sup>4</sup> closed on 21 October 2011 and is currently reviewing responses; it is planned to publish decisions before Easter 2012.

**Consultation Questions: Please support your response with arguments and evidence**

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?

<sup>4</sup> [www.ofgem.gov.uk/Sustainability/Environment/fits/Documents1/FIT\\_generating%20equipment%20consultation\\_final.pdf](http://www.ofgem.gov.uk/Sustainability/Environment/fits/Documents1/FIT_generating%20equipment%20consultation_final.pdf)

## Metering issues

54. Installations that are not connected to the national electricity network are still eligible for FITs. However, they must comply with all the relevant accreditation standards and with the relevant metering regulations. Currently there are no DC meters that meet the FITs metering legislation requirements. This means that electricity eligible for FITs must be grid-ready i.e. provided and metered in AC form. We have no plans to change the FIT metering requirements.
55. Some stakeholders have raised the issue that the location of meters and related factors can influence the metered output of and therefore the FITs payable to installations. For example if meters are located upstream of transformers feeding into the grid, or long distances from grid connection points, local losses are not accounted for and generators would receive FITs for more than the usable energy that they export. We propose to ensure that installations standards under the MCS or ROO-FIT accreditation route take account of this issue and only usable energy is eligible for FITs.

### Consultation Questions: *Please support your response with arguments and evidence*

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?

## Definitions

### Site

56. In Schedule A to Standard Condition 33 of the Electricity Supply License a site is defined as:

*"...premises to which is attached one or more Accredited FITs installations or Eligible installations in close geographical proximity to each other, to be determined by:*

- *the relevant meter point administration number for the electricity supply*
- *the street address*
- *the Ordnance Survey Grid Reference and*
- *any other factors which the Authority at its discretion views as relevant."*

These "other factors" include planning permission and any electrical/mechanical interactions between the installations.

57. This definition deliberately gives Ofgem a degree of discretion in determining the definition of "site" in order to deal with a range of different technologies and scenarios, and is a critical test in determining whether an installation is eligible for

FITs and what tariff applies. Also, it plays a key role in reducing the risk of fraud and gaming i.e. projects being artificially split in order to benefit from FITs or a higher tariff within FITs. However, a number of concerns have been raised about the application of the existing definition.

58. Many stakeholders have claimed that, in practice, too much emphasis has been placed by Ofgem and licensees on the Meter Point Administration Number (MPAN) as the determining factor in most cases to the exclusion of the other factors that may legitimately be considered. This has led to potentially perverse outcomes, for example projects being considered as being on the same ‘site’ despite being geographically separate, because they connect into the public electricity network through a shared private wire network (i.e. a number of installations connect together through a privately owned electricity network before connecting into the national grid network through one grid connection.) This has been particularly the case for hydro developments in remote locations and for multiple residences connected by private wires e.g. park homes.
59. We wish to consider how this definition might be revised so as to provide greater clarity for generators. It may also be appropriate to provide bespoke definitions for each technology rather than taking a one-size-fits-all approach. However, we do not wish to complicate the definition further if it can be avoided.

<b>Consultation Questions: <i>Please support your response with arguments and evidence</i></b>	
<b>19.</b>	Is the existing definition of site sufficient? Do any of the criteria require further definition?
<b>20.</b>	What additional criteria or definitions could be used?
<b>21.</b>	How would you resolve the private wire issue? Should there be a separate definition?

### **Stand-alone**

60. The FITs stand-alone tariff applies to “Stand-alone (autonomous) solar photovoltaic (not attached to a building and not wired to provide electricity to an occupied building).” Issues have been raised about this definition, such as what do “attached to a building” or “occupied” mean? The purpose of the definition is to differentiate those installations whose principal justification is to generate for export from those whose primary function is to provide power onsite into a building. We are aware of the possibility that there is scope to get around this distinction by providing only token on-site demand in order to get higher on-site tariffs. We could look to clarify the wording of the stand-alone tariff.

**Consultation Questions: *Please support your response with arguments and evidence***

<b>22.</b>	Do you think that the definition of stand-alone needs to be clarified, for example to specify a minimum amount of onsite use?
<b>23.</b>	Should consideration be given to the use being made of the building such as whether it is occupied?

**Mobile/Moving installations**

61. In the context of the definition of a FITs-eligible site, we are aware that a number of proposals have been put to Ofgem for installations which can be moved around. Such installations include those mounted on boats, trains and relocatable buildings (e.g. portakabins). Because of the definition of “site”, these installations have been effectively excluded from FITs. Because of the difficulty of defining these installations and their generally small size, and for the removal of doubt we propose to make it clear that mobile installations are definitely not eligible for FITs.

**Consultation Questions: *Please support your response with arguments and evidence***

<b>24.</b>	Do you agree with DECC’s position on mobile installations? If not, what alternative would you propose?
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**Commissioned**

62. Some stakeholders have suggested that there is some ambiguity in the definition of “commissioned” used in the FIT licence conditions. For example, the terms “capable” and “demonstrate” contained within the current definition could make it unclear as to whether installations need to be operating before they can be regarded as “commissioned”. Any ambiguity may create risk, especially in the context of degressing tariffs and eligibility date, where it is important to establish the point at which an installation has actually commenced operation.

**Consultation Questions: *Please support your response with arguments and evidence***

<b>25.</b>	Do you think that the definition of “commissioned” needs to be clarified, e.g. to specify that the installation needs to be in operation and generating electricity on which FIT generation/export payments can be made?
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## Preliminary accreditation and tariff guarantees

63. The Renewables Obligation (RO), which runs parallel with the FITs Scheme targeting larger scale installations and technologies not covered by FITs, provides the option for an installation to seek preliminary accreditation. Preliminary accreditation gives applicants more certainty about future accreditation before making major financial commitments. Once preliminary accreditation has been granted, it is only in certain situations that accreditation would not be granted automatically when applied for, once the installation has commissioned.

64. Many stakeholders have called for the establishment of a similar feature within the FITs scheme. They claim that the absence of a preliminary accreditation process can provide an element of uncertainty before commissioning in regard to a number of issues that will affect its financial viability, including:

- whether a particular installation can be expected to meet the FITs eligibility criteria;
- the capacity;
- whether a complex installation will be considered as one or more sites
- the tariff level that would apply, in the context of frequently changing tariffs where the duration of availability of a particular tariff is less than the project lead time.

65. We recognise the value of a preliminary accreditation process, along the lines of the RO. We believe that preliminary accreditation should be offered to wind projects over 50kW and all hydro and anaerobic digestion installations i.e. those that are eligible for ROO-FIT. Projects eligible under the MCS-FIT accreditation route are generally much smaller than those seeking support under ROO-FIT. There would be few FITs installations that would need preliminary accreditation in order to provide comfort for investors, and we do not wish to complicate what was intended to be a scheme unhampered by unnecessary bureaucracy. We also consider that the relatively shorter lead-times for PV installations than for other technologies makes preliminary accreditation unnecessary.

66. We also propose that a project that is given preliminary accreditation would be eligible for the tariff payable at the time of accreditation. There are however a number of issues that would need to be resolved in designing a system of preliminary accreditation and tariff guarantees and we are seeking views on these.

67. The major issues are:

- at what stage would projects be eligible e.g. with planning approval, grid connection offer? or other factors?
- how long should the guarantee of tariffs last?
- should there be a penalty for uncompleted projects to prevent speculative applications?
- what modification to the original application should be tolerated and still receive the tariff guarantee?

68. We propose that projects that have obtained preliminary accreditation should count as ‘deployed’ for the purpose of triggering early degression.

<b>Consultation Questions: <i>Please support your response with arguments and evidence</i></b>	
<b>26.</b>	Do you agree with our proposal to allow a preliminary accreditation process for certain defined installations in the FITs Scheme?
<b>27.</b>	Do you agree that preliminary accreditation be limited to ROO-FIT installations and not allowed for PV developments?
<b>28.</b>	Should preliminary accreditation also involve the fixing of tariffs for a set period of time at the point at which preliminary accreditation is achieved?
<b>29.</b>	<p>What are your views on the key design issues for preliminary accreditation i.e.</p> <ul style="list-style-type: none"> <li>(a) at what stage would projects be eligible e.g. with planning approval, grid connection offer? or other factors?</li> <li>(b) how long should the guarantee of tariffs last?</li> <li>(c) should there be a penalty for uncompleted projects to prevent speculative applications?</li> <li>(d) what modification to the original application should be tolerated and still receive the tariff guarantee?</li> </ul>

## **MCS or Equivalent**

69. FITs accreditation for key microgeneration technologies depends on certification of installations under a third-party accreditation scheme, the “MCS or equivalent” process. The FITs Order defines Microgeneration Certification Scheme (MCS) to mean:

“ the Microgeneration Scheme or equivalent schemes accredited under EN45011 which certify Microgeneration products and installers in accordance with consistent standards.”

70. The MCS is an independent certification scheme offered to the market by certification bodies who are accredited by the United Kingdom Accreditation Service (UKAS) for this activity and thereby:

- ensures a regime exists that assesses installer companies and products against robust standards;
- enables the provision of the forecast of energy outputs to generators as well as a level of consumer protection which meets the Office of Fair Trading (OFT) Consumer Code requirements; and
- gives assurances about the likely quality, durability and performance of installations.

71. EN45011 is the recognised European Standard for Product<sup>[1]</sup> Certification. Product certification uses, as appropriate, a range of evaluation methodologies e.g. type approval, inspection, testing and surveillance to ensure that the certification requirements are satisfied. Products certified in this way can be identified depending upon the certification scheme requirements, by a certificate, mark of conformity or by licence to a supplier. The three main principles of EN 45011 are:

- Independence;
- Third party checks on standards; and
- Normative documentation against which products can be measured.

72. Accreditation under EN 45011 ensures that a suitable certification scheme exists for the product in question, which in turn ensures that a conforming product is evaluated and ultimately certificated against the scheme requirements as documented. Additionally, the certification body must meet and demonstrate to the satisfaction of the accreditation body that all the requirements of EN 45011 have been met. The United Kingdom Accreditation Service (UKAS) has the responsibility to certify that a body is fully conversant and in full compliance with EN 45011. However, it is not within its remit to determine whether it is an equivalent scheme to MCS for the purposes of FITs.

73. Some stakeholders have raised concerns about the determinants of an equivalent scheme to MCS as the current FITs legislation is silent on:

- what determines an equivalent scheme;
- what is the process for determining if a scheme is equivalent to MCS; and
- who is responsible for making this decision.

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<sup>[1]</sup> Under EN 45011, the definition of a “product” includes a process or service.

74. We consider that these issues should be clarified to help provide certainty to generators and to avoid it being an obligation placed on Ofgem by default. We propose therefore that the FITs Order should be amended to give the Secretary of State the ability to recognise particular schemes as being “equivalent to MCS”. In order to be considered equivalent to MCS, the alternative scheme would need to:

- be accredited under EN45011;
- be established for the purpose of assessing FITs eligible microgeneration installations;
- have the capability to assess products and installer companies against the objective quality standards;
- be able to provide documentary evidence to enable the accreditation of an installation on the central FITs register in a form compatible with Ofgem and licensees’ systems;
- ensure that installations comply to the technical requirements of the FITs scheme,
- including that approved meters are used;
- provide the required information to assist the management and monitoring of the FITs Scheme;
- ensure documentation is valid and the accreditation process is secure; and
- provide a level of consumer protection that meets the Office of Fair Trading Consumer Code requirements.

<b>Consultation Questions: <i>Please support your response with arguments and evidence</i></b>	
<b>30.</b>	Should MCS continue to be the route for FITs accreditation for microgeneration under the scheme or should there be a new body?
<b>31.</b>	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?
<b>32.</b>	Do you have any other comments on the current operation of the MCS-FIT accreditation system?

## Certification of micro-hydro installations

75. Before the start of the FITs scheme, it was expected that, like other Microgeneration installations, hydro stations of up to 50 kW would be accredited through the MCS scheme, i.e. based on the use of MCS certified equipment, an MCS certified installer and certification onto the MCS installation database. At the time that the scheme began, the necessary MCS standards for hydro were not complete, and later, as part of the Microgeneration strategy, in June 2011, it was decided that the link would be broken between the MCS and FITs eligibility for hydro. Currently, a transitional arrangement is in place that allows micro-hydro projects to use the system of accreditation that applies to larger installations



administered by Ofgem (ROO-FIT). This transitional arrangement is in place until 31 March 2012.

76. The decision to discontinue the MCS link was based on the fact that each hydro project is unique, with elements such as location and water flow making it very difficult to define off the shelf standards. The lead time for a micro-hydro installation is around 18 months; much longer than for other technologies eligible for MCS.
77. The special and complex nature of micro-hydro development indicates that a one size fits all approach using MCS standards is unlikely to work. However, in the absence of MCS standards, it is necessary to ensure that there is a rigorous system in place to ensure that only installations that meet FITs criteria are accredited for FITs. The MCS system also provides assurance on quality and consumer protection which may be desirable for micro-hydro developers.
78. Options include extending the ROO-FIT arrangements permanently or for the development and application of industry-based arrangements. The hydro industry could take responsibility for implementing a longer-term way forward to provide quality and compliance assurances for microgeneration projects based on the principles set out in the previous section. In the meantime, however, it is necessary to extend the use of ROO-FIT, at least until agreement is reached. We are therefore extending the current transitional arrangement to 30 September 2012.

**Consultation Questions: *Please support your response with arguments and evidence***

- |            |   |
|------------|---|
| <b>33.</b> | What do you consider is the best way for micro-hydro installations to be accredited for FITs? |
|------------|---|

## Sustainability issues

### Hydro

79. It has become apparent that there have been tensions between small hydro developments and the need to safeguard environmental objectives for UK waterways. Small hydropower schemes developed in appropriate locations and with the appropriate environmental safeguards are a clean and local power source that can help secure a sustainable electricity supply.
80. There is a framework of legislation aimed at protecting fish and the ecology of a river, as well as enhancing water quality and biodiversity in the UK. Government and its agencies have a key role to deliver this legislation. Most hydropower proposals can comply with the legislation through appropriate mitigation measures. However, in some cases the practicality and cost of safeguarding the local environment will mean that not all of the schemes which developers propose

will be viable. All hydro developments applying for FITs payments should comply with all the relevant legislation and take account of guidance.

## Anaerobic Digestion

81. The Government strongly supports the generation of energy from waste through Anaerobic Digestion (AD). We want to create the market conditions which encourage the AD sector to be part of our green economy – supporting economic growth and improved productivity, whilst helping to achieve our goals for diverting waste from landfill, improving the natural environment and mitigating climate change.
82. As part of the fast-track review of FITs, Government sought views on the sustainability of using purpose grown crops as a feedstock for AD in light of concerns about the potential for adverse impacts on food production, biodiversity loss and water quality. We committed to consider this as part of the Comprehensive Review.
83. Since the fast track review, DECC and Defra have worked with industry and environmental NGOs to compile and review the available evidence. It suggests that, with the current policy framework and FIT rates, only a modest increase in the use of these crops is likely as agricultural based AD plants mainly utilise manure, slurry and residue feedstocks, co-digested with crops. We are reassured that stakeholders agree the current framework is unlikely to lead to the creation of new large scale monocultures of crops which do not support our environmental objectives. However, concerns remain about the potential for localised impacts from, for example, diffuse pollution or habitat loss.
84. The Government believes these environmental risks which could result from an increased use of purpose grown crops must be managed with appropriate standards of operator performance, harvesting techniques, site, plant and crop selection. The Government therefore proposes to work with industry and other stakeholders to develop and agree a voluntary code of practice for AD operators using purpose grown crops, with the aim of avoiding or mitigating risks, so AD can sustainably secure benefits in the context of food security, land use change, the environment and competitiveness.
85. We recognise 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 across the full range of AD plant deployment. However, we want the limited public funds available to drive greater and wider uptake of waste feedstocks, with crops being used to support this growth where it is required and it makes sense to do so.
86. Defra will work with industry and other stakeholders to monitor uptake of different AD systems, the effectiveness of the voluntary code and to evaluate other options, including a regulatory approach. Monitoring of progress will occur alongside the standard FIT review mechanism. If evidence emerges that this voluntary approach does not achieve its aims we will explore regulatory controls, including for example, limiting future eligibility for FITs to plants that treat wastes. This would be

subject to consultation and Parliamentary scrutiny as required by the Energy Act 2008.

**Consultation Questions: *Please support your response with arguments and evidence***

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|------------|--|
| <b>34.</b> | 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? |
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## Chapter 4. Community and multi-installation projects

<b>Summary</b>	<ul style="list-style-type: none"><li>• Consults on the definition of community</li><li>• Looks at how such a definition might be used might be used:<ul style="list-style-type: none"><li>○ Multi-installation tariffs for commercial and community projects</li><li>○ “Fixing” the tariff rates for community projects</li></ul></li></ul>
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87. In the Phase 1 consultation document, we set out our ambition to consider further the role of community-owned installations in FITs.

*“We are also considering whether more could be done to enable genuine community projects to be able to fully benefit from FITs. We will provide more detail on this in the second consultation on the comprehensive review but would, in the meantime, welcome any views on this and whether, for example, a definition of community scheme is required and, if so, how this should be defined.”*

88. Responses to the Phase 1 consultation included proposals from a number of stakeholders that generation from certain installations linked to communities should receive preferential treatment (generally higher tariffs) to reflect the wider benefits they may deliver. These proposals were brought in particular by three types of organisation:

- **Social housing providers.** Their case is based on the fact that they provide free electricity to their tenants and therefore potentially help to rebalance the FITs scheme in favour of the fuel poor. It is also argued that they are disadvantaged relative to other multi-installation schemes for various reasons, including the complex negotiation required with social housing tenants. The proposal in the response to Phase 1 to raise the threshold for the multi-installation tariff for PV installations to 25, is intended to help some of the smaller social housing projects.
- **The community energy sector.** This sector consists of local and regional organisations that promote and develop small-scale distributed energy for environmental and community benefits including specific purpose vehicles set up by other organisations individually or jointly.

- **Small individual community groups** including individual installations on buildings such as churches, community centres and schools, which may not be viable at reduced tariffs.

## Definition

89. This consultation seeks views on the definition of “community” installations and the uses to which such a definition may be put. In developing such a definition, it is important that it targets the appropriate group, is not too wide, and can be legally implemented and enforced.

90. The key areas that may be targeted by a definition are:

- (a) **Social enterprises:** These include organisations that may be structured as businesses but which exist for the purposes of community benefit. These enterprises are recognised in various tax laws, including those that relate to FITs (e.g. the recent changes to eligibility for FITs for Venture Capital Trusts) so an enforceable legal definition exists and is well understood. The definition used by HMRC for this purpose is: “the generation or export is carried on by:

- (i) a community interest company<sup>5</sup>;
- (ii) a co-operative society;
- (iii) a community benefit society; or
- (iv) a NI industrial and provident society<sup>6</sup>.”

There is a risk, however, that a definition based only on these criteria might be too wide. Further refining the definition to include a specific subset of community enterprises could be based on the organisation’s “primary purpose” i.e. the organisation’s articles of incorporation identify “renewable energy” or “carbon reduction” or similar terms as its primary purpose. This would however be difficult to define. Some organisations have suggested size as a further filter. This would exclude large national organisations, but would not limit application to community energy organisations. We are seeking views on options for refining the definition as part of the current consultation.

- (b) **Charities:** These are regulated by the Charity Commission (in England and Wales) and the Office of the Scottish Charity Regulator. They are therefore straightforward to define and include in legislation. While it is difficult to justify including all charities regardless of their function or orientation, this does not preclude charities from setting up specific-purpose vehicles for the purposes of community energy that could be classified under (a) above.

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<sup>5</sup> Community Interest Companies (CICs) are limited companies, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage. The CIC Regulator enforces a “community interest test” and “asset lock”, which ensure that the CIC is established for community purposes and the assets and profits are dedicated to these purposes.

<sup>6</sup> This was included for completeness in HMRC legislation re VCTs and FITs but may not be necessary.

- (c) **Social Housing:** The definition of “social housing” that could be targeted for a special provision is complex because of the range of service providers in this area, and the fact that the providers may be involved in other activities as well as the provision of social housing. It may be appropriate only to target only installations that are located on social housing units and provide benefits to the tenants.

## Application

91. Once we have a definition of “community”, there is a range of ways in which it could be used to provide particular benefits that were not available to other installations. There are, however, several issues to consider in providing particular benefits in this way relating to affordability and the issue of over-compensation that has implications both for value for money and for state aids and competition.

### Multi-installations for commercial and community schemes

92. When the FITs scheme was originally set up, the scope of eligibility was set broadly; it did not distinguish between different ownership, and allowed the transfer of rights from one FITs recipient to another. The continued fall in costs for solar PV, allied with the considerable economies of scale available to the large multi-installer, have allowed the rent-a-roof business model to develop as the only major financing model other than self-funding. In order to address any risk of overcompensation, the 20% discount for multi-installation generators was proposed. We believe that even the revised tariff of 16.8p could soon result in overcompensation.
93. In the light of the need to ensure the maximum benefit from limited FITs funds, and on the same basis as the approach taken to large-scale PV installations in the fast-track review, it is difficult to justify support for commercial rent-a-roof operators over other generators. That is, developments of this type have not been shown to deliver a sufficient level of broader behavioural benefits to warrant a level of support above the marginal cost of delivering the renewables target (i.e. what is offered for stand-alone installations).
94. We therefore propose to reduce the solar PV tariff for non community-owned multi-installations to a level equivalent to the stand-alone tariff from October 2012. Since the stand-alone tariff is the tariff offered to installations that do not fulfil the energy efficiency requirement, there is also a question about whether the energy efficiency requirement would need to apply to these commercial multi-installations. This distinction depends on using the proposed definition of “community” to separate commercial rent-a-roof developers from social housing, which would receive a higher tariff.
95. Any higher tariff for social housing should reflect the cost advantages of multiple installation social housing developments over individual projects. Despite the additional hurdles for social housing projects, there should still be opportunities for

economies of scale, and it is necessary to ensure that no sector is over-compensated. One of the arguments made for higher payments for social housing is the use of the profit for other purposes, e.g. additional low-carbon measures, which is not relevant in the context of the FITs scheme. Since there would also be serious financial implications to allowing these installations the full standard tariff, which would make any concession in this area unaffordable, we propose to offer “community-owned” multi-installations a continuing tariff of 80% of that offered to generators with up to 25 installations. They would thus be at an advantage compared to commercial multi-installers, but with economies of scale reflected in the tariff level.

96. Smaller scale multi-site community projects would be treated separately as they would benefit from the *de minimis* threshold of 25 installations announced in the Response to the Phase 1 consultation, and thus receive the full individual tariff.
97. In addition to these changes we propose removing any ambiguity that exists in regard to eligibility for FITs for installations that are not owned or operated by the electricity consumer at the site where they are located.

### More certainty for Community Projects

98. Single installation community projects are generally developed over a longer timescale than commercial projects because they are often run by part-timers and volunteers, and funding is not always as readily available as for commercial schemes. While the preliminary accreditation principle that we are consulting on in the previous chapter would mean that AD and hydro installations, and wind over 50kW would be able to fix their tariffs through the preliminary accreditation process, this would not be the case for solar PV or wind projects under 50kW.
99. Social housing schemes can also take a long time from inception to completion because of the lengthy procurement processes that they are required to undertake. Again, investors are reluctant to invest while they are unsure of what returns they will get because there is no certainty on the final FITs rate that they will receive.
100. We believe that one way of dealing with this issue might be to fix the tariff at some point in the process to give some certainty, in the same way that preliminary accreditation does. This would be available to projects based on the proposed definition of “community” and would last for a set period, say 6 months.
101. However, there are a number of practical administrative problems that would need to be considered, such as how to link with budgetary controls to avoid a situation in which lots of prospective community projects were guaranteed a tariff, without then going ahead, but still triggering early degeneration for everything else; and how it might be administered, since a bespoke system would probably be needed.
102. We would also welcome alternative views on other ways to help such community projects. Ideas do not have to be framed within the boundaries of the FITs scheme.

<b>Consultation Questions: <i>Please support your response with arguments and evidence</i></b>	
<b>35.</b>	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?
<b>36.</b>	Should other factors be taken into account e.g. scale and primary purpose?
<b>37.</b>	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?
<b>38.</b>	Do you agree that “community” multiple installations should receive a higher rate of multi-installation tariffs than commercial installations?
<b>39.</b>	Would it be possible to design a cost effective mechanism that would allow “community” projects to “fix” their FITs tariff for a set period of time at some point earlier in the development process?
<b>40.</b>	Should this apply to just solar, or also to wind projects up to 50kW (DNC)?
<b>41.</b>	What other ideas do you have for helping one-off community projects?



## Chapter 5. Consumer Issues

### Summary

- Looks at compliance and enforcement, including increasing powers for Ofgem
- Advice and support for generators
- Looks at the complaints process

### Compliance and Enforcement

103. In order for FITs to deliver value for money for the taxpayer, and to avoid providing opportunities for fraud and other abuses, a system of audit, assurance and enforcement is in place. Our experience of the operation of the scheme to date has highlighted some potential issues that may arise in the future.
104. We are considering whether Ofgem should be able to attach conditions to accreditation to deal with instances when fraud may be discovered after accreditation. However, to render this effective, Ofgem may require additional powers to enforce those conditions against FIT generators, including rights of access.
105. Linked to this, it may be appropriate to grant additional investigation and enforcement powers for Ofgem, for example to ensure that FITs are not paid for installations that are operating unlawfully i.e. without proper planning approval or environmental permitting or in breach of safety requirements. We have yet to determine what form such powers should take, but it could include the ability to remove installations from the Central FITs Register if they were found to be non-compliant in some way, after accreditation. We want to ensure that the powers exist to ensure that installations operating unlawfully may not receive FITs.

<b>Consultation Questions: <i>Please support your response with arguments and evidence</i></b>	
<b>42.</b>	Do you believe that the current enforcement provisions of Ofgem's powers are sufficient?
<b>43.</b>	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?
<b>44.</b>	If further provisions are required, what form might these take?

## **Advice and Support for Generators**

106. There is a need for Generators to receive clear, current and consistent advice before commencing installation, for example on selecting the appropriate technology and related product, and on making a FIT application. This is currently undertaken mainly by the Energy Saving Trust and the Carbon Trust. There is also a role for installers, FITs licensees and Ofgem.

107. The various bodies involved in the FITs Scheme provide advice to generators, but they each focus on their areas of responsibility. One source of complaints appears to concern the information provided by the installers. At present, each firm of installers is aware of the obligations they have signed up to under MCS and REAL, but that in itself does not guarantee the delivery of clear and accurate information. The solution may be to draw up strict guidelines controlling, for example cold calling and pressure selling. Installers would need to ensure that their employees are made aware of such guidelines. This should be made mandatory and a pre-requisite for participation in the FITs Scheme.

<b>Consultation Questions: <i>Please support your response with arguments and evidence</i></b>	
<b>45.</b>	Do you believe that the current provision of information and advice regarding FITs is adequate?
<b>46.</b>	Who do you think should have the responsibility for drawing up and providing advice to Generators?
<b>47.</b>	How should the dissemination of advice be monitored, and who should have the responsibility for ensuring this is carried out correctly?

## FITs summary of terms

108. The FIT generator should be given sight of the statement of FIT terms before the registration process commences. This will enable the generator to return a signed copy within 10 days of completing registration. However, the statement of FIT terms can only be agreed between the generator and FITs licensee once the registration process is complete.
109. The Summary of Terms ensures that generators are aware of their rights and obligations, and those of the FITs licensee. The onus is on the generator to ensure that they are familiar with the conditions for participation in the scheme and the documentation required when seeking accreditation. Experience suggests that these terms are not onerous and cover the key rights and obligations on both sides. However, we seek views on whether our view is correct.
110. Payments to generators must be made at least every three months, but licensees and generators can negotiate a payment pattern that suits them if required. In practice, this has meant that payments are generally made every three months.

### Consultation Questions: *Please support your response with arguments and evidence*

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?

## Complaints

111. The delivery of the FITs Scheme involves a number of different organisations and processes, and we are aware that it may not always be obvious to whom to complain. Whilst such instances are not commonplace, we accept that this can be frustrating for those complainants.
112. Accordingly, to assist potential complainants, DECC has drawn up a guide to the complaints procedure for each of the organisations involved, according to the different types of issues that may be raised by people who are, or intend to generate electricity supported by FITs, classed as FITs generators. This guide, which also has a short list of key terms can be viewed online at:

[www.decc.gov.uk/assets/decc/what%20we%20do/uk%20energy%20supply/energy%20mix/renewable%20energy/policy/fits/1\\_20100331154613\\_e\\_@@\\_fitscomplaintsprocessleaflet.pdf](http://www.decc.gov.uk/assets/decc/what%20we%20do/uk%20energy%20supply/energy%20mix/renewable%20energy/policy/fits/1_20100331154613_e_@@_fitscomplaintsprocessleaflet.pdf).

**Consultation Questions: *Please support your response with arguments and evidence***

<b>50.</b>	Are there any issues that are not taken account of in the DECC guide?
<b>51.</b>	Do you think that the current complaints/dispute resolution arrangements for the FITs Scheme are adequate?
<b>52.</b>	If the current arrangements are not adequate, what changes should be made?

## Chapter 6. Licensee Issues

### Summary

- Looks at thresholds for licensees
- The role of Ofgem
- Whether a supplier of last resort is needed

### Thresholds for licensees

113. In December 2010 the Government consulted on raising the customer threshold at which electricity and gas supply companies are required to participate in DECC's social and environmental programmes including the Carbon Emissions Reduction Target (CERT), Community Energy Saving Programme (CESP) and Feed-In Tariffs (FITs).
114. Following the consultation, the Government decided to raise the threshold to 250,000 customers for mandatory participation in CERT and CESP for the remaining period of these two programmes. It emerged during the consultation that FITs were less of a concern to small licensees and indeed some small licensees have voluntarily opted into the scheme. Licensees making FITs payments may claim administration costs as part of "qualifying FITs costs" determined annually by the Secretary of State and this takes account of the likely difference in costs for mandatory participation and voluntary participants' administration costs, to reflect their higher per customer administration costs.
115. It was decided that the threshold at which a licensee is obliged to make FITs payments should remain at 50,000 customers pending the current review of FITs. It was also stated that it is not the Government's intention to continue to increase these thresholds and it is our intention to design future programmes to minimise disproportionate burdens on small licensees and to minimise burdens on all licensees, rather than continue to revise thresholds.

116. We believe that the FITs scheme provides a reasonable amount of flexibility for small licensees and that they are not particularly disadvantaged by the setting of the threshold. However, for consistency with other schemes, it may be appropriate that the level should be changed to 250,000.

**Consultation Questions: *Please support your response with arguments and evidence***

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| <b>53.</b> | Do you support changing the thresholds for mandatory licensees to 250,000 residential consumers? If not what alternative do you propose? |
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## Role of Ofgem

117. Because the FITs scheme was introduced through licence obligations on electricity suppliers, Ofgem has the lead role in monitoring and enforcing the scheme.
118. Ofgem also has a separate roles as the FITs scheme administrator, maintaining the Central FITs Register (CFR) of all FITs installations receiving support, accrediting installations under ROO-FIT where MCS accreditation is not applicable, operating the levelisation process to share costs equitably and reporting to the Secretary of State on the scheme.

## Data Collection

119. It is important that DECC evaluates the performance of the FITs scheme. To do so, we use data produced in administering the scheme, but this does not allow us to do all the evaluation we would like to do. Current FIT legislation requires that Ofgem report the total amount of electricity generated under the FIT scheme on an annual basis. Following consultation with FIT licensees Ofgem extended the reporting requirements to include a breakdown of generation by tariff band. However, DECC believes that it would be useful for the evaluation of the FIT policy to extend the central data collection requirements further to include the collection of generation data for each individual FIT installation.
120. This additional information would be used to calculate load factors by technology; to determine, for instance, whether the performance of solar panels installed in Great Britain is in line with initial estimates, as it is not possible to calculate this accurately from aggregated data. Having individual installation data rather than aggregated data would also allow regional load factors to be produced, giving an indication of the viability of schemes located in more northern regions of the country.
121. FIT generators are already required to submit generation (and where installed) export meter readings to their chosen FIT licensee, and it is proposed that these meter readings would be collected from the FIT licensees annually. Where export meter data is available it would also be possible to look at the proportion of FIT generation that is exported, which is important when setting tariff levels.

122. Such data would also enable evaluation of the indirect impact of FITs, through incorporating the data with other datasets that DECC holds on energy consumption and energy efficiency measures.
123. The individual generation data would be treated as confidential in line with the National Statistics Code of Practice and would not be publically available but DECC would publish analysis carried out using the data.
124. Collection of individual data is not necessary for Ofgem to run the scheme and the cost involved in setting up a secure data collection system would need to be considered carefully to ensure value for money. We also recognise that asking FIT licensees to provide individual generation data will increase the administrative burden to them. We are therefore consulting on whether to implement this proposal.

**Consultation Questions: *Please support your response with arguments and evidence***

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| <b>54.</b> | Should individual installation data be collected centrally, and what do you think the most cost-effective way of doing this would be? |
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## Licensee of Last Resort/Mutualisation

125. Over the operation of the scheme, a number of stakeholders, particularly voluntary FITs licensees have raised concerns about the integrity of the scheme in the event of a failure of one of the FITs licensees. This would have implications for both licensees and for generators.
126. Within the electricity supply arrangements administered by Ofgem, if a supplier fails there is a process to ensure that there is no break in electricity supply to a consumer. If no other arrangements are made e.g. (a commercial transfer of customers), then customers are allocated to a new supplier, there is no break in supply and the new supplier can recover the cost of electricity supply from the customer from the date of the transfer.
127. If that customer is being paid FITs by the failing licensee, they may approach their new licensee to take over their FITs payments. However, payment of FITs without a break is not guaranteed by the supplier of last resort arrangements, which apply only to electricity supply. There is a chance that the failing licensee may have defaulted on some payment of FITs to the generator. However, the period covered is likely to be short, and any shortfall could be recovered by other means. There have been representations on behalf of consumers to ensure that if this were to occur, then there should be no break in FITs payments.
128. Some licensees have reported that in addition to the risk that this creates for generators, it also potentially leads to discrimination by financiers against small licensees. It is suggested that financiers may assume that small licensees are more likely to fail, and that generators receiving FITs from small licensees are more likely to experience a break in payments. They are therefore less likely to

finance generators who wish to receive FITs from small licensees. If the existing supplier of last resort arrangements were to apply to FITs payments, or if equivalent arrangements covering FITs were put in place, then this risk would be reduced.

129. Licensees are also directly disadvantaged by shortfalls that may arise in the levelisation pot as a result of failure by a licensee. Under the terms of the FITs Order, Ofgem may defer payments from the levelisation fund in order to take account of late payments into the fund. However, there is no provision for recalculating the fund to take account of any shortfall that may arise from the failure of a licensee. This potentially increases the risks for licensees that have above average exposure to the fund.

130. We therefore propose to include mutualisation arrangements for FITs similar to those that exist for the warm home discount.

**Consultation Questions: *Please support your response with arguments and evidence***

<b>55.</b>	Do you support the establishment of provisions equivalent to the supplier of last resort arrangements for FITs payments?
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<b>56.</b>	Do you support the mutualisation of shortfalls within the FITs levelisation arrangements among licensees?
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## Frequency of Levelisation

131. Under the terms of the FITs Order, Ofgem is required to undertake a periodic levelisation among the licensees at least every quarter. However, they may undertake levelisation more frequently.

132. Some licensees have raised the issue that quarterly levelisation has a negative impact on their cash flows. They claim that more frequent levelisation would make it easier for them to offer more frequent payments

133. On the other hand other licensees have stated that more frequent levelisation would increase their compliance burden, and therefore would impact on the cost of administering the scheme. Ofgem consulted on this issue in 2011, but did not propose a change pending the outcome of the current review. We are seeking views on whether the current situation should be changed.

**Consultation Questions: *Please support your response with arguments and evidence***

<b>57.</b>	Do you support the continuation of the current arrangements on the frequency of levelisation, i.e. at least quarterly but more frequently at the discretion of Ofgem? If not, what alternative to you propose?
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## Annex A – List of Questions

<b>Consultation Questions: <i>Please support your response with arguments and evidence</i></b>	
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.	<p>What are your views on the key design issues for preliminary accreditation i.e.</p> <p>(a) at what stage would projects be eligible e.g. with planning approval, grid connection offer? or other factors?</p>

	<p>(b) how long should the guarantee of tariffs last?</p> <p>(c) should there be a penalty for uncompleted projects to prevent speculative applications?</p> <p>(d) what modification to the original application should be tolerated and still receive the tariff guarantee?</p>
<b>30.</b>	Should MCS continue to be the route for FITs accreditation for micro-generation under the scheme or should there be a new body?
<b>31.</b>	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?
<b>32.</b>	Do you have any other comments on the current operation of the MCS-FIT accreditation system.?
<b>33.</b>	What do you consider is the best way for micro-hydro installations to be accredited for FITs?
<b>34.</b>	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?
<b>35.</b>	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?
<b>36.</b>	Should other factors be taken into account e.g. scale and primary purpose?
<b>37.</b>	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?
<b>38.</b>	Do you agree that “community” multiple installations should receive a higher rate of multi-installation tariffs than commercial installations?
<b>39.</b>	Would it be possible to design a cost effective mechanism that would allow “community” projects to “fix” their FITs tariff for a set period of time at some point earlier in the development process?
<b>40.</b>	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?
<b>55.</b>	Do you support the establishment of provisions equivalent to the supplier of last resort arrangements for FITs payments?
<b>56.</b>	Do you support the mutualisation of shortfalls within the FITs levelisation arrangements among licensees?
<b>57.</b>	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?

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