Micropower Council Briefing: Clean Energy Cashback announcements, Monday 1st February 2010

Summary:

DECC has today published final levels for the Feed-in Tariff and the consultation on the Renewable Heat Incentive.

The Micropower Council has worked closely with partners in the industry and with Government over the past two years to shape the development of this policy. In recent months our efforts have been particularly focussed on the final details of the FiT, and proposals for the RHI consultation.

A number of significant changes and clarifications have been made to the Feed in Tariff scheme since the consultation was published, in line with Micropower Council recommendations:

Issue:	Set out in consultation?	In final scheme?
Income tax exemption for FiT income	✗	✓
Tariff indexation against inflation	✗	✓
0% degression rate for all technologies during first year	✗	✓
Micro-CHP inclusion and tariff levels	✗	✓
Increase in tariffs for all technologies	✗	✓

Feed-in Tariff Scheme Details

The Feed-in Tariff for small scale low carbon electricity has been finalised for introduction on April 1st 2010. All tariff levels have increased by 3 to 4 pence compared to those stated in the original consultation document. The tariff levels are calculated to offer between 5-8% return on initial investment.

Technology	Level in consultation	Final level for Year 1 (p/kWh)
MicroCHP pilot (under 2 kW)	Absent	10
PV (≤4 kW (new build))	31.0	36.1
PV (≤4 kW (retrofit))	36.5	41.3
PV (>4-10kW)	31.0	36.1
PV (>10 - 100kW)	28.0	31.4
Wind (≤1.5kW)	30.5	34.5
Wind (>1.5 - 15kW)	23.0	26.7
Wind (>15 - 100kW)	20.5	24.1

*PV benefits from a 'degression holiday' for one year, which will be followed by subsequently steeper degression rates to stop the budgetary gap.

The inclusion of micro CHP in the Feed-in Tariff is great news for the industry: this tariff is available as part of a pilot scheme for up to 30,000 microCHP installations initially. A review will take place when 12,000 units have been installed - the wording in the consultation document is crucial for industry. An average solar PV system for a household would cost £12,000 but at these tariffs would yield around £1,000 a year in payments, offering an attractive return on investment in addition to reduced household bills.

Extensive engagement with Government has also brought about a number of other changes, included within the Micropower Council policy position:

The Renewable Heat Incentive consultation

The Micropower Council has also been working closely with officials on the Renewable Heat Incentive since the Energy Act 2008, provided the legislative backing for financial incentives for small scale, low carbon energy (MPC lobbied for heat inclusion in Feed in Tariff amendment).

In November 2009, the Micropower Council published its RHI policy position paper, outlining its wish list for this innovative new policy instrument. Having met with officials prior to the publication of the consultation, the Council was pleased to see that a number of key elements of this position paper had been adopted in the final consultation document.

Micropower Council RHI policy paper	DECC Consultation Document	
Deeming of generation at small scale	Deeming of generation at small scale	✓
Tariff calculation = counterfactual cost + additional incentive	Tariff calculation = counterfactual cost + hassle factor compensation + additional incentive	✓
Metering of heat output at larger scale	Metering of heat output at larger scale	✓
MCS required for eligibility	MCS required for eligibility	✓

Tariff Levels:

Tariff levels are very promising and should provide the necessary stimulus to boost the market for household and small scale renewable heat. This means that a householder who installs solar thermal technology would stand to earn around £200 per year and around

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£400 per year for a ground source heat pump. Tariffs levels account for the following factors:

- Counterfactual cost
- 'Hassle factor' e.g. extensive work required for GSHPs
- Additional incentive required given general public acceptance of technology

Tariff levels are proposed to provide a rate of return of 12% on the additional capital cost of renewables, with a lower rate of return of 6% given to solar thermal. Government will be considering the case for introducing degression for generation tariffs at the first review (expected in 2013 for coherence with the RO and FITs).

Technology Tariff Levels for Renewable Heat Incentive			
Small installations	**Scale**	**Tariffs (pence/kWh)**	**Tariff lifetime (years)**
Solid biomass	Up to 45kW	9	15
Biodiesel	Up to 45kW	6.5	15
Biogas on-site combustion	Up to 45kW	5.5	10
Ground source heat pumps	Up to 45kW	7	23
Air source heat pumps	Up to 45kW	7.5	18
Solar thermal	Up to 20kW	18	20
Medium installations			
Solid biomass	45kW-500kW	6.5	15
Biogas on-site combustion	45kW-200kW	5.5	10
Ground source heat pumps	45kW-350kW	5.5	20
Air source heat pumps	45kW-350kW	2	20
Solar thermal	20kW-100kW	17	20

The consultation does not include proposals to regulate the export price that generators can obtain for sales of heat or biomethane to third parties.

Government is considering what would be the most effective way to fund the RHI, including reviewing the levy provisions in the Energy Act 2008. The Government plans to make a further announcement at Budget 2010 but the consultation contains an assurance that this will not impact on the stated date of introduction.

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