



**Consumer
Focus**
Campaigning for a fair deal

Consumer Focus response to consultation on Renewable Electricity Financial Incentives 2009

October 2009

About Consumer Focus

Consumer Focus is the independent champion for consumers across England, Wales, Scotland and (for postal consumers) in Northern Ireland. We operate across the whole of the economy, persuading businesses and public services to put consumers at the heart of what they do.

Consumer Focus was formed on 1 October 2008 through the merger of three organisations – energywatch, Postwatch and the National Consumer Council (including the Scottish and Welsh Consumer Councils). We are a statutory organisation that works within a devolved setting, with work priorities varying across different parts of the country, but all working to common strategic goals.

Through campaigning, advocacy and research, we champion consumers' interests in private and public sectors by working to secure fairer markets, greater value for money and improved customer service. We have a particular focus on the interests of consumers in markets that are 'designated' by Government as requiring additional consumer advocacy.

Consumer Focus also has a commitment to work on behalf of vulnerable and disadvantaged consumers, and a duty to work on issues of sustainable development.

Summary

Consumer Focus welcomes the Government's consultation on the Feed-in Tariffs (FITs), and the specific question on the relationship between FITs and those on low incomes or in fuel poverty.

All consumers play one or more of three roles in the move to decentralised and renewable energy generation: end users of electricity and heat; generators of electricity and heat; and funders of Government programmes through taxes and levies. The demands of climate change and energy security mean that future consumers' needs must be considered alongside those of today's, and we welcome:

- the intention to provide a simple, unbureaucratic tariff
- the structure of the tariff to reflect the different types of benefits available to different installations
- provision of assurance to consumers through the Micro-generation Certification Scheme or similar
- third party supply and management of installations, subject to accreditation processes

Consumers and communities can use these tariffs to provide themselves with a cushion from energy price rises. However, there are shortcomings to the FIT proposals:

- by funding the transition to a secure low carbon energy supply through energy bills rather than general taxation, people on low incomes or in hard-to-heat homes are paying disproportionately for a strategy that has broad societal and environmental benefits
- the tariff rates are driven by minimum hurdle rates, meeting the needs of only wealthier or more environmentally-conscious consumers and organisations
- stakeholders are unable to consider the full implications for fuel poverty in the absence of information on the renewable heat incentive
- feed-in tariffs are insufficient by themselves to drive micro-generation take-up. The consultation gives no indication of supporting mechanisms to address non-financial hurdles, such as consumer awareness or skills
- the proposals do not include the treatment of FITs with regard to tax. This makes it more difficult for stakeholders to consider a) the return to investors and b) the impact on energy consumers' bills. The tariff should be exempt from tax as the cost of this will be passed on to energy consumers bills, incurring a double levy

Finally, the consultation notes that Consumer Focus has a role to play in protecting consumers. Consumer Focus is a member of the REAL Assurance Scheme's Supervisory Panel and would expect to continue to play a role in shaping the chosen consumer assurance scheme.

Renewables Obligation

Consumer Focus has supported the development of feed-in tariffs due to the inadequacies of the Renewables Obligation (RO).

However, we welcome recent changes and current proposals that address its most obvious flaws:

- the introduction of banding for different technologies
- an increase in the level of headroom in the Renewables Obligation Order
- limiting participation for new projects to 20 years

However, Consumer Focus is concerned about the impact of the significant increase in the RO subsidy on consumers' bills. These will carry an average RO-related levy of £64 in 2020 in comparison to the current £5. This will be proportional to consumption and is therefore more progressive than some levies such as CERT. All levies applied as a result of Government policy are still a form of indirect taxation; therefore the Government must be aware of the distributional impact of levies and structure them so they are more progressive.

We have considered whether the proposed wholesale price revenue stabilisation mechanism (WPRSM), in effect a price ceiling and a price floor, will reduce costs passed on to consumers. DECC hopes this mechanism will prevent the following scenarios:

- when wholesale power prices rise dramatically, the revenue effect of this in addition to the money received by renewable generators from Renewable Obligation Certificates (ROC) leads to these firms obtaining super normal profit – which feeds through to consumers in the form of higher prices
- when wholesale power prices slump, the revenue effect makes renewable ventures unprofitable. This deters investors and undermines efforts to meet the UK's renewables target

DECC suggests that a stabiliser which reduces the price received from the ROC should reduce the profit margin with the saving passed through to consumers, whilst a price floor should provide greater investor confidence.

Consumer Focus supports the theory that a price floor will provide greater investor confidence, but is more sceptical about the benefits of a price ceiling. DECC states the intention of the WPRSM is to shift wholesale price volatility risk from renewable generators to suppliers, as they are better equipped to shoulder the risk. This is probably true (certainly for vertically-integrated suppliers) but who bears the cost of this risk? In paragraph 2.32 DECC talk about a theoretical energy bill saving of 2.5 per cent following the adjustment made by the WPRSM. Crucially, it says 'this analysis does depend on suppliers passing the reduction in cost to consumers; to the extent that they choose to retain that reduction, consumers will not feel the benefit'. The question is what mechanism is likely to force companies to pass on the reduction? Competition could do this but the lack of competitive pressure and liquidity in the wholesale power market make this unlikely. For this reason Consumer Focus does not believe a WPRSM will achieve savings to consumers without additional mechanisms to ensure savings are passed on.

Consumer Focus believes that the WPRSM may also be undermined by the use of wholesale price references:

- Reference prices in the wholesale prices are questionable due to the lack of trading activity and depth. This is a problem which inflates the cost of power to end users.
- DECC suggests that by motivating renewable generators to sell into day-ahead markets could increase liquidity. This is doubtful because:
 - renewable generation accounts for only 7 per cent of major plant capacity at present, only by motivating vertically-integrated players to trade will liquidity increase
 - the day-ahead markets are not where trading activity is needed most – liquidity is at its thinnest far out on the forward curve (three months out thereafter getting steadily worse)
- Furthermore, DECC talk about the need for renewable generators to hedge forward. This will be very difficult if they cannot find suitable counterparties

Overall, Consumer Focus welcomes the changes that address known faults with the Renewables Obligation, and a move to provide investor confidence, but wants the Government to consider how the consumer will benefit from any price ceiling. Consumers are being asked to carry the costs and risks of such mechanisms without benefiting from cost savings when they materialise. It seems that without a properly functioning wholesale power and carbon (ETS) market there is little chance that consumers will be charged the market price of power or that the necessary price signals for new generation will be available to entice the necessary investment.

Feed-in Tariffs

Q35. Do you agree that FITs should be structured in order to recognise all generation, rather than just exports?

Consumer Focus supports a tariff structure that rewards on-site use as well as export. Further to the rationale in the consultation document we are keen that these tariffs are used (as part of the Community Energy Saving Programme and wider heat and energy saving strategy) to install renewable energy systems that help the fuel poor to cut their bills. We also believe that the FITs are primarily a tool to reward small generators of their own power, rather than to drive bulk generation. Nevertheless we support the additional payment for export, as this will encourage energy efficient behaviour (Sustainable Consumption Roundtable, 2005).

However, the cumulative value of the three benefits must not extend beyond the level necessary in a marketplace that undervalues renewable energy generation. Tariff calculations must therefore include reference to the value of the energy used on-site. We expect to see the tariff level change as the market is affected by other factors such as technological developments, rising energy prices and consumer awareness of climate change.

Q36. Do you agree that the best way of delivering security for the investor is to set a long-term guaranteed price for exports?

Consumer Focus and its predecessors, energywatch and the National Consumer Council, criticised the renewable obligation for the lack of certainty it gave investors. Individual consumers and small communities are more exposed to risks than most companies and therefore we support a long-term guaranteed price for new installations. We also support the choice given to larger installations (50kW – FIT max) between set tariffs and the variable Renewables Obligation as they may be able to carry more risk.

Q37. Do you agree that FITs generators should also benefit from on-site use of their generation?

Consumer Focus supports the FITs as a driver of onsite generation, to encourage efficient use of energy, including reductions in transmission losses. The greater value of onsite use rather than export should encourage multi-site generators to site systems where their power will be used. This support for payment for onsite use is given with the caveat that the value of onsite use should be incorporated into tariff calculations.

Q38. Do you have any other views on the basic structure of the FITs?

Consumer Focus is concerned about rising bills for all consumers, particularly those in fuel poverty. We support the three key elements of the structure (payment for electricity generation; for electricity export; and reduction in bills) which work together to promote local and efficient use of electricity generated from renewable sources.

Taxation

As long as feed-in tariffs are paid for by the energy consumers, we believe that they should be exempt from tax to prevent a duplication of tax on energy consumers. We are concerned how the development of the tariff could have reached this stage without clarity on taxation, as this is fundamental to stakeholders' calculations of its value and impact.

Index linking

Consumer Focus recognises that generation tariffs should be linked to the cost of the equipment rather than to the energy price. Many FIT generators will benefit from greater savings from on-site usage as energy prices rise. This benefit will not exist for those exporting electricity, and the consultation document is cause for confusion for exporters:

- 'A guaranteed minimum payment' (p10); 'The generator may choose whether to sell exported electricity to the supplier at this guaranteed export tariff, or negotiate a price for exported electricity in the open market' (3.5)
- 'We propose offering generators a one-off choice of receiving a fixed export tariff or opting out and only receiving a fixed tariff for generation and participating directly in the market for the sale of their exports' (3.18).
- 'We are looking to implement a tariff scheme where there is a tariff for all electricity generated and the value of exported electricity is fixed for the generator' (3.95).

Consumer Focus believes that a one-off choice is insufficient given the 20-year period over which these tariffs will be paid. We expect consumers and communities to become more energy-literate and for the energy market to continue to change. We therefore support the option to switch but in order to limit administration costs, we suggest:

- A minimum is set at each review period, valid for all new installations for their lifetime
- the export tariff for existing installations is revised at each review period to reflect trends in energy prices (up or down, to the minimum), and all generators on the export tariff are moved to this automatically
- generators are able to make a switch once per review period

Q39. Do you agree with the proposed limits of 5MW for renewable technologies and 50kW for gas fired CHP for FITs installations?

Yes, Consumer Focus supports these limits, and the banding of tariffs by scale such that the tariffs can co-exist with the Renewables Obligation.

However, the range of tariffs for wind power effectively sets a limit at 500kW. The sudden drop in tariff for the 500kW to 5MW band will limit the cost-effectiveness and output from community-owned installations as generators will choose smaller, less cost-effective turbines and fail to exploit the full potential of good quality sites. We want to see a more gradual decline in tariffs through to the 5MW level to reward (and not restrict) large-scale community schemes.

Q40. If you disagree with the proposed limits, what lower limits would be more suitable and why?

Q41. Do you agree that generators off the electricity grid should be eligible for FITs? If so, what safeguards should be put in place for these generators to ensure the electricity is being used?

Consumer Focus supports eligibility for all generators, as the alternative of a diesel generator is harmful to the environment and leaves vulnerable consumers at risk from rising fuel prices.

There are no official statistics but it appears that there are between 50,000 and 100,000 homes not connected to the National Grid, including up to 40,000 families in vans, caravans and boats. The cost of supporting these homes' move to renewable energy will have a relatively small impact on other consumers' bills.

To ensure that this impact is minimised we support the use of the following for micro-generation (less than 50kW):

- self-metering by the generator, using an accredited total generation meter
- estimation of the output for systems to test accuracy of metering
- spot checks on generators
- a cap on annual payments related to the number of residents, with a reduction for second homes to reward useful generation of electricity

For installations over that level, we support the replication of procedures used under the RO, with off-grid generators required to declare use of the electricity generated. The accreditation of systems for payment should incorporate a check on the proportionality of installations.

Q42. Do you agree with the selection of technologies for which we will be providing tariffs from April 2010?

The technologies listed are proven and are those that are currently used by consumers and communities. However there is no consideration given in the consultation document to the sustainability of biomass, or agrofuels. Consumer Focus does not want fuels incentivised that have a greater environmental cost than fossil fuels due to greenhouse gas emissions from fertiliser production and transport, or due to deforestation.

Q43. Should technologies for which we do not propose to offer a specific tariff from April 2010 be handled by: providing a single tariff from April 2010 for all remaining technologies or considering a new tariff band as part of regular FITs reviews?

Consumer Focus wants the tariffs to be regularly reviewed to ensure they are reflective of the market. This review should include the opportunity to add new technology as well as adapting pricing of current technologies. We also support the use of a single tariff for new technologies in the interim period to lower entry barriers to the market, but this would be reliant on the relevant technologies being accepted by the scheme's administrators as fit for purpose at this level.

Q44. Do you agree that the FITs should not require onsite generators to comply with any energy efficiency standards as a condition for eligibility?

Consumer Focus supports the application of the energy hierarchy as part of a whole-house approach. In advance of the full development of the latter approach, and the testing of the Pay As You Save approach, we accept that energy efficiency measures may not be enforced prior to take-up of the tariff. However, consumers (including investors in community schemes) should be advised of the application process on how their returns on investment in energy and heat services would be improved through heat saving measures such as insulation and draught-proofing, as well as relatively inexpensive investments in energy efficient light bulbs and appliances, or other cost-effective behaviour changes.

We expect this advice to become more explicit with the application of the whole-house approach and for the energy hierarchy to shape access to the FIT following the 2013 review.

Consumer Focus is concerned about the energy efficiency of homes in the rental sector, and the lack of incentive for landlords to improve their energy performance. The hierarchy could be introduced in this sector as a pilot for wider implementation, using existing measures to the benefit of consumers and the UK's housing stock (see below).

Q45. Are there any issues regarding eligibility that we have not foreseen? If so, how should we address them?

Rental sector

Social housing is among the most energy efficient housing in England, following significant investment by the Government and social landlords. This work continues and should now be extended to incorporate renewable measures into building improvements. Consumer Focus is pleased that social housing providers recognise the potential that FITs and the Renewable Heat Incentive have to reduce consumer bills, although this will ultimately depend on the tariff levels and the tax applied to revenue.

Private rental households are disadvantaged in terms of accessing FITs, whether or not they are fuel poor¹. Without ownership of a building, or an enlightened landlord (private or social), they will end up paying through their energy bills for benefits that will go to better-off homeowners, as renewable energy systems are, in general, more easily installed by owners of larger homes who have higher levels of disposable income.

This is an extension of the principal-agent problem facing the implementation of energy efficiency measures in rental properties. The private rented sector is particularly difficult to motivate due to the distance between the owner and the energy performance of the property, lack of compliance with EPC regulations (anecdotal evidence from Energy Efficiency Partnership for Homes), low tenant demand, and low awareness of the Landlords Energy Saving Allowance (LESA)².

DECC expects standard property ownership rights to be applied to the ownership of generating equipment and for FITs to be payable to a property. However, they also propose that a generator may assign the rights to the FITs payments to a third party agent. This could mean that a landlord receives income from tariffs, with a five to eight per cent rate of return (subject to HMT's decision on taxation), with no benefit to tenants.

Consumer Focus would welcome incentives to landlords to use their properties to generate energy from renewable sources, provided:

- basic measures under the EPC are completed for the property in question
- housing Health and Safety Rating System (HHSRS) standards are enforced by the local authority
- the resident receives the benefit of relatively lower energy bills

32 per cent of tenants who moved after October 2008 claimed they used an EPC³ when selecting a new property to rent and so measures are likely to add value in the mid to long term. We do not believe further incentives are necessary. This approach would provide a scalable pilot for using EPC measures and existing enforcement procedures to incentivise improvements to energy performance.

¹EEPH (February 2009) 'Private Landlords Research'

²EEPH (February 2009) 'Private Landlords Research'

³EEPH (February 2009) 'Private Landlords Research'

Skills

Many households may not install technology because they are not interested or do not have the time, skills or energy to co-ordinate the work involved.

Consumer adoption of renewable technology for the production of electricity or heat is reliant on external support. It is said that each installation is likely to require the entire skill set found in a specialist renewable project development company:

- whether cost-effective energy efficiency measures have been installed
- which technology?
- what planning permission is required?
- what funding is available?
- who can provide and install the system?
- how do I use the system to cut bills?
- who do I turn to if it goes wrong?

To address this confusion, Consumer Focus advocates provision of free advice on energy efficiency and small scale renewables to support the move to the whole house approach and ensure that consumers make cost-effective choices – particularly when these are subsidised from energy bills or the public purse. A single accreditation scheme or trade body should be established for energy services advisors and installers (covering energy efficiency, renewable energy and adaptation to climate change) so that consumers can have a mechanism to ensure the service they receive is of a suitable quality. There should also be a single point of contact for redress when things go wrong.

Q46. Do you agree with our approach not to offer up-front capitalisation schemes as part of the FITs? If not, what alternative approach do you propose and why?

A stable and reliable tariff structure could support affordable finance from banks, but it is dependent on the tariff level including the current costs of finance. It appears that current tariff levels may be insufficient to support the funding of renewable energy systems by social housing providers and fuel poverty scheme managers (eg, Warm Front). We support the provision of Government-backed low interest loans (which could be supplied through the commercial banks as seen in Australia⁴) until new low cost funding mechanisms are available. Specifically, we want to see such loans used to support the application of feed-in tariffs to social housing providers and fuel poverty scheme managers (with respect to installing micro-generation in the homes of eligible groups) to allow people on low incomes to benefit from the scheme.

Consumers on low incomes may not wish or be able to take out loans due to the low ROI (particularly on solar pv). The proposed system allows other mechanisms to provide these consumers with renewable energy installations (see Q47), and we also want the heat and energy saving strategy and related financing mechanisms to include renewable energy as part of its application of the energy hierarchy. These programmes may use the third party arrangement. The accreditation and redress scheme will need to provide protection for consumers who are provided with systems that fail to deliver sufficient revenue to cover the loan payments.

⁴ <http://www.energymatters.com.au/government-rebates/low-interest-solar-loans.php>

Q47. Do you agree with our approach that a generator may assign the rights to their FITs payments to a third party? If not, what alternative approach do you propose and why?

The Government expects standard property ownership rights to be applied to the ownership of generating equipment, and for FITs to be payable to a property. However, they also propose that a generator may assign the rights to the FITs payments to a third party agent. Consumer Focus agrees with this approach. This provides more opportunity for benefits to be delivered to private and social tenants, low income owner-occupiers and for consumers who do not want to take out long-term loans to invest in renewable energy generation.

The mechanism is also essential to the development of ESCos. Such companies will be able to build up the expertise in order to reduce costs and entry barriers; provide maintenance services; and provide an end-of-life service to re-use or recycle viable equipment.

However, we expect protection for consumers living in properties that are hosting renewable installations. We also want measures to relate the payment of the FIT to the overall energy performance of the home. Such measures should include:

- basic measures under the EPC are completed (delivered through concurrent heat and energy savings programmes)
- housing Health and Safety Rating System (HHSRS) standards are enforced by the local authority
- the resident receives the benefit of relatively lower energy bills

Furthermore, the process of assigning rights should allow the benefit of the FIT to transfer with a change in property ownership.

Q48. Do you agree with the proposed model for registration and accreditation of plant claiming FITs discussed in the Accreditation, Registration and Connection section?

We support the use of the Micro-generation Certification Scheme, complete with REAL Assurance, to provide a redress scheme and quality of service standards, or the use of an equivalent. There is criticism of the cost of membership and bureaucracy of this scheme, but whatever changes are made two forms of protection must be provided for consumers:

- generators are provided with installations that are fit for purpose, that are supported through their lifetime and deliver advertised returns
- energy consumers, as funders of the FIT, pay only for used output from installations that are fit for purpose

Certification schemes will become more affordable to providers as the market grows, but Consumer Focus would like entry barriers to be reviewed to maximise consumer choice and lower costs.

As sites are upgraded by commercial operators, communities may be able to take advantage of the market in second-hand turbines. Consumer Focus supports the re-use of turbines that are fit for purpose, and wants the central accreditation scheme to incorporate processes for reconditioned photovoltaic panels, turbines and other systems.

This may prolong the period of mechanical and technical support required from manufacturers but will support wider sustainability goals of re-use and recycling. A dual tariff may need to be considered as the market develops to reflect the difference in costs for those using second-hand hardware, to avoid the energy consumer paying for it twice.

Q49. Do you agree with the principle that all generation should be metered to qualify for FITs? Do you foresee any issues with this approach?

Consumer Focus believes that all domestic and commercial generation should be metered (including off-grid generation) to ensure that generators are paid for what they generate, and consumers only pay for what is generated.

We are concerned about the gap between the introduction of FITs and the official roll-out of smart meters, due to the potential cost to consumers and wasted hardware. To reduce potential waste, Consumer Focus asks that FIT generators are provided with smart meters as soon as they have been accredited. Consumer Focus expects costs of interim measures to be minimised and there may be a case for deeming output in the short-term for small installations, rather than incurring cost from interim metering solutions.

Q50. What are your views on regulating which suppliers should be required to offer FITs, and in what circumstances?

Consumer Focus believes that generators should have the right to switch both import and FITs supplier, and that there should be no question of consumers being forced to take electricity supply from the FITs supplier, despite the commercial drivers.

Due to the low numbers of homes off the National Grid and the lack of remote access over time, we do not believe that all suppliers should have to offer FITs to this group of generators. In order to deliver this service most efficiently, Consumer Focus supports the provision of this service on a regional basis by the incumbent suppliers.

Q51. Do you agree with the tariff levels, lifetimes and degression rates we have set out for the chosen technologies? If not, what evidence do you have for choosing alternatives?

Tariff level

Tariff levels are sensitive to a number of unknowns that will differ by technology, site and generator:

- interest rates
- hurdle rates
- maintenance costs (parts and labour)
- installation costs (infrastructure and labour)
- potential energy generation
- promotion from other policies such as the Carbon Reduction Commitment and the Heat and Energy Saving strategy.

Overall, Consumer Focus is concerned about the focus on the tariff as a driver. Success in Germany was driven by a mixture of technology-specific programmes, investment and production incentives⁵. These included soft loans alongside feed-in tariffs, with an interest rate reduction of 4.5 per cent. Meanwhile EST's consumer pulse survey has identified other obstacles such as worries about planning permission, looking out of place in the neighbourhood, maintenance, becoming outdated quickly, preventing the sale of the house, theft or vandalism, and skills in the installer base.

There is a range of responses to the tariff levels, with some parties feeling they are about right and others determining that they do not offer a sufficient rate of return. Consumer Focus wants costs to energy consumers minimised but recognises:

- diversity in energy generation is needed to secure future energy supplies and aid decarbonisation
- the tariff needs to get off to a strong start to develop supply chains and bring down production costs
- financial benefits in the short-term will attract more early adopters who in turn can help overturn some of the social obstacles identified by the EST survey
- the level of the tariff will determine a bank's willingness to lend money to consumers and communities to cover start-up costs
- the sensitivity needed to link payments to the intricacies of individual installations would create more bureaucracy, which would carry its own cost

Calls for increases have centred on a call for 10p on solar photovoltaic tariff rates, and the application of a standard return on investment of eight per cent or 10 per cent. Consumer Focus has reservations about a standard ROI across technologies, particularly in relation to solar photovoltaic panels, due to the relative ease of installation and low maintenance costs. Furthermore Consumer Focus does not support the raising of tariffs in order to cover commercial profit-taking and taxation at cost to the energy consumer.

The UK Government has a window of opportunity through to 2013 to develop a foundation for small-scale generation:

- low interest rates mean relatively low hurdle rates among investors
- significant shareholdings in high street banks, which could facilitate the arrangement of government-backed low cost loans to small-scale renewable energy generation projects
- concurrent development of the Heat and Energy Saving Strategy:
 - this will drive the market from 2013
 - the renewables industry must be ready to deliver to the tight timetable of whole house improvements set out in the Heat and Energy Saving Strategy

Consumer Focus therefore supports a revision of the tariffs set out in the consultation document that increases the return on investment for large-scale use of solar photovoltaic panels, particularly in the context of social housing and high levels of onsite usage (which comes at lower cost to the energy consumer and a higher return to generators).

⁵ Agnolucci P (2005) 'Use of economic instruments in the German renewable electricity policy', Energy Policy, 34, 3538–3548

This tariff should be set to 2013 when tariffs must be reviewed in the context of fossil fuel prices, the heat and energy saving programme for domestic properties, the renewable heat incentive, and commercial drivers such as the Carbon Reduction Commitment and the EU ETS. We expect the tariff to decrease in line with the solar PV industry's predictions⁶ of a fall in the price of silicon, solar panels and their mounting systems. If costs fail to fall, the level of support must still be re-evaluated in 2013 as the UK moves in to large-scale delivery of its low carbon transition, a plan that must be executed cost-effectively. We would expect to see reductions in other tariffs as the benefits of on-site generation rise with energy prices; concurrent policy drivers kick in; and suppliers help lower the entry barriers to consumers and communities.

Degression rate

Consumer Focus supports the inclusion of a degression rate so far as it keeps the tariff in line with the cost of the relevant technology and prevents excessive payments. We recognise that a lower tariff over a longer period may be cheaper for consumers in 2020 (element & Poyry, 2009, Quantitative issues, p57 to 58), but there is a need for a greater incentive in the short term to drive cost reductions in the industry and to normalise the adoption of renewable energy by consumers and communities.

However, degression rates are not a common feature in other countries, particularly in the early stages, and we are concerned about the levels proposed. Firstly, demand and resource costs may cause price rises, particularly as the global economy emerges from recession. Secondly, the figures in the consultation document (seven per cent for all PV installations and three to four per cent for wind micro-generation) are higher than that used by Element and Poyry in the related quantitative analysis (five per cent for wind and no degression for wind installations) and those used in Germany through to today. There is no rationale in the consultation document for this change in figures and they appear high in comparison with those used in Germany, particularly for a new tariff in an uncertain market.

As above, Consumer Focus supports a review of the solar PV tariffs in line with evidence from generators and lenders, and the cost reductions estimated by industry. We support the use of degression rates across technologies as they mature, but this complexity adds to uncertainty to a new marketplace which may deter investors, particularly if they are uncertain of the timescales for installations. We therefore advocate their introduction from the first review point, at which stage they can be used to provide certainty about changes to the tariff rate over a longer period.

⁶ PV-UK (March 2009) 2020: A vision for UK PV, <http://www.solarcentury.co.uk/content/download/15081/262086/file/UK-PV-report-03-09.pdf>

Q52. Do you agree with our proposed guaranteed minimum price for the exported electricity? If not, what price would you propose and what is it based on?

It is not clear how this was calculated, but it appears that this level reflects the wholesale price (and expected increases in this price) and is likely to be more than small generators would be able to secure on the open market.

If any of the three benefits is increased then we would expect this to be balanced by changes in others to keep the cumulative benefit in line with the market.

Q53. Does the proposed review structure provide the right balance between providing certainty and adapting FITs to the changing circumstances in which it operates?

Consumer Focus supports the timing of the review structure, in 2013. However, we would also like the review to include:

- a review of the export tariff both for new and existing installations
- a trigger to permit generators to change between fixed export prices and the fixed tariff

Q54. Do you have any initial views on the relationship between FITs and those in fuel poverty or on low incomes?

Overall, the introduction of FITs will adversely affect low-income groups due to its impact on bills and the barriers to this group's take-up of the different technologies. Micro-generation technology, especially power technology, tends to be better suited to larger dwellings which are more likely than small dwellings to be occupied by wealthy households, and to wealthier households because of the high upfront costs. Action must be taken to reduce and mitigate the impact of rising bills on this group of consumers.

Mitigating against price rises

By funding the transition to a secure low carbon energy supply through energy bills rather than general taxation, people on low incomes or in hard to heat homes are paying disproportionately for a strategy that has broad societal and environmental benefits. We want a clear strategy, across energy policy, to limit this hidden taxation and to proactively address the negative impacts on fuel poverty. We also want a clear set of principles, agreed with stakeholders about the appropriate allocation of investment costs between energy consumers and public expenditure.

It is estimated these tariffs, together with the RHI, will add 14 per cent to domestic consumers' bills by 2020. Consumers on low incomes or in fuel poverty are particularly exposed to high fuel prices, which are set to rise five to 10 per cent. Concurrent measures are needed to mitigate against these rises:

- The UK Government and regulator need to manage the impact of levies and other price rises on bills:
 - by ensuring that price cuts are fairly passed on to consumers,
 - by eliminating unfair price differentials,
 - by introducing mandatory standards for social tariffs; and
 - by taking a more strategic approach to managing the impact of rising bills on consumers, whether due to wholesale price rises or environmental levies.
- This should start with a national programme of energy efficiency and renewable measures to bring the homes of people in (or at risk of) fuel poverty up to EPC B and B.

Access to the benefits of FITs

Intervention is needed, in the form of CESP or other area-based projects, to facilitate the installation of community-based power generation from renewable sources on a household's behalf, particularly where micro-generation is not possible due to restrictions caused by household income, type and location.

Applying energy efficiency measures at the same time as installing renewable systems limits the hassle factor, increases the consumer's return on investment and cuts costs on other consumers' bills. Advice should be provided alongside all new installations, but Consumer Focus wants action taken to address the energy efficiency of homes of the most vulnerable consumers.

Allowing third parties to supply and manage renewable energy generation for householders in return for receipt of the FIT payments could cut through entry barriers for those on low incomes. But protection is needed for households taking up third party suppliers. Agents must take on the risk of any related debt just as they take on the benefits of guaranteed payments and they must answer to a related assurance scheme.

Consumers in all rental properties must be able to benefit from FITs. The ability for landlords to receive feed-in tariff payments will offer an incentive for their investment, but residents must be able to benefit from lower energy bills and income from exported energy.

Finally, we recognise the value of these tariffs to engage consumers, to increase the UK's generation of energy from renewable sources and therefore the country's ability to move to a cleaner, greener and more secure energy supply. All consumers must be able to share in these benefits.

Q55. Do you agree that the levelisation process described above provides the best system for redistributing costs amongst suppliers? If not, what other ways can we levelise costs across suppliers?

Q56. How can the levelisation process facilitate participation in FITs for small suppliers?

Q57. Should suppliers be able to include an administration cost in the levelisation process? If so, what should the level of that allowance be and how should it be determined?

Q58. Should the levelisation process include consideration of large and unforeseen price differences between prices paid to generators and the market value?

Consumer Focus's concerns about this process are limited to:

- Costs
 - we expect this process to be undertaken using existing mechanisms to minimise administration costs
 - administration costs should reflect the economies of scale present for large suppliers (both in terms of collecting and paying the FIT)
- Timing – with less than 6 months to go, there is a risk that the process will not be ready if it is now being consulted on
- Impact on smaller suppliers – cash flow may be a significant issue for the small 'green' suppliers that may be favoured by early adopters of the FIT. The Government must support these suppliers in the event of the levelisation process failing to deliver.

Q59. Do you agree with the proposed approach to auditing, assurance and enforcement? If not, what alternative approach do you propose and why?

Q60. Are there any issues regarding the role of suppliers that we have not foreseen here? If so, how should we address them?

Suppliers may provide installation services but this must not affect the consumers' ability to switch energy suppliers.

Q61. What do you think is the best way of defining an installation for the purposes of FITs?

The proposal that different technologies will be classed as two different installations would have the perverse consequence that generators may not choose the most cost-effective and productive technology.

The definition of an installation for the purposes of FITs should be a function of its ownership and its location as there are different economies of scale available from these factors:

An owner with multiple sites will benefit from the ability to purchase technology in bulk and to re-use expertise

A single site that houses multiple systems with different owners will benefit from lower planning, community engagement and land access barriers

In both these cases the first system will have higher costs, due to the initial barriers, and the later systems will all have lower but similar costs (only declining with technology advancements).

So, an installation should be defined by a named generator at a given site (potentially defined by distance from the first installation). Gaming could be prevented through paying installations installed within a defined period according to the cumulative output of the generator at that site, and through a more gradual decline in tariff levels (particularly in the wind sector from 250kW through to 5MW). Attempts to access higher tariffs through separate company accounts or 'named generators', or through defining a new 'site', may be deterred by administrative and additional installation costs for the generator concerned, and by the threat of having access to tariffs removed.

The economies of scale across sites are difficult to reflect in the tariff structure, but it demonstrates how large organisations are at an advantage to individual consumers or communities who will come across high entry barriers. It is imperative these are reduced through the assurance scheme and the heat and energy saving strategy.

Q62. Once an installation is defined, do you think further checks are required to verify this? If so, what would these checks be?

In the absence of smart meters, we would expect meters to be manually checked on an annual basis, with any errors in payments resolved within 90 days.

Q63. How could we deal with installations at a single site installed in different years?

Individual metering is relatively simple, with line items on the payment slip to the generator, noting the location of the installation, its output, percentage exported and the tariff payable according to its commissioning date.

Q64. Do you agree with the proposed approach for the treatment of existing generating stations?

No. The system should not punish early adopters. We support access by existing generators to FITs, through the relevant accreditation process, whether or not they were accredited under the RO before publication of the RES. However, if they will be worse off, then generators should not be transferred unless the tariff is raised to meet current market rates (SSE, 28p/unit; Good Energy, 15p/unit; reducing to 9p for generated energy plus 5p for export under the proposed FIT).

Q65. Do you agree with the proposed approach for the treatment of generating stations which completed installation during the interim period?

Consumer Focus largely agrees with this approach apart from concerns about the level of certification required. Installations may not be MCS certified as this is under consultation and generators may not have RO certification if they are waiting to register for the FITs. Such generators must be able to complete the registration process in April through certification by the MCS.

Q66. Do you agree that, for non-household installations built during the interim period, we should make access to FITs conditional upon repayment of any central Government grant received for such installations?

Yes, duplication of payments should be avoided.

Q67. Do you agree with the proposed approach for the treatment of new generating stations once the FITs scheme becomes operational?

Yes. Although we are concerned by the definition of 'approximately equivalent level' of payment for micro-generators moving from RO to FIT. Early adopting generators should not be left worse off in the transition.

Q68. Do you agree with the decoupling of support for heat and electricity for new renewable CHP plants? What are the technical issues that need to be considered in implementing transitional arrangements towards the introduction of FITs and RHI for CHP installations?

Q69. Do you agree that FITs should not restrict access for those projects covered by other schemes?

Consumer Focus agrees that FITs should not be allowed to undermine energy efficiency measures, if anything they should be used as a driver for energy efficiency as this will maximise returns to the generator. For example, energy consumers should not carry the burden of funding the zero carbon homes policy. Such homes should be built to the highest efficiency standards before renewable energy and heat is supported by renewable energy tariffs. Furthermore, new developments will benefit from lower installation costs so we support the proposal of a lower tariff for use of PV in new builds.

Consumer Focus response to consultation on Renewable Electricity Financial Incentives 2009

If you have any questions or would like further information about our response please contact Liz Lainé, Senior Policy Advocate, by telephone on 01636 816969 or via email: liz.laine@consumerfocus.org.uk.

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From a textphone, call 18001 020 7799 7900
From a telephone, call 18002 020 7799 7900

Consumer Focus

4th Floor
Artillery House
Artillery Row
London
SW1P 1RT

Tel: 020 7799 7900

Fax: 020 7799 7901

Media Team: 020 7799 8005 / 8006