

Squeezing FITs

**THE CARBON
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The Feed-in Tariff is a new scheme designed to incentivise individuals and companies to become local electricity generators. The newsagent round the corner, the out-of-town supermarket and the houses in the close will all be capable of generating electricity for their own use and of selling the excess into the grid. For this they will be paid handsomely. They will get:

- ◆ the FIT for electricity they generate, whether they use it or not;
- ◆ an additional fee for electricity that goes into the grid (or that is deemed to go into the grid); and
- ◆ free electricity.

The downside is the high capital costs of installing the generation equipment. Here the installers step in and do it for free. They fund, design, install and run the technology and earn the subsidies while the house, the supermarket and the shop owner get the electricity the equipment generates for free.

Government is keen on this arrangement, even though benefits don't all go to mini-generators.

- ◆ They positively want to create the conditions for a 'smart' domestic-level grid (doubtless over time we and they will come to know precisely what that means).
- ◆ They believe that by this means energy security risk can be spread, partly as a result of energy diversification and partly as a result of the nature of that diversification.
- ◆ They foresee/hope that it will give rise to an increase in renewable energy output and help us reach our 2020 and 2050 targets.
- ◆ Land energy suppliers with a 50,000+ client base (the Big Six) foot the bill for the entire scheme; government pays nothing.

But with the Comprehensive Spending Review all expenditure, including FITs, is up for review.

Why should government review a subsidy it isn't paying for? The official position is that any government meas-

ure that increases consumer expenditure is open for review.

But there is more to it than that. The government has been committing itself to the heat incentive over the last weeks. It is still unclear how it's to be funded—particularly as we expect it won't be by government.

Add to that the need to fund measures in the impending Energy Bill and White Paper. The costs of these policies will be significant. If government won't be paying, there seems little option but to slim down the financial obligations of the Big Six under the FITs to free them up for a wider financial remit.

Slimming the FITs won't, surely, mean ending it. We know it will remain in some form: the government said so in spades at the party conference, although refusing to be drawn on detail.

If we take it for granted that FITs is up for review and that there will, perhaps, be some drawing back, is there any way to determine the likely form of the re-vamped FITs?

There can be no certainty, but government could achieve most of the objectives listed above by cutting out high cost projects. So, for example, the PV tariff could end at standalone schemes. That for hydro could end at the 2MW level, with wind ending at 1.5MW.

Other ways of dealing with the FITs are contentious—and could set back investment confidence for the foreseeable future. However the government deals with this, it must ensure the investment community stays on side.

The grapevine says we won't know the shape of the FITs by 20 October but that we will then know – in the announcement of the Comprehensive Spending Review – when and how decisions will be taken. So either there's room for negotiation with government or what it aims to do is complex. On its last showing with a complex scheme, the renewable heat incentive, that probably means there's room for negotiation.