Review

Corporate Strategy & Finance

Clean Energy Cash Back

This coming 1 April will mark a significant change to the renewables sector in the UK with the introduction of the Government's Clean Energy Cash Back Scheme (the 'Scheme'). The Scheme is a feed-in tariff mechanism (akin to those which have operated with some success in Germany for many years) whose goal is to incentivise increasing numbers of householders, communities and small businesses to become renewable or low-carbon generators, rather than simply consumers, of electricity.

In this Review we summarise the key features of the Scheme and take a brief look at how it interacts with the RO and various other existing and new policy measures across the sector.

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ELIGIBLE TECHNOLOGIES

The Scheme is designed to support the following technologies:

- wind
- solar PV
- hydro
- anaerobic digestion ('AD')
- micro CHP[1]

Notable omissions include non-AD biomass and biomass CHP. Although included during earlier stages of the consultation, a decision was taken to remove them from the Scheme because, according to DECC, it was not possible to sufficiently develop the procedures for accreditation and ongoing management and compliance monitoring in the time available. This obviously leaves it open for biomass technologies to be introduced later - the position will be kept under review. However, given the complexities DECC identified, it remains to be seen whether the position can be resolved in the short to medium term.

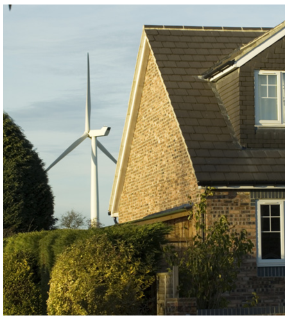
Gasification, pyrolysis, geothermal, wave and tidal and any refurbished or second-hand installations are also ineligible under the Scheme.

TARIFF STRUCTURE AND RATES

The Scheme will offer eligible generators a fixed payment for every kilowatt hour of electricity generated (the 'generation tariff') plus an additional payment for every kilowatt hour exported to the grid (the 'export tariff')[2].

1 A pilot programme will support the first 30,000 micro combined heat and power installations with an electrical capacity of 2kW or less.

2 Generators will have the right to opt out of the export tariff and instead negotiate their own export price in the open market if they choose to do so. They will also have the right, where appropriate, to opt back in.



The applicable generation tariff rate will depend on the technology type and its capacity as follows:

Technology	Scale	Tariff level for new installations in period (p/kWh)			Tariff lifetime (years)
		Year 1: 1/4/10 – 31/3/11	Year 2: 1/4/11 – 31/3/12	Year 3: 1/4/12 – 31/3/13	
Anaerobic digestion	<500 kW	11.5	11.5	11.5	20
Anaerobic digestion	>500 kW	9.0	9.0	9.0	20
Hydro	<15 kW	19.9	19.9	19.9	20
Hydro	>15-100 kW	17.8	17.8	17.8	20
Hydro	>100 kW-2 MW	11.0	11.0	11.0	20
Hydro	>2 MW – 5 MW	4.5	4.5	4.5	20
MicroCHP pilot	<2 kW	10	10	10	10
PV	<4 kW (new build)	36.1	36.1	33.0	25
PV	<4 kW (retrofit)	41.3	41.3	37.8	25
PV	>4 – 10 kW	36.1	36.1	33.0	25
PV	>10 – 100 kW	31.4	31.4	28.7	25
PV	>100 kW – 5 MW	29.3	29.3	26.8	25
PV	Stand alone system	29.3	29.3	26.8	25
Wind	<1.5 kW	34.5	34.5	32.6	20
Wind	>15 – 100 kW	24.1	24.1	23.0	20
Wind	>100 – 500 kW	18.8	18.8	18.8	20
Wind	>500 kW – 1.5 MW	9.4	9.4	9.4	20
Wind	>1.5 MW – 5 MW	4.5	4.5	4.5	20
Existing micogenerators transferred from the RO		9.0	9.0	9.0	To 2027

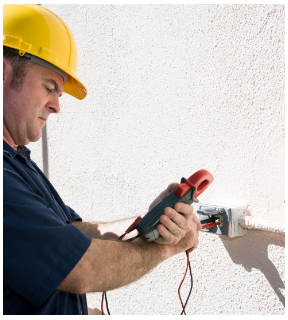
The export tariff will be paid at a flat rate of £0.03/kWh. This is lower than the £0.05/kWh originally proposed, but generation tariffs have been adjusted to take account of this with overall rates of return remaining broadly the same. DECC expects that, for well-sited projects, overall rates of return should be between 5-8% in real terms. However, since both the generation and export tariff are subject to RPI, this could equate to as much as 7-10%.

All tariffs will be paid for 20 years, save for Solar PV (where the eligibility period is 25 years) and micro-CHP (10 years). Installations transferred to the Scheme from the RO (see below) will receive support until 31 March 2027. Once a generator's tariff rate is established, this will be the rate received for the duration of the Scheme, subject to any increase (or decrease) annually by reference to RPI.

Generation tariffs for certain technologies will be decreased (or 'degressed') over time, beginning in April 2012 (see table above). However, degressed tariff rates will only apply to those new generation projects accredited during the relevant period and will not be back-dated to existing projects already accredited under the Scheme.

GENERATOR AND INSTALLATION ELIGIBILITY

In order to qualify, generators will be required to demonstrate that they satisfy the necessary eligibility criteria, whereupon they will be entered into a central Scheme register operated by Ofgem. The register will be used by licensed electricity suppliers to verify generator eligibility and the appropriate level of tariff support to be provided under the Scheme.



For wind, solar PV, hydro up to 50kW and micro CHP, eligibility may be assured by the generator simply employing an installer registered under the Microgeneration Certification Scheme[3], whereby data on the relevant installation will be automatically made available for accreditation purposes without anything further being required from the generator. For non MCS-installations (generally larger projects), generators will need to comply with a new accreditation and registration process under the Scheme similar to that currently operating under the RO.

FINANCIAL SUPPORT

There is to be no mechanism in the Scheme itself for up-front capitalisation of tariff revenues. DECC has indicated that it should be for the market to provide suitable financial products to make access to tariff payments under the Scheme as widely available as possible. However the Scheme permits the owner of a renewable installation to finance its investment by assigning tariff payments to a third party, providing this is evidenced by a legally binding agreement.

DECC also recently announced[4] its intention to replace the CERT scheme (which is due to expire at the end of 2012) with a new obligation on energy companies to invest in 'eco-upgrades' (including smart meters and renewable technologies). This will be accompanied by a 'pay as you save' mechanism to enable householders to repay the cost of such upgrades with the money saved as a result of lower energy bills. New legislation will be introduced to allow the cost of the upgrade to be 'stapled' to the home rather than the homeowner. Although the precise details are yet to emerge, there would appear to be no reason why 'pay as you save' could not be set up to work in conjunction with tariff assignments under the Scheme to provide a twin-track approach to financing domestic on-site renewable technologies.

ROLE OF LICENSED SUPPLIERS

Under the Scheme, licensed suppliers with over 50,000 domestic customer contracts will be obliged, on request from any generator, to pay the tariffs due to that generator. Those suppliers with fewer than 50,000 domestic customer contracts are obliged to pay tariffs only to their existing supply customers with a generation capacity of 50kW or below. Otherwise, such suppliers are entitled to choose to pay tariffs or not. A levelisation process administered by Ofgem will ensure that each supplier contributes to the overall cost of the Scheme in proportion to its share of the customer market.

INTERACTION WITH THE RO AND NFFO

From 1 April 2010, eligible 'microgenerators' (50kW and below) will be supported via tariff payments under the Scheme (and will no longer be eligible for ROCs under the RO). Existing projects will be transferred to the Scheme automatically. They will not be required to meet the MCS accreditation requirements, but will be required to contract with a supplier (by no later than 1 October 2010) in order to access tariff payments without interruption in support.

Where a microgenerator applied for accreditation under the RO prior to 15 July 2009[5], it will transfer to the Scheme at a rate of 9p/kWh and will receive this tariff rate until 2027. This equates to the equivalent level of support that it would have received had it remained in the RO. Microgenerators that apply for accreditation after 15 July 2009 but prior to 1 April 2010 will transfer to the Scheme at the normal tariff rates (depending on the relevant technology type and size) and will receive such tariffs for 20 years (25 years in the case of solar PV).

3 The MCS is an independent certification scheme accredited by the United Kingdom Accreditation Service which assesses installer companies and products against robust standards.

4 Warm Homes, Greener Homes: A Strategy for Household Energy Management URN 10D/550.

5 The publication date for the Renewable Energy Strategy and the consultation on Renewable Electricity Financial Incentives.

6 Like microgenerators, transferring small generators will also need to contract with a supplier by 1 October 2010 to ensure Scheme tariffs are provided without interruption.

Generators in the above 50kW-5MW band ('small generators') who applied for accreditation prior to 15 July 2009 will remain in the RO and will not be permitted to transfer to the Scheme. Small generators that apply for accreditation between 15 July 2009 and 1 April 2010 will have a window during which they may elect to transfer from the RO to the Scheme[6]. They are advised to notify Ofgem as soon as possible (and in any event before 1 April 2010) so that appropriate arrangements can be made. If a small generator wishes to transfer to the Scheme from the RO effective from 1 April 2011, written notice should be forwarded to Ofgem by no later than 31 August 2010. Where any small generator fails to make an election to transfer to the Scheme by the relevant deadlines referred to above, it will remain in the RO.

Transferring small generators will receive a Scheme tariff payment that is appropriate for the size and technology type of a relevant project. However, the duration of support provided will be reduced for transferring small generators to take account of the support already provided under the RO. For the sake of simplicity, all small generators transferring to the Scheme with effect from 1 April 2010 will have the support provided to them under the Scheme reduced by 6 months. For small generators transferring with effect from 1 April 2011, the reduction will be 18 months.

Any small generator commissioned after 15 July 2009 that has not applied for accreditation under the RO by 1 April 2010 will have the option to make a one-off election as to which scheme it wishes to join.

Any small generator receiving support under the Scheme, whether it transferred automatically or elected to do so, will not subsequently be eligible to receive support under the RO, unless of course the generator's project becomes ineligible for support under the Scheme (for example where additional capacity is added to a project such that it exceeds the 5MW limit).

Microgenerators not eligible for the Scheme (eg, AD, biomass) and renewables generators with a capacity in excess of 5MW, remain eligible for support under the RO. NFFO schemes are not eligible to join the Scheme (but remain eligible for support under the RO).

INTERACTION WITH OTHER POLICIES

The Scheme does not make any special provision for other measures that, directly or indirectly, incentivise the deployment of renewables, but restrictions or limitations imposed by such other measures may need to be considered in the context of the development of a project where there is an expectation that tariffs will be recovered.

For example, eligibility for Levy Exemption Certificates and REGOs will not be affected by the receipt of tariffs. Similarly, it is expected that the Government's policies on zero carbon new homes and non-domestic buildings, each of which is likely to lead to increasing deployment of on-site renewable technologies, will be complimented by the availability of tariffs under the Scheme (and, once introduced, payments under the new Renewable Heat Incentive Scheme).

On the other hand, certain limitations and restrictions governing the implementation of projects under the CERT and CESP schemes will in many cases remain relevant. To date, only a very small number of Scheme eligible projects have been brought forward by suppliers and generators under the Government's CERT and CESP schemes, but there is clearly potential for this to happen – microgeneration products are eligible measures under CERT, CESP and the Scheme. Where such projects are brought forward under these schemes, Ofgem will assess the proposed project on a case by case basis and, for example in the context of projects brought forward under CERT, a greater onus will be placed on suppliers to satisfy Ofgem that the project in question will produce the required 'additionality'. Government is also considering taking other measures to ensure that the Scheme does not offset the promotion of other core energy efficiency products (such as the installation of insulation under CERT).

Government has also indicated[7] that the receipt of grants under the Low Carbon Buildings Programme could impact eligibility for tariff payments under the scheme.

7 Details are contained in the Government guidance note: 'Feed-in Tariffs (FITs) and the Low Carbon Buildings Programme (LCBP)'.

SCHEME REVIEWS

The first scheduled review of the Scheme will take place in 2013. However, earlier reviews may be carried out to consider whether changes to aspects of its operation are required. The first scheduled review is intended to cover the cost of technologies, electricity forecasts and whether the target rate of return is still appropriate; tariff levels may be revised accordingly. Reviews may also consider technologies not currently supported by the Scheme, whether it is appropriate to allow such technologies access to the Scheme and establishing appropriate generation tariffs. To ensure investor confidence, any changes to future levels of support will apply only to investments following the review, ie, generation tariffs existing at the time of the review will be maintained for those installations already receiving them.

NEXT STEPS

New electricity supply licence conditions, which impose the requirement on licensed electricity suppliers to offer tariff payments under the Scheme have been laid in Parliament and are expected to come into force on 1 April. However, the statutory instrument that will establish the legal framework for the Scheme is yet to be published (though it is expected imminently).

Ofgem's draft guidance is also due to be released shortly. This is expected to provide more detail on the mandatory and voluntary supplier roles, the levelisation mechanism and the methods by which tariff payments will be calculated and made. Guidance on the arrangements for generators migrating from the RO will also be covered. Subject to the length of the consultation process, the final guidance document should be published this April.

In the meantime, if you have any questions on the Scheme and on its potential impact on your business, please contact Adam Langridge.

FURTHER INFORMATION

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