Briefing Note

Feed-in Tarrifs

Feed-in Tariffs (FiTs) were introduced by the Department of Energy and Climate Change (DECC) in 2010 with the aim of encouraging private investment in low-carbon electricity generation by providing a guaranteed price for every unit of electricity generated and every unit exported to the grid, avoiding the uncertainties of fluctuating energy prices.

FiTs are the only support available for wind, hydro and solar photovoltaic (PV) installations with an installed capacity of 50kW or less. FiTs complement and do not replace the support currently available under the Renewables Obligation Scotland (ROS) installations in Scotland with capacities between 50kW and 5MW may choose between the ROS and FiTs (this is a once-only choice).

Installations with a capacity above 5MW currently receive support under ROS. The Energy Act 2013 closes ROS to new installations from 1st April 2017, to be replaced by a combination of FiTs (up to 5MW) and new “Contracts for Difference” (over 5MW), setting a “strike” price for electricity generators to remove exposure to volatile electricity wholesale prices. Installations already receiving support under ROS will however be able to receive support under ROS for up to 20 years.

FiTs provide guaranteed generation and export tariffs for new anaerobic digestion, hydro, micro combined heat and power (micro CHP), solar PV and wind projects. The tariff levels payable depend on the type of technology and the size of the installation. Payments are made by electricity suppliers and the cost is shared among suppliers by a process called “levelisation” so that each supplier pays an amount that is proportional to their share of the electricity market in Great Britain.

The tariff levels are devised on the basis of a rate of return of 5% to 8% for well sited installations. Once an installation has been allocated a generation tariff, that tariff remains fixed (though it will alter in line with movement in the Retail Price Index) for the life of the installation or the life of the tariff, whichever is the shorter.

Tariffs available for new installations are regularly reviewed to reflect predicted technology cost reductions, to ensure that new installations receive the same approximate rates of return as installations already supported through FiTs (see Review and Tariff Degression overleaf).

Tariffs for new installations apply for 10 years for micro CHP and 20 years for solar PV, anaerobic digestion, hydro and wind. The latest tariff tables can be viewed at https://www.ofgem.gov.uk/environmental-programmes/feed-tariff-fit-scheme/tariff-tables.

Review and Tariff Degression

In February 2011, the Government announced the start of a comprehensive review of all aspects of FiTs with a view to improving the efficiency of FiTs and delivering savings of £40 million. After fast-track reviews of solar PV and anaerobic digestion tariffs over summer 2011, the comprehensive review was split into two phases.

Under Phase 1, the Government heavily cut the solar PV tariffs and introduced a multi-installation tariff and energy efficiency requirement for solar PV installations. Where a person (individual or company) installs more than 25 separate solar PV installations on different sites, a lower tariff will apply to the 26th installation onwards, to reflect the economies of scale associated with developing large numbers of sites. If a new solar PV installation is installed on, or wired to provide electricity to, a building for which energy is used to control the indoor climate, and if that building meets an Energy Performance Certificate (if one can be issued) rating of level E or below, the installation will be eligible for an even lower tariff.

Phase 2 was itself split into Phase 2A and Phase 2B. Phase 2A considered solar PV tariffs further and Phase 2B considered the rest of the eligible technologies and the administration of the FiTs scheme.

Following Phase 2A, there are now regular quarterly solar PV tariff reductions of between 3.5% and 28% depending on deployment in previous quarters (though if deployment is low, up to two successive quarterly reductions may be skipped, with at least a 3.5% reduction at the next scheduled date). The deployment in each of three bands (domestic, small commercial and large commercial/utility) will determine the % reduction in that band. The Government stated that this approach is used to reduce uncertainty surrounding future reviews of the scheme, although the basis for degression clearly does not remove uncertainty altogether for investors.

The tariffs for the other eligible technologies under Phase 2B of the review are now subject to regular annual tariff reductions of between 2.5% and 20% depending on deployment in the previous year and potential additional reductions on 1st October each year of between 5% and 10% depending on deployment in the preceding six months.

Although the comprehensive review did result in some of the original tariffs being quite drastically cut, it does appear that the initial costs of some of the technologies has reduced significantly and activity in the sector ultimately did not diminish.

A package of changes to support community energy projects was also introduced under Phase 2B, for example exempting these from the solar PV energy efficiency requirement to facilitate projects going ahead at schools and colleges.

A number of further administrative matters were also subject to Phase 2B of the review, to smooth out issues which had arisen in what is still a comparatively new subsidy scheme.

This note is intended as a brief summary of the Feed-in Tariffs. No responsibility can be taken for any action taken in reliance on this note and specialist advice should be taken in every case. Turcan Connell would be happy to provide such advice. For details of the Renewable Heat Incentive, which aims to incentivise the generation of heat from renewable sources, see our separate Briefing Note.

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