

Lifting the Lid on Feed-in Tariffs

Ofgem Microgeneration Forum
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Aim of session

A fact finding session

Promote Informed discussion

Highlight areas for UK to consider



Lifting the lid on FITs

What are they ?

Who has them ?

Enabling FITs

Why have FITs ?

European Schemes

How flexible are FITs ?

Who pays for FIT ?

How is financial support for
RE and microgeneration
funded ?

What are the considerations
for a UK Context ?



What are FITs ?



Many forms but generally put a **legal obligation** on **transmission or distribution networks** to buy electricity from renewable energy producers at a premium rate

Provides tariffs for a **range of levels** from domestic to large scale developments

The **tariff** generally **decreases** over time e.g. by 5% after 10 years and by 10 % after 15 years

The **tariff** and **term** are set at **specific levels** above the market rate for each technology

The **cost** is shared in various ways **between all energy users**

Who has Feed-in Tariffs ?

In 2007 FITs were in place in 46 jurisdictions around the world, including Canada, Australia, the US and most of the countries in Europe

Portugal introduced the first FIT in 1988, updated in 2001

Germany and Spain's FITs are considered good models because of their success in mass deployment of renewables particularly microgeneration and the low cost to customers

Ireland introduced a FIT in 2005 replacing a quota system

Why have FITs ?

To address financial barriers to renewable energy and encourage long term investment in the renewable market

To create a level playing field for all sizes of renewable and all types of technologies particularly in the absence of carbon pricing

To introduce a direct policy instrument to contribute to renewable energy targets




Enabling FITs

In the absence of effective carbon pricing, financial support such as FITs are a necessary but not sufficient condition to bring forward renewable energy or microgeneration.

In Europe **FITS** and other financial support have been introduced alongside other renewable energy policies to address non financial barriers.

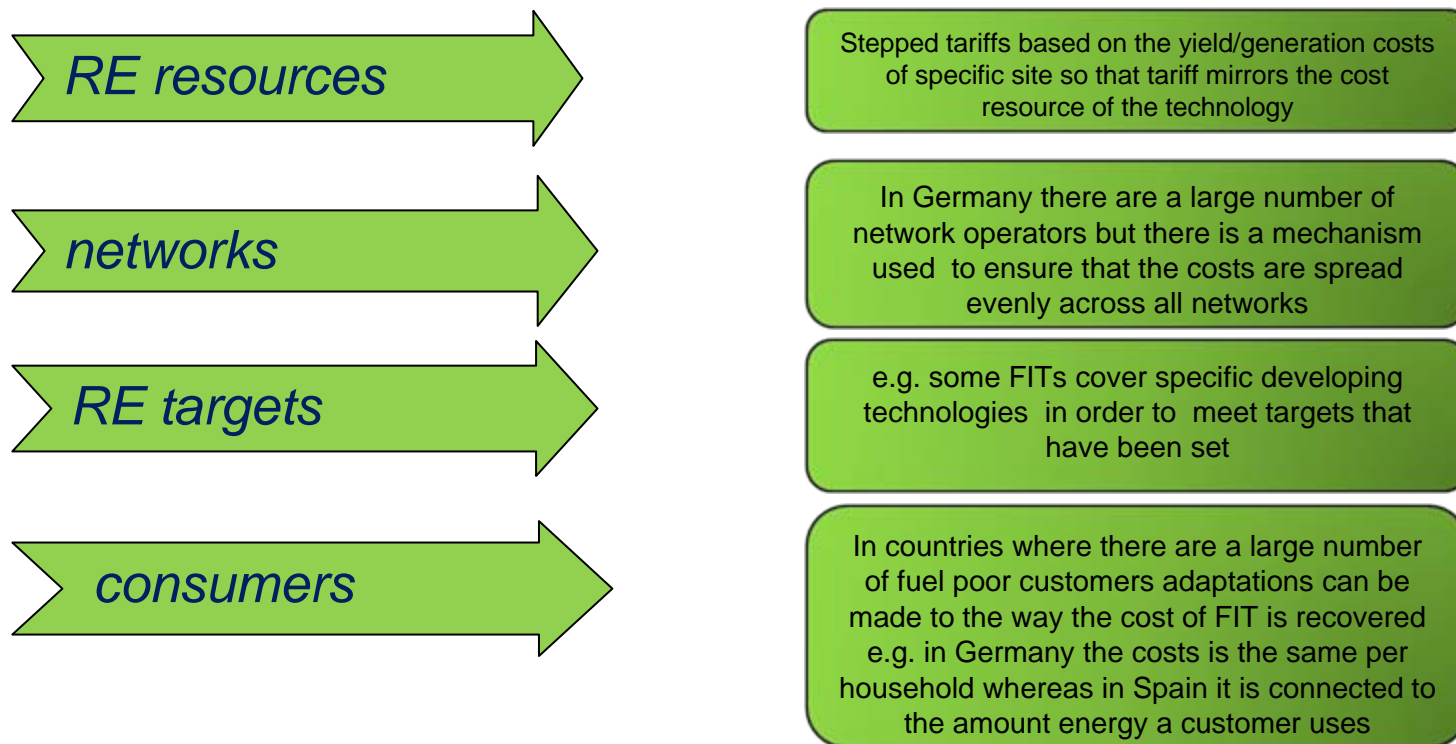


European FIT Schemes

	 GERMANY	 SPAIN	 SLOVENIA
Purchaser	Network Operators	Network Operators	Network Operators
Banded tariffs based on tech & size	Yes	Yes	Yes
Does the tariff decrease over time ?	Yes	Yes	Yes
Are tariffs set ex ante or ex post?	Ex-ante tariff fixed for 20 years	Ex-ante tariff or chose mkt + premium	Ex-ante tariff set annually or chose mkt + premium
What RE target is in place?	20% by 2020	12% by 2010. New target will be set in 2008	33.6% by 2010
Other features of system	Tariffs are a hybrid based on the yield and generation costs of specific plant	Penalties applied if deviation of RE generation from forecast above a certain threshold	Variable tariff option if can adapt production relative to demand load

How Flexible are FITs ?

FITs can be shaped according to a country's:



There are many design options which take account of these variables including some which make the system more compatible with liberalised energy markets

How is financial support for RE or microgeneration funded?

FITs in GERMANY

- costs are the same for **each household**
- around **€1.50 a month**

FITs in SPAIN

- costs are progressive
- **proportional to customers' electricity consumption**

RO in the UK

- **RO costs £8 per household per year (2007)**
- could rise to £28 by 2015/16
- If FIT was introduced for microgeneration then the **cost would be in addition to the RO costs**

Some considerations for the UK context

How would a FIT sit alongside the RO and other renewable energy policies in the UK?

What about other renewable energy such as heat?

What would be the impact on consumers? On the fuel poor?

Is a target important?

Are there other ways to achieve this?

At what level would an FIT be fixed? Would this be different for each microgen technology?

In other countries obligation is on networks. Given that it is not economic to meter home generation is there a problem putting the obligation on suppliers?

What's the expected £/tCO₂ from an FIT?

Who would fund an FIT?

Are there non-financial barriers that need to be addressed to enable the incentive of the FIT to work for microgen?



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