Citizens Advice Response to BEIS's Consultation on the Feed-in Tariffs Scheme

September 2018

citizens advice

Introduction

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. On 1 April 2014, the Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 300 independent advice centres that provide free, impartial advice from more than 2,900 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2017, Citizens Advice Service helped fix 163,000 energy problems through our local network and 61,000 through our Consumer Service Helpline. Our Extra Help Unit specialist case handling unit resolved 8,367 cases on behalf of consumers in vulnerable circumstances, and their Ask the Adviser telephone service handled 2,593 calls from other advice providers in need of specialist energy advice.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

Executive Summary

Citizens Advice welcomes the opportunity to respond to the government's consultation on the Feed-in Tariffs scheme.

The government is currently proposing to close down the Feed-in Tariffs scheme (FiT) and has expressed the view that "small-scale low-carbon electricity generation… should compete independent of direct subsidy and on its own merits on a level playing field with other electricity generation technologies through competitive, market-based solutions."[1]

We broadly agree with the government's view, noting that the price of low-carbon microgeneration – especially solar PV – has come down rapidly and seems likely to continue falling apace. We believe that small-scale low carbon generation can survive without new subsidy but argue that some government support is needed to smooth that transition.

We are therefore proposing that – after closing the FiT generation tariff – **the government should extend a subsidy-free version of the FiT export tariff set at a discount to the wholesale electricity price.** This would provide a last resort market for electricity exported by small-scale low carbon generators after March 2019 and should serve to smooth the transition to market-based solutions, giving these more time to develop and allowing more of the enabling infrastructure to support those solutions (such as smart meters and half-hourly settlement) to be put in place.

We are also proposing that in the future, once SMETS1 meters are no longer being installed in consumer properties and when existing issues around ensuring that export data from smart meters can be reliably and securely accessed by the FiT licensee, **FiT generators should be required to accept a smart meter from their energy supplier to be eligible for this revised, subsidy-free export tariff**. This would end deemed export for new FiT participants and help prepare them to access some of the new markets that are anticipated to emerge for the electricity they generate. In the interim, we suggest that deemed export should continue on a provisional basis until the outstanding issues with smart meter export data are resolved, but we encourage the government to urgently address these issues, which currently present a serious

[1] Page 7 *Call for Evidence on the Future of Small Scale Low Carbon Generation* (BEIS, August 2018)

barrier to its vision of cost-reflective export. We recommend that the government publish a roadmap laying out how and when outstanding export data issues will be resolved, with a clear accountability framework for its delivery.

Finally, we agree with the government's proposal to **include metered exports in the levelisation calculations**, noting that metered export payments can potentially impose significant costs on some FiT licensees at present.

Our View

Citizens Advice welcomes the opportunity to respond to the government's consultation on the Feed-in Tariffs scheme. We have prepared this response in parallel to our response to the government's call for evidence on the Future of Small Scale Low-Carbon Generation. Our views in both submissions therefore contain significant overlap.

Containing the costs of Low Carbon Levies

We share the government's concerns about containing the costs of low-carbon levies on domestic energy bills, and it is with some concern that we have watched the estimated costs of the Feed-in Tariffs scheme in 2020 spiral from £440 million when the scheme was first established, to £1,600 million – nearly four times as much – today.[2] The FiT scheme has taken up a disproportionate share of the spending envelope established by the Levy Control Framework relative to the low-carbon capacity it has deployed, displacing other decarbonisation policies which represent better value for money. It also contributes to the forecast breach of the LCF spending limit, imposing additional unforeseen costs on consumers.

Containing the costs of low-carbon levies is especially important when these fall disproportionately on low-income and vulnerable consumers. Consumers who are on lower-incomes, who left education early, who are elderly, disabled or unemployed tend to be less engaged in the market and are therefore more likely to be on expensive standard variable tariffs.[3] This effectively leaves these consumers paying a larger share of social and environmental policies relative to the volume of energy they consume. For this reason, we have previously called for the burden of low-carbon policies to be shifted, where possible, from energy bills into taxation where they can be funded more progressively (e.g. as the

[2] See page 11 *Consultation on the Feed-In Tariffs Scheme* (BEIS, 2018)

[3] Ofgem's 2017 State of the Market report states, "Ofgem's Consumer Engagement Survey 2017 found that customers who have never switched supplier are those who can least afford higher prices (Figure 3.5). Nearly half of customers who are in semi-skilled or unskilled jobs or are unemployed (social grades D or E) have never switched, along with 40% of consumers living in households earning less than £16,000, compared to under one-third of other customers." Likewise the CMA's Domestic Customer Survey states, "We find that the groups of respondents who are least likely to have switched supplier in the last three years are those with any of the following characteristics: household incomes under £18,000 a year; living in rented social housing; without qualifications; aged 65 and over; with a disability or on the PSR"

Renewable Heat Incentive currently is).[4] A policy paper published by the UK Energy Research Council earlier this year found that shifting low carbon levies off bills into general taxation would reduce costs for 70% of UK households, saving the poorest households £102 per year.[5]

In relation to the Feed-in Tariffs scheme, this cross-subsidy from the poorest consumers is even more worrisome as the beneficiaries of FiT payments have tended to be more affluent households and businesses. A 2013 paper jointly published by the Centre for Climate Change and Economics Policy and the Grantham Research Institute matched the geographic information for FiT installations in England and Wales against socioeconomic data for the same regions provided in the 2011 census. They found that, "Uptake of the FiT scheme has so far been heavily skewed away from areas in England and Wales where households are relatively poor."[6] A follow-up study published by the same author in in the journal 'Energy Policy' found that this skew in favour of areas that were more socioeconomically advantaged still persisted two-and-a-half years later.[7]

Ensuring consumers get value for money from low-carbon levies

A cross-subsidy to affluent households and businesses could still perhaps be justified where it delivered good value on decarbonising the UK economy. But the Feed-in Tariff scheme has failed to satisfy that test. A report commissioned by DECC on the Performance and Impact of the Feed-in Tariff Scheme as part of its 2015 review found that, *"The current cost of carbon savings per £ spent will make the FIT appear prohibitively expensive.*" noting that the "the cost of GHG emissions saved by the RO in 2013-14 was £105.38/tCO2e" while the cost of GHG emissions saved by the FIT in the same year was five times as expensive at £525.79/tCO2e.[8] The UK could have made significantly more progress towards its EU renewable targets and its national 2050 climate target if more of the Levy Control Framework's spending envelope had been directed towards the Renewable Obligation and Contracts for Difference programmes – especially if those additional funds had been assigned to relatively mature technologies like solar and onshore wind. Alternatively, the UK could have achieved the same level

[4] See, e.g., our 2015 report Generating Value
[5] See page 2, Funding a Low Carbon Energy System: A Fairer Approach? (UK ERC, March 2018)
[6] Page 19 *The British Feed-in Tariff for Small Renewable Energy Systems: Can it be Made Fairer?* (David Grover, CCEP and Grantham Institute, October 2013)
[7] David Grover and Benjamin Daniels, *Social equity issues in the distribution of feed-in tariff policy benefits* (Energy Policy, Volume 106, July 2017), Pages 255-265. This study used FiT data up to September 2015 compared with March 2013 in the previous study.
[8] Page 37-38 *Performance and Impact of the Feed-in Tariff Scheme* (DECC, 2015)

of progress against its renewable targets and climate targets at significantly less consumer expense.

Closing the FiT generation tariff but extending and modifying the export tariff

In relation to the FiT is is important to distinguish between the generation tariff, which has historically made up the vast bulk of the subsidy, from the export tariff which has mainly served as a guaranteed route to market for electricity generated by FiT participants. While the generation tariff has helped to bring down the costs of small-scale low-carbon generation, it has not, in our view represented good value for money in terms of the volume of low-carbon power generated and the carbon emissions averted at consumers' expense.

The cost of small scale low-carbon generation – especially solar PV – has come down rapidly, and seems likely to continue falling apace. For this reason, we tend to agree with the government's view, as expressed in its Call for Evidence, that, in time, "*small-scale low-carbon electricity generation… should compete independent of direct subsidy and on its own merits on a level playing field with other electricity generation technologies through competitive, market-based solutions.*"[9] We believe that small-scale low carbon generation can survive without new subsidy, but argue that some government support is needed to smooth that transition.

The "competitive market-based solutions" referred to by the government do not currently exist and may not be in place by April 2019 when the government proposes to close both the generation and export tariffs. We are concerned that there remain a number of complex technical barriers – currently including metering and data access – which will hamper the emergence of these solutions. We therefore recommend that a modified form of the export tariff should be extended until market-based solutions have had more time to develop and until more of the enabling infrastructure to support those solutions (such as smart meters and half-hourly settlement) is in place.

We recognise, however, that in its current form the export tariff can sometimes also operate as a subsidy when the actual value of electricity generated by FiT participants falls below the export price, especially when electricity is exported in periods of low demand. We therefore propose that the extended export tariff should be set at a level which reflects the wholesale price of electricity adjusted down to reflect reasonable administrative costs to suppliers. The aim would be to establish, in effect, a backstop power purchasing agreement, providing a

[9] See, e.g., our 2015 report Generating Value

guaranteed export payment for small-scale generators sufficiently high to attract investment but sufficiently low that it does not undermine the development of a private market for the electricity that generators produce.

We note that the absence of some form of remuneration for uncontracted, exported energy would create a competitive distortion between small and large generators, as the latter will ordinarily receive payments under the electricity imbalance arrangements for 'spilling' power on to the system even where they have not contracted to sell it. There is an economic value to the export of small generators, and the absence of a framework that recognises this may create a problem of 'missing money' that discourages investment in the sector in the absence of backstop arrangements such as those we suggest above. As we move towards a more flexible energy system, consumers will be encouraged to participate (for example, through vehicle to grid chargers and battery storage). We think that there is a risk that the premature removal of a backstop export tariff could damage consumer confidence that they will receive fair payment from such schemes, and have a detrimental impact on their willingness to sign up to such schemes in future.

The current export tariff can sometimes also act as a subsidy insofar as the volume of electricity exported by smaller-scale FiT participants may be overestimated through "deeming", which currently assumes that 50% of the electricity generated is spilled on to the grid. To address this, we propose that, in the near future, FiT generators should be required to accept a smart meter from their energy supplier to be eligible for the revised, subsidy-free export tariff we outline above. We made a similar recommendation in our response to DECC's 2015 review of the Feed in Tariff Scheme.[10] This would end deemed export for new FiT participants and help prepare them to access some of the new markets that are anticipated to emerge for the electricity they generate.

However, we also recognise that there remain several issues around ensuring that export data from smart meters can be reliably and securely accessed by FiT licensees which may not be resolved by April 2019. We therefore suggest that deemed export should continue on a provisional basis until these issues are adequately resolved and SMETS1 meters are no longer being installed; however, we encourage the government to urgently address these issues, which currently present a serious barrier to its vision of cost-reflective export. To accelerate this, we recommend that the government publish a roadmap laying out how and when outstanding export data issues will be resolved, with a clear accountability framework for its delivery.

[10] See Q.18 *Response to DECC consultation on the Review of the Feed-in Tariff Scheme* (Citizens Advice, 2015)

We share the government's belief that *"the introduction of smart meters and half-hourly settlement could enable suppliers to offer smart tariffs, such as time of use or time of export tariffs",* and see that a mandatory requirement on new generators to accept smart meters, and energy suppliers to provide them, can help accelerate that market. As the smart meter rollout advances and mandatory half-hourly settlement is introduced, this last resort export tariff should become a time-of-export tariff.

The government sets out its view that one adverse feature of the current export tariff is that it "does not track the prevailing wholesale price... does not reflect many of the market signals such as value varying by time of day or intra season values," and signals a wider desire to see export being treated on a much more cost-reflective basis. While we recognise the imprecision in the price signal sent out by the current flat export tariff, we think there is a trade-off to be made between simplicity and cost-reflectivity. The consequences of fully dynamic pricing could be 48 separate half hourly export prices in a single day. For a domestic consumer who may be billed monthly or quarterly, this could equate to hundreds if not thousands of individual line items on their bill if each individual half hour was remunerated at a different price. This could be unintelligible to them, and may also be expensive for suppliers to implement. It may also make shopping around difficult and confusing. Policymakers should give thought to whether an optimal middle ground can be found that delivers clearer time of use signals than the current, flat, export tariff does, but that is simple enough that consumers can readily understand and act on it.

Ensuring remaining funds under the Control for Low Carbon Levies are spent effectively

In the spirit of the recommendations on cost-effectiveness made above, we would like to see the government prioritise spending the £557 million of new Contracts for Difference (announced before the Control for Low Carbon Levies came into force) on those technologies which deliver the maximum level of low-carbon generation per consumer (or taxpayer) pound spent. This is likely to be Pot 1 CfD technologies, such as solar PV and onshore wind, as they are likely to require clearing prices similar to, or even below, the wholesale price of energy. We therefore support the National Infrastructure Commission's recent recommendation that the new CfDs should be spent on Pot 1 technologies, with Pot 1 expanded to include offshore wind. We note the Committee on Climate Change has made a similar recommendation in it's 2018 Progress Report.[11] We

[11] In it's 2018 Progress Report, the CCC states, "Currently, [CfD] auctions are only open to 'Pot 2' technologies such as offshore wind, island wind and new bioenergy. The auction system should

also made a similar recommendation in our 2015 report 'Generating Value', where we argued that the two CfD funding pots should be consolidated and recommended that "the Government should allocate the majority of CfD funding to the most currently cost-effective technologies."[12]

Insofar as onshore wind and solar can achieve a discounted wholesale price in CfD auctions, this would be broadly equivalent to the support for small-scale low carbon generation offered through the extended export tariff we propose here.

be extended to include lower-cost technologies, whilst increasing transparency and being used more responsively." Box 2.1 Page 66

[12] Page 36 *Generating Value* (Citizens Advice, November 2015)

Questionnaire response

1. Do you agree or disagree with the proposal to end the export tariff alongside the generation tariff, which would close the scheme in full to new applications after 31 March 2019? Please provide evidence to support your reasoning; for example, around the impact on jobs, deployment, consumer bills and the supply chain.

While we agree with the decision to close the FiT generation tariff on the 31 March 2019, we disagree with the proposal to end the export tariff on that date.

Competitive markets for microgeneration, do not currently exist and may not be in place by April 2019. We therefore recommend that the export tariff should be extended until market-based solutions have had more time to develop and until more of the enabling infrastructure (such as smart meters and half-hourly settlement) is in place.

We recognise, however, that in its current form the export tariff can sometimes also operate as a subsidy when the actual value of electricity generated by FiT participants falls below the export price, especially when electricity is exported in periods of low demand. We therefore propose that the extended export tariff should be set at a level which reflects the wholesale price of electricity adjusted down to reflect reasonable administrative costs to suppliers. The aim would be to establish, in effect, a backstop power purchasing agreement, providing a guaranteed export payment for small-scale generators sufficiently high to attract investment but sufficiently low that it does not undermine the development of a private market for the electricity that generators produce. The backstop should be framed as a floor, such that suppliers are free to offer better terms, for example if their administrative costs are lower than those allowed for in the backstop, or if they are willing to reduce their margin in order to win extra customers.

As this price would be designed to be below the wholesale price minus administrative costs, it should not impose a net cost on FiT licensees, and should not require the levelisation of metered export payments that the government is considering for incumbent generators. We note that the absence of some form of remuneration for uncontracted exported energy would create a competitive

distortion between small and large generators, as the latter will ordinarily receive payments under the electricity imbalance arrangements for 'spilling' power on to the system even where they have not contracted to sell it. There is an economic value to the export of small generators, and the absence of a framework that recognises this may create a problem of 'missing money' that discourages investment in the sector in the absence of backstop arrangements such as those we suggest above. As we move towards a more flexible energy system, consumers will be encouraged to participate (for example, through vehicle to grid charging and battery storage). We think that there is a risk that the premature removal of a backstop export tariff could damage consumer confidence that they will receive fair payment from such schemes, and have a detrimental impact on their willingness to sign up to such schemes in future.

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The current export tariff can sometimes also act as a subsidy insofar as the volume of electricity exported by smaller-scale FiT participants is overestimated through "deeming", which currently assumes that 50% of the electricity generated is spilled on to the grid. To address this, we propose that, in the near future, FiT generators should be required to accept a smart meter from their energy supplier to be eligible for the revised, subsidy-free export tariff we outline above. We made a similar recommendation in our response to DECC's 2015 review of the Feed in Tariff Scheme.[13]

[13] See Q.18 *Response to DECC consultation on the Review of the Feed-in Tariff Scheme* (Citizens Advice, 2015)

As is already the case currently, FiT licensees (whether mandatory or voluntary) should be obliged to pay the export tariff when approached by a qualifying FiT applicant. Where a smart meter has not already been provided by the generator's energy supplier, the supplier should be obliged to provide the generator with a smart meter to measure the electricity exported to the grid. Some flexibility may be required in the arrangements for cases where consumers are not currently able to have a smart meter installed that could meter export (e.g. where they need a smart meter with the alternative home area network). This would avoid a postcode lottery, in which occupants of certain areas/housing types are unable to participate in the scheme. We already have concerns that these households may be disadvantaged if they are unable to access flexibility markets.

We are also aware that there are concerns from industry about the processes for smart metering of FiT installations. This includes complexity around the creation of new export MPANs when smart meters are installed, which must be completed to enable recording of export through DCC-enrolled smart meters. There are also issues whereby access to export data through the DCC is currently restricted to the import supplier only. This could have a particularly detrimental effect on the emergence of new commercial models, which will need easy access to export data. Similar concerns have been raised in recent work for Ofgem on future supply arrangements.[14] These issues will need to be resolved in order to transition existing FiT installations to metered export, and for this export to be settled on a half hourly basis. We're conscious that these issues may not be addressed by April 2019. We therefore suggest that deemed export should continue on a provisional basis until these issues are adequately resolved and SMETS1 meters are no longer being installed; however, we encourage the government to urgently address these issues, which currently present a serious barrier to its vision of cost-reflective export. To accelerate this, we recommend that the government publish a roadmap laying out how and when outstanding export data issues will be resolved, with a clear accountability framework for its delivery.

We share the government's belief that *"the introduction of smart meters and half-hourly settlement could enable suppliers to offer smart tariffs, such as time of use or time of export tariffs"*[15]*,* and see that a mandatory requirement on new generators to accept smart meters, and FiT licensees (or the relevant supplier, where different) to supply them, can help accelerate that market. As the smart

[14]https://www.ofgem.gov.uk/system/files/docs/2018/07/retail_research_-_report_on_supply_disintermediation.pdf (page 13)
[15] Page 11 Call for Evidence: The Future of Small Scale Low-Carbon Generation (BEIS, July 2018)

meter rollout advances and mandatory half-hourly settlement is introduced this last resort export tariff should become a time-of-export tariff.

We would expect (and recommend) that the obligation on FiT generators to use MCS accredited installers and equipment to continue with this backstop export tariff so as to protect customers from mis-selling, and sub-standard goods and services. Some sector representatives have advised us that MCS accreditation could become unattractive to responsible installers if there was no longer a FiT market which required it, which could potentially cause the certification scheme to collapse. This could also help ensure networks have good data on deployment of small scale generation, as it is the installers duty to inform the network of the installation.

Finally, for domestic consumers and microbusinesses to have confidence in commercial propositions routes to sell their generated electricity, they need access to simple and straightforward redress when things go wrong or disputes arise. This exists currently through the Ombudsman Services: Energy (OSE), which can consider FiT licensee issues as part of its terms of reference. Similarly, a simplified and effective redress process covering microgeneration installations, with access to Alternative Dispute Resolution is covered by the Each Home Counts review.[16] Voluntary arrangements, such as Renewable Energy Consumer Code have been in place for a number of years.

A market-based approach could see the entry of unlicensed commercial entities, who are not required to be members of OSE. Consumers signing contracts with these providers would face greater risks in relation to the ongoing contracts for their generation. For example, they could face lengthy and complex legal routes to redress if the company failed to pay them properly for their export, or attempted to change the terms of the contract. It could also result in an uneven playing field between licensed suppliers contracting for generation and unlicensed intermediaries carrying out the same activity, which could make it difficult for licensed suppliers to compete. It is vital that BEIS consider how consumers can maintain their current level of protection and be equally protected, regardless of which type of organisation they contract with.

2. Do you agree or disagree with the administrative closure and exception arrangements? Please explain your reasoning.

[16]https://www.gov.uk/government/publications/each-home-counts-review-of-consumer-advice-protection-standards-and-enforcement-for-energy-efficiency-and-renewable-energy

Citizens Advice does not hold a particular view on the closure and exception arrangements proposed by the government for the generation tariff and the current export tariff; however, as noted above in our answer to Question 1, we would like to see a modified export tariff continue to be offered to new entrants beyond March 2019.

Administrative measures

3. Do you agree or disagree with the proposal to levelise net metered export payments? Please explain your reasoning.

We agree with the government's proposal to levelise net metered export payments. As we note in our answer to Question 1, the wholesale market value of electricity exported by FiT participants can sometimes fall below the export tariff rate, e.g. because it is generated at periods of low demand. On such occasions the export tariff operates as a subsidy to FiT generators at the expense of FiT licensees.

The accumulated losses from this price differential could be significant for some FiT licensees and these costs might not be proportionate with their share of the electricity market (insofar as they are electricity suppliers at all). It therefore seems both fair and reasonable to levelise these costs in the manner that the government has described and to introduce this revised levelisation procedure from April 2019 or the first convenient opportunity.

Our proposed extension to the export tariff would seek to address these losses to licensees with respect to new FiT generators: first by offering an export tariff at a discount to the wholesale price, and later by introducing more variability into the export rate, depending on time-of-export.

4. Do you agree or disagree with the use of the average time-weighted System Sell Price to determine the value of metered export to FIT Licensees? Please explain your reasoning.

[No response]

5. Do you agree or disagree with the proposed calculation Ofgem would use to make the necessary adjustments to quarterly and annual levelisation payments? Please explain your reasoning.

We broadly support the proposed change to the levelisation calculation. This closely reflects the calculation currently used to redistribute the costs of payments for deemed exports over and above the market value of electricity deemed to have been generated. It seems fair and appropriate to extend the same logic to metered exports.

However, our preferred approach would be for FiT licensees to recoup their costs (for generation payments, deemed export payments and metered export payments) from Her Majesty's Treasury rather than recouping these costs from electricity suppliers based on their market share. We proposed this in our 2015 report "Generating Value"[17]. This would help to rapidly bring down the cost of low-carbon levies on energy bills. This would also better ensure that the FiT scheme was funded progressively. Under the current arrangement there is a danger that low-income and vulnerable energy consumers are making a disproportionate contribution to the FiT scheme because they are less engaged in the energy market, and more likely to be on more expensive default tariffs (i.e. cross-subsidising more engaged energy consumers).[18] A policy paper published by the UK Energy Research Council earlier this year found that shifting low carbon levies off bills into general taxation would reduce costs for 70% of UK households, saving the poorest households £102 per year.[19]

Questions on replacement of generating plant

6. What would you expect the likely replacement rate for generating plant to be, for each FIT supported technology, if the rules were changed to allow unlimited replacements? To what extent would load factors change? Please provide evidence.

[No response]

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[17] Page 18-19 *Generating Value* (Citizens Advice, November 2015)

[18] Ofgem's 2017 State of the Market report states, "Ofgem's Consumer Engagement Survey 2017 found that customers who have never switched supplier are those who can least afford higher prices (Figure 3.5). Nearly half of customers who are in semi-skilled or unskilled jobs or are unemployed (social grades D or E) have never switched, along with 40% of consumers living in households earning less than £16,000, compared to under one-third of other customers." Likewise the CMA's Domestic Customer Survey states, "We find that the groups of respondents who are least likely to have switched supplier in the last three years are those with any of the following characteristics: household incomes under £18,000 a year; living in rented social housing; without qualifications; aged 65 and over; with a disability or on the PSR"

[19] See page 2, Funding a Low Carbon Energy System: A Fairer Approach? (UK ERC, March 2018)

7. What would the impact be of not allowing replacement of generating plant? Please provide evidence.

In the consultation document the government expresses concerns that allowing unlimited replacement of installations could see FiT generators installing "newer equipment [which] could be more efficient and operate at higher load factors" and that this risks "supporting additional generation under the very high tariffs available at the start of the scheme".[20]

We share the government's concern about the potential for this to further increase the financial burden of the FiT scheme to energy consumers, however we lack the evidence-base to assess how significant a threat this actually poses (e.g. where the incentives for increased FiT revenue might outweigh the costs for replacing/upgrading existing installations).

While preventing replacement of generating plant would avert these risks, it could also conceivably prevent consumers from replacing faulty installations whose performance has unexpectedly deteriorated or stopped working altogether even when this happened well within the 20-25 year FiT contract period and the expected lifetime of the installation (while warranties often cover the FiT consultation period, there may be unusual circumstances where the installation might be damaged and the warranty voided).

It could also slow the adoption of new equipment which could lower costs for consumers by operating more efficiently and making more efficient use of network assets. We therefore support the replacement of generating plant as long as appropriate cost control measures are in place for the subsidy that the installation can receive. We explore potential cost-control measures in our answer to Question 8 below.

8. How can government ensure that any budgetary impact from allowing the unlimited replacement of plant can be controlled in an administratively practical manner?

In principle we support FiT generators being able to replace faulty or inefficient equipment, or upgrade their installations to generate more electricity (either for export or self-supply). If accompanied by appropriate cost control measures to avoid additional subsidy, these improvements should reduce costs to consumers by making more efficient use of existing assets. These cost control measures

[20] Page 7, *Consultation on the Feed-in Tariff Scheme* (BEIS, July 2018)

must be designed to prevent FiT generators receiving an increase of subsidy payments beyond what they could have reasonably expected under their original installation specifications, e.g. by achieving greater electrical output through efficiency gains and increased load factors.

Where FiT generators replace their original installations with more efficient technologies which generate more electricity, they should be prevented from being overcompensated. Similar principles currently prevent FiT generators from being overcompensated when they extend the capacity of their installations.

One tentative proposal would be to place a ceiling on the volume of electricity that FiT participants who had replaced their installation could be compensated for, e.g. fixed against their average quarterly generation prior to the replacement. This ceiling would limit the compensation FiT participants could receive under the generation tariff and under deemed exports. We would not seek to restrict metered exports in the same way as we wish to encourage export metering. Moreover, earlier export tariffs are lower than contemporary export tariffs and tend to be lower than the contemporary wholesale price. As currently, FiT generators would also maintain the option of opting out of the export tariff to seek Power Purchasing Agreements with private buyers.

Government should consider how it can appropriately ensure compliance with the rules at over 900,000 FiT sites. We think that in the absence of an official replacement route, the risk of non-compliant replacement of equipment by generators is likely to be higher than if a process with appropriate cost control measures is in place. This could increase the costs to consumers, by increasing the amount of subsidy paid to these non-compliant sites, and by increasing the compliance and enforcement costs of the scheme.

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