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# Consultation on Renewable Electricity Financial Incentives 2009 - A Response From Environmental Protection UK

We are writing in response to the above consultation. Environmental Protection UK has considered the consultation documents and welcomes the opportunity to comment on the proposals.

## 1 - About Environmental Protection UK

Environmental Protection UK brings together organisations from across the public, private and voluntary sectors to promote a balanced and innovative approach to understanding and solving environmental problems, through policy development and education. We are a registered charity with 110 years experience of environmental campaigning, public information provision, producing educational resources and policy formulation.

Environmental Protection UK's air quality policy committee has been involved in the development of this response. The committee bring together policy makers, regulators and practitioners from local authorities, consultants, developers, academics, industry, interested NGOs as well as members from Environmental Protection UK's regional divisions.

## 2 – Summary of Our Views

Environmental Protection UK strongly supports the broad aims of the Government's Renewable Energy Strategy, delivery of which will make significant inroads into cutting the UK's $CO_2$ emissions. We are therefore supportive of financial incentives to help deliver the aims of the strategy.

With a number of renewable energy financial support mechanisms and obligations in operation or planned across several sectors (heat, electricity, transport) we would like to raise the need for sustainability criteria and the overall balance of financial support to be harmonised across the various support schemes, for example the

Renewable Obligation, Feed in Tariffs, the Renewable Transport Fuels Obligation and the forthcoming Renewable Heat Incentive.

Many renewable technologies can be used in more than one sector, and if there are major differences between the levels of support provided by support packages then resources may become entirely focused on the sector that provides the most financial support, rather than directed to sector(s) where the greatest carbon emission reductions could be achieved. The same is true with sustainability criteria – if strict standards are imposed by one support package then unsustainable fuels may simply 'jump ship' into another sector where sustainability standards are lower.

Our answers to the specific consultation questions are restricted to the FITS scheme; here we are very supportive of the overall aims of the proposals, with several comments on the technologies covered and the general form of the scheme.

## 3 – Points Not Covered by Consultation Questions

We have two main points not covered by the consultation questions, these regard sustainability criteria for receiving FITs, and the relative balance of support available from FITs/ RO and other support mechanisms where a renewable fuel can be used in several different applications (e.g. electricity generation, heat, transport, etc).

Several renewable generation technologies have potentially negative local environmental effects, which must be managed to ensure that an appropriate balance is struck between climate and local environmental protection. These include:

- Biomass – biomass combustion can have a negative effect on local air quality, particularly if smaller biomass units proliferate in densely populated urban areas
- Micro wind – wind turbines can cause noise nuisance if inappropriately installed (e.g. too close to neighbouring properties, or installations that suffer from excessive noise and vibration)

These effects can either be managed through regulation, or through financial incentive schemes. For example, we understand that the forthcoming Renewable Heat Incentive is likely to have inbuilt air quality conditions for supporting biomass combustion, to steer applicants towards the cleanest technologies. The current Renewable Transport Fuels obligation also has sustainability criteria built into it to ensure unsustainable biofuels are not used.

It is essential that financial incentive schemes link up in their sustainability/ local environmental protection criteria to ensure that, where a renewable fuel can be used in more than one sector (e.g. electricity generation, heat, transport), polluting and unsustainable technologies are not simply encouraged to 'jump ship' into another sector.

As an initial step we recommend that:

- A review is conducted to assess what sustainability/ local environmental quality standards exist in other renewable energy financial support schemes and whether these are appropriate for the RO/ FITs
- That biomass schemes supported by FITs and the ROs mirror air quality criteria being drawn up for the RHI (although we recognise that the timescale for the two schemes are different)

In addition to harmonisation of sustainability criteria, the overall level of support offered by the various financial support schemes should also be examined. Where a fuel can be used across a number of sectors an imbalanced level of support may lead to a fuel/ technology being directed towards the sector offering the greatest financial support, even if this leads to lower overall carbon savings. In the case of technologies supported in the proposed FITs tariffs biomass can be used for both electricity generation and heat provision, whilst biogas from anaerobic digestion can be used in electricity generation, heat and transport applications.

We would also raise the issue of how biogas that is upgraded and injected into the grid is treated under FITs and RO scheme. Work is underway to allow renewable gas injected into the grid to keep its 'renewable' status, in a similar fashion to the way the market for green electricity works. Clarification will be needed as to whether CHP or electricity generation from biogas received from the grid will attract support through the RO and FITs.

## 4 - Answers to Selected Question

**Q35. Do you agree that FITs should be structured in order to recognise all generation, rather than just exports?**
Yes, at the present time many small-scale renewable technologies are still too expensive to be adopted by a mass market. Support through FITs will help encourage uptake, and ultimately drive down costs through economies of scale and investment in technology development

**Q36. Do you agree that the best way of delivering security for the investor is to set a long-term guaranteed price for exports?**
Yes

**Q37. Do you agree that FITs generators should also benefit from on-site use of their generation?**
Yes, an 'export only' tariff would provide a perverse incentive to export all electricity to the grid, where associated transmission losses would be experienced. It would also reduce the incentive for homeowners and small businesses to install systems where there is a strong desire for an electricity equivalent of 'growing your own'.

**Q38. Do you have any other views on the basic structure of the FITs?**
No

**Q39. Do you agree with the proposed limits of 5MW for renewable technologies and 50kW for gas fired CHP for FITs installations?**
We agree with the 5MW limit for renewable technologies, but not the 50kW limit for fossil gas fired CHP. We feel that fossil gas fired CHP should not be included in the current FITs system, and should be supported through other mechanisms at the present time.

**Q40. If you disagree with the proposed limits, what lower limits would be more suitable and why?**
There are two reasons why we disagree with the inclusion of fossil gas fired micro CHP:

- Risk of subsidy chasing - carbon savings from micro-CHP are strongly influenced by the type of building that systems are installed in. Interim results from the Carbon Trust's Micro-CHP Accelerator project suggest that carbon

savings offered by micro-CHP can be up to 15-20% in a commercial setting, and 5-10% in a domestic setting. However, savings can be far smaller, or even negative, if systems are installed in buildings with low heat loads. Providing FITs payments for micro-CHP potentially risks systems being installed in inefficient situations to chase FITs funding, rather than to actually generate $CO_2$ and cost savings.

- The changing status of 'low carbon' - whilst electricity generated via micro-CHP is low carbon, it still has a significant carbon emission attached to it. As grid electricity is decarbonised the carbon benefits of the technology will be quickly eroded. In view of this it would seem unwise to provide continued payments based on the low carbon nature of the technology, when it may cease to be considered low carbon during the lifespan of the plant.

**Q41. Do you agree that generators off the electricity grid should be eligible for FITs? If so, what safeguards should be put in place for these generators to ensure the electricity is being used?**
The generation tariff should be set at such a rate to ensure it is un-economic to simply chase FITs payments rather than use or export the electricity generated. The level of FITs payments relative to the installation cost of equipment currently on the market should be kept under regular review to ensure that this was the case (although once equipment is installed FITs payments should be fixed)

**Q42. Do you agree with the selection of technologies for which we will be providing tariffs from April 2010?**
Yes, except for fossil gas fired CHP (see answer to question 40)

**Q43. Should technologies for which we do not propose to offer a specific tariff from April 2010 be handled by:**

- **Providing a single tariff from April 2010 for all remaining technologies; or**
- **Considered as a new tariff band as part of regular FITs reviews?**

New tariff bands should be considered as part of regular FITs reviews, although it is unlikely that these will be needed in the initial stages of the scheme.

**Q44. Do you agree that the FITs should not require on-site generators to comply with any energy efficiency standards as a condition for eligibility?**
Yes, this would add an extra level of bureaucracy to the scheme. However, the application procedure may wish to include evidence that the applicant has considered energy efficiency options, perhaps by requiring them to complete a Home Energy Check survey as part of the application procedure.

**Q45. Are there any issues regarding eligibility that we have not foreseen here? If so, how should we address them?**
No comment

**Q46. Do you agree with our approach not to offer up-front capitalisation to schemes as part of the FITs? If not, what alternative approach do you propose and why**?
Yes. Guaranteed rates for FITs should encourage the financial sector to offer products to support installation of renewable technologies. This policy should be kept under review however to ensure that:

- Reasonably credit-worthy individuals and businesses are able to access loans to support installation of renewable technologies.

- Changes in typical interest rates and credit availability are not hampering the uptake of renewable generation

**Q47. Do you agree with our approach that a generator may assign the rights to their FITs payments to a third party? If not what alternative approach do you propose and why?**
Yes, this approach is likely to encourage the development of consumer friendly subsidised installation packages and leasing models.

**Q48. Do you agree with the proposed model for registration and accreditation of plant claiming FITs discussed in the Accreditation, Registration and Connection section?**
No comment

**Q49. Do you agree with the principle that all generation should be metered to qualify for FITs? Do you foresee any issues with that approach?**
Yes, metering will encourage high quality installations that produce significant carbon savings. The only issues we can foresee is where generations falls short of that suggested by the manufacture or installer, which will could affect the economic balance of the installation and lead to complaints.

**Q50. What are your views on regulating which suppliers should be required to offer FITs, and in what circumstances?**
No comment

**Q51. Do you agree with the tariff levels, lifetimes and degression rates we have set out for the chosen technologies? If not, what evidence do you have for choosing alternatives?**
Yes, with the caveat that regular reviews are necessary to ensure that the levels of support are appropriate, i.e. encouraging the uptake of renewable electricity generation, but not impose excessive costs on the electricity consumer.

**Q52. Do you agree with our proposed guaranteed minimum price for the exported electricity? If not, what price would you propose and what is your proposal based on?**
Yes

**Q53. Does the proposed review structure provide the right balance between providing certainty and adapting FITs to the changing circumstances in which it operates?**
Yes

**Q54. Do you have any initial views on the relationship between FITs and those in fuel poverty or on low incomes?**
As the consultation document suggests, heat supply tends to be the focus of concerns on fuel poverty and the fuel poor are also less likely to be able to obtain competitive finance for installing renewable generation equipment. With this in mind the fuel poor are unlikely to be a major market for small scale renewable generation, and the focus of the effects of FITs on the fuel poor should perhaps rest on minimising any upwards effects on their fuel prices.

## 5 - Contact Us

If you require any further information on the views expressed in this response please contact:

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