Transition Bath
community | food | energy | future

Response to DECC FIT Pre-Accreditation Consultation

Transition Bath is a charity whose aim is to build a sustainable future for Bath. Transition Bath would like to comment on the Government's Consultation on Changes to the Feed-In Tariff Pre-Accreditation, and how in particular it affects community organisations like ourselves.

Our specific concern about the impact on community groups compared with 'professional investors'?

Based on our local experience in Bath community groups take far longer than professional investors to raise money for renewable investments. Removing pre-accreditation is likely to adversely affect us far more than others, and is likely to significantly reduce or even stop the community investing in such projects. The biggest concern is that the government might capriciously remove all FIT funding at very short notice based on its track record with on-shore wind farms. Small non-professional investors from the community would probably shy away from an investment proposition which asks for investment in a scheme which might either for example return 5% or nothing if the government changes its mind over the next 6 months while the community builds and installs their renewable energy installation? This uncertainty will significantly community curtail investment or may stop it altogether.

We feel that the government needs to consider the benefits of community based renewable investment when making these changes:

1. Typically rather than returning profits to large corporate, often offshore investors they return profits to the local community in the form of dividends to locals, and more importantly to community based charitable schemes, in the case of Bath this is typically 2% of the capital investment per year. Transition Bath for example has recently benefitted from such a scheme, where we are using Bath & West Community Energy Community Fund's £1,500 grant to extend our innovative try-before-you-buy LED scheme which ultimately aims to deliver £175,000 or 1.5 MWh or 400 tCO_2 of electricity savings to the local community. This type of community funding which further benefits the locality is generally not available from professional investors.

2. Community investment also creates local community buy in to such schemes, making planning much more straightforward and reducing community resentment, particularly of central government policy

How should the pre-accreditation scheme be changed?

Quite simply we feel it should be retained for community groups to continue investor confidence and to reflect the longer timescales associated with community investment and deployment.

We also feel that the government should consider alternatives to their current proposals, to provide smoother rates of deployment at a lower cost? We have out lined some suggests and provided further comments on 'FIT management' below.

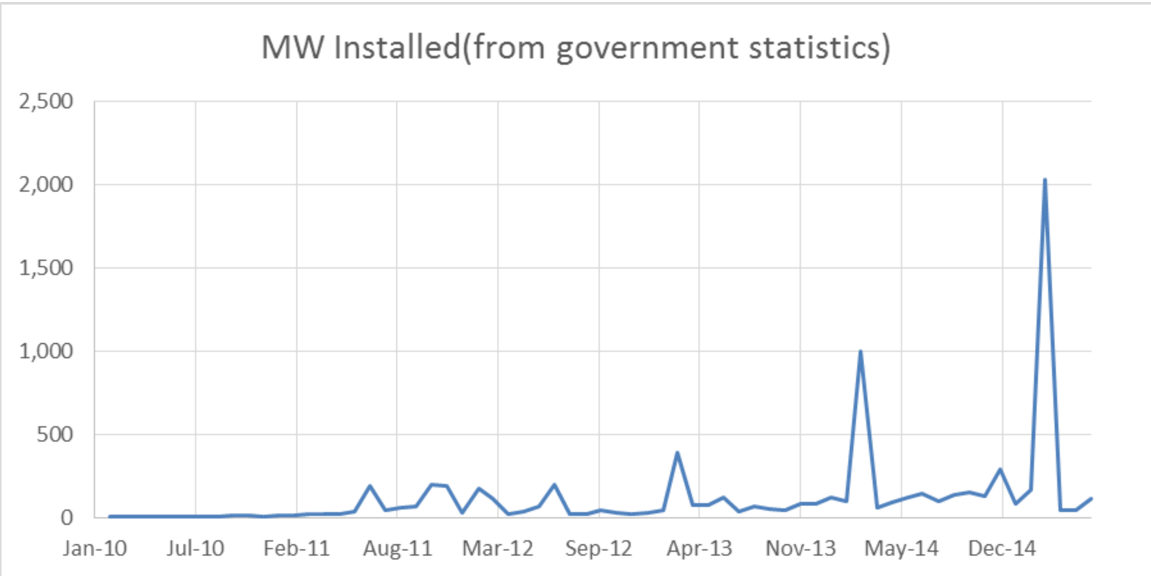
Is this the correct approach to managing this industry? Are there alternatives?

We understand DECC's need to try to manage the rate at which renewable energy installations are installed but we think removing pre-accreditation is a blunt instrument whose outcome is unknown and because it increases risk and therefore investors' required return is likely to make future installations less cost effective.

We feel the consultation should have considered other mechanisms to improve the management of the rate of installations such as:

- moving towards monthly digressions
- replacing the pre-accreditation with a 6 month floor, which is perhaps 15% below the current FIT level
- auctioning off FIT capacity based on the most cost effective bids but bucketed by region, installation type (farmland, brownfield, farm land), capacity (to avoid very large installations dominating) and investor type (professional v. community)

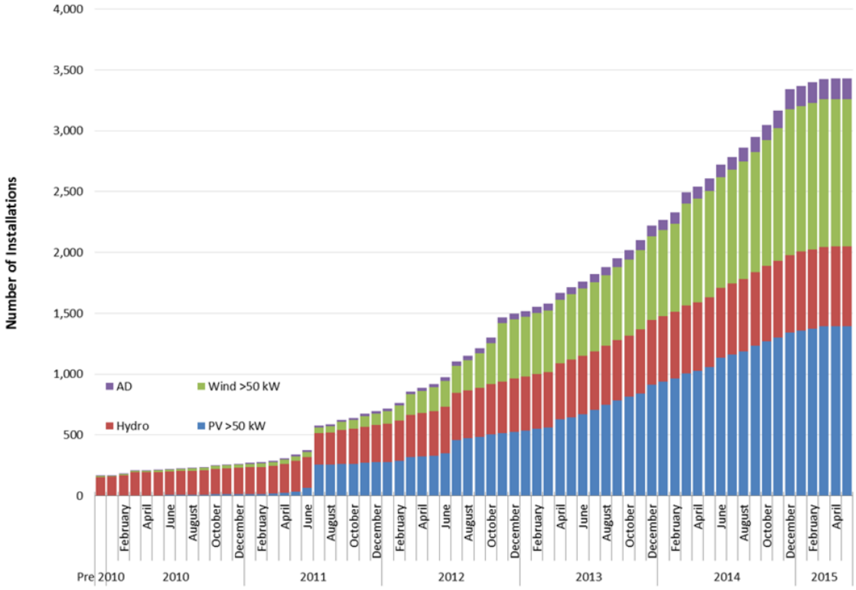
Clearly the aim should be to most cost effectively delivery solar installations from now until about 2020 when grid parity is reached while maintaining a vibrant industry. Past history suggests the government has singularly failed to 'manage' the industry well. Examining a graphs of rates of installation:



the industry suffers from peaks and troughs of work caused by government policy which must be expensive to the industry? Would it not be better for the government to focus on smoothing out these peaks and troughs which must create a lot of temporary and thus more expensive employment for the installers? Moving to a monthly degradation would help? It would probably stop the government's need to make erratic policy changes when the rate of installations starts to get out of hand as has happened in the past?

What evidence it there that the rates of installations are too high?

Looking at the graph provided by DECC in the consultation document we struggled to see strong evidence that the rate of installations is currently too high? The graph presented in the consultation seems to suggest the rates of installation have started to tail off (see below)?



QUESTION 1: Do you agree that, in the context of deployment and spend under the FIT scheme significantly exceeding expectations, it is appropriate to remove the ability to pre- accredit from the FIT scheme?

No, the evidence in the consultation is unclear, the consultation's own graph (Fig 1) seems to suggest the rate of deployment has been tailing off for the last year.

We feel that pre-accreditation for community groups whose capital raising and deployment timescales are typically 6 months, and longer than professional investors would be significantly impacted by this measure. We feel that removing accreditation from community groups is likely to completely halt community investment in favour of large professional investors and the big energy companies.

We feel that the government should include the benefits community schemes bring, namely community buy in and re-investment in the local community in any of its analysis.

QUESTION 2: Are the assumptions made above on the impact of removing pre-accreditation reasonable? Please provide robust evidence to support your response.

Absolutely not, the consultation is very poor on many levels:

1. The consultation states "*funding providers will apply higher discount rates to expected project cash flows making funding more expensive*" – surely this contradicts the main premise of the consultation, to reduce the cost to consumers? Digression and lower FIT rates is the most cost effective management tool

2. The consultation states "*Owing to this uncertainty around the exact effect of this change would have on the rates of return required by developers. DECC has not attempted to estimate the impact of these changes on deployment?"* – which is essentially saying DECC has no clue what will happen, so therefore the 'assumptions' as per question 2 are not reasonable

We could make many further comments on the quality of DECC's assessment, but the two points raised above are sufficient indicators of what we feel is a poor proposal.

QUESTION 3: Are there additional measures which could achieve the objectives of encouraging deployment under the scheme while ensuring value for money under the LCF?

We feel that alternatives to removing pre-accreditation should have been considered:

- Moving towards monthly digressions of the feed-in tariff to provide government with finer control over deployments, reducing the significant oscillations in deployment rate both at quarterly digression dates and following policy changes
- Perhaps as an alternative to pre-accreditations, offering a floor price to community group's which is a fixed percentage of the current tariff. For example 85% of the current FIT rate, so any share offering to small community investors could offer a range of returns e.g. "4% to 6% depending on the FIT in 6 months' time" rather than the current proposal which might suggest the following "5% or 0% depending on the government's whim in 6 months' time"

QUESTION 4: Are there groups or sectors where it may be appropriate to reintroduce pre-accreditation in the future?

We don't think they should be removed from community groups in the first place.

Overall, we feel these changes will favour large non-community investors who don't reinvest in the local community, will increase costs and delay the point at which un-subsidised grid-parity installations will occur in future because this policy and financial uncertainty is only likely to increase industry and investment costs.

Previous policy changes suggest that the government does not have a good track record on managing the rate of installation, and unfortunately we feel this proposal is no better.