REA Response to BEIS Consultation on the Closure of the Feed-in Tariff Scheme

Introduction & Context

Closure of the FiT programme is highly problematic and industry has been disappointed at several aspects of the proposals. Please see our response to the Call for Evidence on Small Scale support for more details on those aspects, in particular the need for a continued export tariff.

Regarding the administration of the closure of the scheme, we are seeking equivalence with the closure of the RO scheme regarding logical, revenue neutral measures such as grace periods. We also wish to flag concerns regarding mis-selling opportunities arising as a result of the proposals, which have been witnessed previously, and the vital issue of allowing sites to keep their accreditation if replacing engines for unavoidable operational reasons.

There must be a procedure put in place for the replacement of equipment for unavoidable reasons, without such projects losing accreditation. Finally, we strongly believe that unspent funds must be re-allocated to the FiT scheme.

We have submitted further evidence on the impact of the closure of the scheme without an adequate replacement in an accompanying Annex – this highlights that up to 6,000 jobs could be lost from the small scale renewables sector based on survey responses from RECC installer companies. RECC is the subsidiary of the REA with over 1,700 renewable installer companies representing almost the entire installer industry.

REA Priorities for FiT Scheme-closure

Avoid high mis-selling risk

- Our sister organisation RECC - the scheme to prevent mis-selling of renewables and smart technologies, with over 2,500 members - has identified a considerable mis-selling risk from the reforms. MCS certificates are issued before accreditation which could lead to pressure selling prior to the FiT closure deadline.
- In addition there is a real risk that some systems that are not actually commissioned apply for or are given MCS certificates to beat the deadline. This can occur as the MCS system does not have adequate checks in place to ensure commissioning by a certain date. It could be fairly easily rectified by requiring greater photographic or other evidence checks to ensure timely accreditation has actually occurred. This problem has happened previously already, after the 2012 tariff re-banding and the wholesale 2016 reform package therefore there is a strong basis to believe that it may happen again.

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- **On a related note, it is vital that some form of MCS and consumer protection scheme compliance is a requirement of future support (see our response to the Call for Evidence).**

Allow sites to make unavoidable engine replacements without requiring FiT re-accreditation

At present, plants which must replace their engines after the current unit has worn out or has broken down face having to re-accredit when installing a replacement system. These restrictions on generating equipment/engine replacement under FITs are very much of a concern for all the technologies eligible for FITs, and in particular the AD industry. The REA have also been contacted regarding this issue at solar PV sites for example, and can provide more information on this.

Many members have said they have to continue to rely on old and inefficient engines, running them half of the time and flare the gas off. According to a member of the REA who is a manufacturer/UK distributor of engines, the main reason they have been approached for replacement is that some of the existing engines are not performing or AD plants are not getting the service support, leading to lower up times and more gas flaring.

It is worth noting that this has also been an issue in the RHI scheme and has recently been satisfactorily resolved. From 1st October plants that generate heat under the RHI will be able to be replaced, so long as it is a 'like-for-like' replacement, without losing RHI accreditation. Since the equipment used to generate heat at an AD plant under the RHI is part of the same CHP system, these AD projects wouldn't be able to replace such equipment either. A similarly common-sense approach in the FiT scheme would be very welcome, as well as logical, as many sites will be generating under both the RHI and FiT schemes. Newer engines tend to have higher efficiencies as improvements have been made over time. In addition, according to the engine manufacturers, less efficient engines will emit more emissions, in particular carbon dioxide, an air pollutant and major contributor to climate change. So this issue should also be a concern for Defra, given the current political focus on air quality and climate change mitigation.

Having raised this issue with BEIS since 2015, on 19 September 2017 the REA attended a meeting with BEIS and other trade bodies to discuss a solution to this long-standing issue. A joint trade body paper which was sent to BEIS in advance of that meeting can be found here. At the time our understanding from BEIS is that there was agreement this issue should be addressed and that this could only be done through a change to the legislation, which would require a consultation. Our understanding was that BEIS team was seeking to propose an approach similar to that set out in the new RHI regulations. We were therefore very disappointed to see that the consultation not only does not include a firm proposal, but also refers to the need for a further consultation at a later date, which will include more detail. This will cause further delays to the resolution of this major issue.

If this is not addressed as a matter of urgency, the impact on the AD and other sectors will be significant. When we asked our AD members what would be the impact of not being able to replace an engine under FITs, members of the REA who are running AD plants accredited under FITs have said:

- *'The engine would be very unlikely to be able to continue working for the 20 year period without the replacement of parts. Production itself would be significantly reduced.'*
- *'Increased downtime, greater maintenance expense, some parts may be unavailable'*
- *'Terrible - we borrowed money to invest in the generation of renewable energy over 20 years with the FIT income continuing through this period. If it was stopped prior to 20 years then we would have to stop running the plant as it shall be uneconomic - disastrous for us financially and would mean renewable energy generating capacity would be idle'*
- *'Lost revenue leading to possible closure'*
- *'The business would fail and be liquidated'*

We have also spoken with the two main manufacturers and distributors of Biogas CHP engines in the UK and they have provided very useful insight, summarised below:

- Generating equipment needs to be replaced at least once over the lifetime of the tariff. If faults or breakdowns occur, this may be more often.
- Engine life spans are 15 years and while an engine can be overhauled a second time for longing this, it is important to be mindful that the balance of plant (switchgear, controls, contactors etc.) will have an increased failure rate due to their age.
- In situation where engines are faulty or break down and were supplied by companies that are no longer in business, AD operators are increasing requesting the manufacturers to replace parts of the engine, knowing that replacing the whole generating set would compromise their accreditation. However the manufactures are very reluctant to replace parts of engines (e.g. the engine part, but not the alternator) as it is challenging to fit an engine of a certain make with an alternator of another make. In most situations the most appropriate solution would be to replace the whole generating equipment. As highlighted earlier in this response, this means that an increasing number of AD plants may be re running their engines half of the time, and flaring gas off. Less efficient engines also result in higher emissions to air. *'We are a distributor of Jenabcher and as such we are not able to offer any service on other engine manufacturers which is also the case for other distributors, they cannot service Jenbachers'*.
- Most importantly from BEIS perspective, according to these manufacturers, a new engine may be marginally higher in efficiency (e.g. 1 – 2% more efficient), as engines are generally increasing in electrical efficiency as the manufacturers develop them. **However, and as previously highlighted to BEIS, this would in no way affect output generation. Higher efficiency would only result into lower gas consumption; this in turn means that less feedstock could be used to achieve the same power generation. Therefore, there wouldn't be any impact on the LCF of replacing Biogas CHP engines.**

<u>Introduce a grace period for projects unavoidably delayed in accrediting</u>

- - The Renewables Obligation (RO) introduced a series of 'grace periods' for projects facing unavoidable delays which would jeopardise their ability to accredit under the scheme prior to its closure. This was introduced as a fair way of protecting investments and ensuring capacity was built out. A similar

measure should be introduced urgently for the closure of the FiT. Such grace periods could be put in place for unavoidable delays accrediting under the scheme on grid connection and Force Majeure grounds, for example. The REA helped develop the RO scheme Grace Periods and would be happy to assist in the development of such a measure for the FiT scheme's closure, which we view as essential and fair.

- Grace periods would also be a revenue-neutral measure, as any expenditure on a project needing such a measure would already have been accounted for under the scheme due to the queueing mechanism.

Recycle unspent FiT scheme funds

- - figures show an underspend in the onshore wind and solar PV categories of tens of millions of pounds. These funds should be recycled back into the scheme rather than being 'wasted' by not being used. This is even more important given the public position that there will be no new support for renewables until after 2025 (unless cost reductions on consumer bills can be evidenced as a result of support). This support has already been allocated to renewables support, therefore is not 'new' in any form and must be allowed to be utilised.
- In addition, we know that just under 7 MWe that were allocated to AD, were not used and should be recycled back to this technology. This happened because according to the quarterly cap mechanism, the capacity of the project that causes the cap to be hit is not used within that cap ie that project will fall under the following cap and will be eligible for the following, degressed rate. Therefore, that capacity is lost.

Confirm position re projects under 5MW applying for CfDs post-FiT Closure

- AD, Hydro, Onshore wind, Solar PV are currently excluded from the Contracts for Difference (CfD) scheme due to their eligibility for Feed-in Tariffs at 5MW and below . This was due to concerns over double-subsidisation and associated issues of over-reward – concerns which no longer apply after spring next year and the closure of the FiT to new capacity.

- Once the FiT closes to new entrants on 31 March 2019, it therefore follows that such projects (ie eligible technologies below 5MW), should by default become eligible for CfD support. Industry would appreciate confirmation of this and we would be happy to discuss further. An added advantage to the CfD scheme would be an increase in competitive tension in the CfD auction mechanism as more capacity enters each allocation round, therefore potentially pushing down clearing prices further and better utilising existing budgets.

Conclusion

The consultation is vitally important for the future of the small scale renewables sector and the closure of the FiT scheme should be handled in line with the closure of other renewable power support schemes – meaning the granting of grace periods, utilisation of unspent, available funds.

It is also important to allow for the replacement of equipment for unavoidable reasons, providing this does not result in higher generation (which simple controls can

prevent from happening). Please also see Appendix A for the impact on jobs of an inadequate replacement for the scheme, indicating up to 6,000 job losses.

REA, September 2018