



RPs and Renewables - Feed-in-Tariffs & the 'PV for Free' proposition

Introduction

The *2008 Energy Act* gave the Government legislative powers to introduce a Feed-in-Tariffs ("FITs") scheme for small-scale low carbon electricity generation in Great Britain. After a period of consultation, the FITs scheme was launched on 1 April 2010. These proposals have presented Registered Providers ("RPs") and Local Authorities with real opportunities to implement renewable electricity solutions across their estates and reduce their recurrent electricity costs.

The FITs scheme provides that predictable, transparent revenue streams (Generation and Export Tariffs) can be derived by small scale generators (up to 5 MW capacity) from a range of established, clean technologies including anaerobic digestion, hydro, solar PV and onshore wind.

How the Tariffs work

Generation tariffs are paid for each KWh generated by accredited installations, the tariff size depending on the technology, scale and timing of the installation, with more attractive tariffs available for smaller scale installations. Once generators have the accredited technology in place they can then lock in to fixed, index-lined revenue streams for between 20 and 25 years.

Export tariffs are paid at 3p/kWh for electricity produced but not consumed by generators, and instead exported to the grid.

Both the Generation and Export Tariffs are paid to generators by electricity suppliers, and the largest suppliers have an obligation to take part in the scheme and make FITs payments to customers. Tariffs have been set at a level to provide the generator with an appropriate rate of commercial return. Typical payback period on initial investment is between 8 and 12 years.

Along with revenue benefits, generators can also mitigate their exposure to the upward cost trajectory of existing energy supplies.

The RP context

In an RP context, solar PV, as an established, low maintenance and scalable technology, has been the focus for discussions. Many RPs will already have been approached by a number of potential organisations offering to provide and install PV panels for no upfront cost in return for access to the RP's estate - an arrangement commonly known as 'PV for Free'.

Under this model, the RP would assign the tariff revenue to the organisation, who would ensure that the technology was installed and managed, and allow the RP to have a relatively 'hands-off' approach. Depending on the scale of technology installed, the organisation would then be entitled to receive tariff revenues for 25 years at rates as set out below:

Solar PV Generation Tariffs

| Technology | Scale | 2010/11 Tariff (P/kWh) | Tariff Lifetime (Years) |
|------------|--------------------|------------------------------|-------------------------------|
| PV | ≤4Kw (retrofit) | 41.3 | 25 |
| PV | >4-10kW | 36.1 | 25 |
| PV | >10-100kW | 31.4 | 25 |
| PV | >100kW-500MW | 29.3 | 25 |
| PV | Stand alone system | 29.3 | 25 |

For an RP, the opportunity to provide tenants with clean energy for no upfront investment, and to reduce existing energy bills in the process is clearly attractive. Equally, however, there are risks for RPs in entering into long-term arrangements with organisations which do not deliver them best value. We feel therefore, that a degree of healthy cynicism should be applied when assessing the merits of 'PV for Free' and similar models.

Issues and how Grant Thornton can help

As a young and emerging market there is little in the way of 'FIT best-practice' which RPs can draw on in arriving at an informed view when assessing the underlying economics of what potential organisations are proposing. As a result there are clear risks from rushed or poorly-researched implementation.

Perhaps the *biggest* risk we see is that by entering into a 'PV for Free' solution, **Registered Providers fail to capitalise on their ability to generate and receive fixed, long term, and indexed linked revenues streams, and deliver a healthy commercial return.** As discussed, under a PV for Free arrangement, the ongoing tariff revenue will typically be assigned to the installer for the tariff life. This issue is particularly pertinent now given the healthy tariff rates currently available.

Grant Thornton can assist RPs in reaching an informed position by mapping out a viable alternative delivery option whereby the

RP is transformed from passive end user to a core part of the energy generation vehicle.

An alternative approach

New funding and delivery models are starting to emerge which may allow RPs to take a greater role in the development of renewable electricity on their estate, with reduced upfront capital commitments. These models would enable RPs to benefit from a long term profit share of FIT tariff revenues. Such models may be of interest as both:

- a credible benchmark for those RPs currently considering a PV for Free proposition and;
- a robust and viable delivery vehicle for those RPs wanting to play a more proactive role in renewable energy generation as both producer and consumer.

Grant Thornton can help RPs to fully understand the qualitative and quantitative implications of such options by:

- using financial modelling techniques to quantify the range of potential returns which the RP may achieve;
- using workshops to highlight key risks/rewards and mitigating strategies;
- providing tailored funding advice; both upfront and by setting out potential for future refinancing gains;
- mapping out the likely contractual structure, and the RP's position within that; and
- advising as to optimal tax structuring (Capital allowances on specialist equipment, VATable elements etc.)

For RPs considering adopting an alternative delivery structure, Grant Thornton can also help to facilitate discussions with relevant parties - funders, suppliers, installers, wider advisory - drawing on our wider network of contacts.

Our track record

Grant Thornton have been active in the renewables energy sector for over 5 years, and have developed a leading position as advisers in this market.

Our Energy, Environment and Sustainability team services a key sector within a large nationally based Government and Infrastructure Advisory team comprising over 100 professionals operating from 7 offices throughout the UK.

We have advised on numerous energy solutions including wind, solar, hydro, biomass and CHP. In 2009 we advised on the largest renewables scheme yet to come to market. We have extensive industry and sector knowledge, as well as broader project finance capabilities.

We have a proven track record of supporting clients in a number of different ways including buy and sell side project management

mandates, strategic reviews, fund raisings and financial modelling. We also have extensive experience of supporting Local Authority procurements.

With over 150 RP clients nationwide, Grant Thornton is also well aware of the wider RP context, and the unique opportunity the FIT initiative offers RPs to provide its tenants with cleaner energy.

Key Contacts



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For wider queries in relation to renewable energy solutions please contact either Nathan Goode or Edmund Papworth.