

Department of Energy & Climate Change
3 Whitehall Place,
London SW1A 2AW
T: +44 (0)300 060 4000
E: foi@decc.gsi.gov.uk
www.decc.gov.uk

31 May 2012

Email:

Our ref: 12/0664

Dear ,

RE: Calculation of FITs Cost to Consumers

Thank you for your Freedom of Information request received on 23 April 2012 as set out below.

Your request, dated the 13 April which was received on 23 April states:

Thank you for your letter of 4th April. I do understand that ministers are busy people.

However, I still don't understand your calculation. Could you send me the full calculation showing the numbers of consumers, power generated, etc., ie everything needed to produce the stated excess cost to consumers (£700M)?

Your letter does not address my further point – that the FIT is both paid by consumers through their electricity bills but also paid to consumers through the same bills. Thus the real excess cost to consumers is the difference between the sum paid to consumers and that raised from consumers by the power companies in order to pay the FIT. That, presumably, is little more than the power companies' admin costs for the scheme – which should be just a few percent of the money transferred, ie much less than £1.5B (or even £700M).

I await your reply with interest. Please treat this as a Freedom of Information Request.

We have considered your request in accordance with the Environmental Information Regulations 2004 (EIRs) as the information you sought disclosure of, does in our view, fall within the definition of 'environmental information' as stated in EIRs.

As you are aware DECC was judicially reviewed on its proposal for new lower tariffs to apply to solar photovoltaic (PV) installations with an eligibility date on or after 12 December 2011 when tariff changes were made on 1 April 2012. Consistently with the court's judgment, the new lower tariffs were subsequently implemented to apply to installations with an eligibility date on or after 3 March 2012.

The calculation that you have questioned (£700m additional cost to consumers) is an estimate of the additional cost over the 25 year tariff lifetime of paying FITs for installations with an eligibility date on or after 12 December and before 3 March at the rates as they were at the time instead of the lower rates proposed in the consultation. The cost is based on DECC's estimates of solar PV deployment during that period and how much electricity would actually be generated by the relevant equipment – around 220 MW capacity, and 200 GWh generation. This was taken from published statistics on deployment (http://www.decc.gov.uk/en/content/cms/statistics/energy_stats/source/fits/fits.aspx) with some adjustments made to the proportion of installations deployed which could potentially receive FITs support. The annual cost of these installations at the pre 3 March tariffs is around £85m (2012 prices), and at the revised tariffs is estimated at around £40m, with the difference in cost therefore around £45m per annum. The £700m is the lifetime cost and is the total of around £45m per annum for 25 years, in real prices, discounted at the social discount rate of 3.5%.

I should also point out that the £1.5bn estimate was based on our forecast of the level of deployment between the 12th December and the 3rd March, rather than on actual deployment as is the case for the £700m.

If you haven't done so already, you may find it informative to view the Impact Assessments which were published alongside the Phase 1 consultation (published on 31 October 2011) and the response documents together with the one published with the Phase 2a consultation (on 9 February 2012). These documents can be accessed at www.decc.gov.uk/fits.

The calculation of cost to consumers, is the cost that we estimate that electricity suppliers will pass through to all electricity consumers in terms of higher bills – or the net subsidy costs. Net subsidy costs are therefore the total subsidy payments (the generation tariff and the export tariff) less the value of the exported electricity. These subsidy payments are funded through all consumer energy bills.

To note that we erroneously in our last letter said that this also took account of the savings for individual households from buying less electricity; in fact this is not included in the calculation

of subsidy costs, although we do factor it into the calculation of the net cost to the economy (the resource costs).

If you are dissatisfied with the handling of your request, you have the right to ask for an internal review. Internal review requests should be submitted within two months of the date of receipt of the response to your original letter and should be addressed to the DECC Information Rights Unit (foi@decc.gsi.gov.uk)

Please remember to quote the reference number above in any future communications.

If you are not content with the outcome of the internal review, you have the right to apply directly to the Information Commissioner for a decision. The Information Commissioner can be contacted at: Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF.

Yours sincerely,

Feed-in Tariffs Policy Development
Office of Renewable Energy Deployment
Department of Energy and Climate Change – www.decc.gov.uk