



Department
of Energy &
Climate Change

Review of support for Anaerobic Digestion and micro-Combined Heat and Power under the Feed-in Tariffs scheme

26 May 2016

Department of Energy and Climate Change

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The consultation and Impact Assessment can be found on DECC's website:

<https://www.gov.uk/government/consultations/review-of-support-for-anaerobic-digestion-and-micro-combined-heat-and-power-under-the-feed-in-tariffs-scheme>

The core 2015 FITs Review consultation and Government response can be found here:

<https://www.gov.uk/government/consultations/consultation-on-a-review-of-the-feed-in-tariff-scheme>

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General information

Purpose of this consultation:

This consultation proposes revised support levels for anaerobic digestion and micro-combined heat and power technologies currently eligible for the Feed-in Tariffs scheme. Proposals include revised tariffs, amended degression levels, and a revision to the cap for micro-combined heat and power. It also proposes other measures to ensure the scheme is more closely aligned with other DECC policy measures.

Issued: 26 May 2016

Respond by: 11:45pm on 14 July 2016

Enquiries to:

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Consultation reference: 16D/041 – Review of support for Anaerobic Digestion and micro Combined Heat and Power under the Feed-in Tariffs scheme

Territorial extent:

Great Britain

How to respond:

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Where possible, responses should be submitted electronically via the e-consultation available at https://econsultation.decc.gov.uk/decc-policy/review-of-support-for-anaerobic-digestion-and-micr/consult_view.

Responses emailed to ADmCHPreview@decc.gsi.gov.uk and hardcopy responses sent to the postal address above will also be accepted.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at www.gov.uk/decc.

Other versions of the document in Braille, large print or audio-cassette are available on request. As there is a need to consult promptly on this issue a Welsh version of this document has not been produced.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

Executive Summary

1. Government is committed to moving to a low-carbon economy and meeting its carbon reduction and renewable energy targets. Alongside other measures, the Feed-in Tariffs (FITs) scheme has been part of our progress against these objectives. The scheme is funded through levies placed on consumer energy bills. In order to restrict the impact on bills, Government set a limit on the annual low-carbon energy subsidy expenditure which could be collected from consumers, known as the Levy Control Framework (LCF). The current final LCF year of 2020/21 sets an expenditure limit of £7.6bn (2011/12 prices).
2. Deployment under the FITs scheme has exceeded expectations. While this shows the success of the scheme in attracting investment in small-scale renewable electricity deployment, this has come at a cost to the bill payer, with the scheme projecting to spend beyond its initial projections. In August 2015, Government launched a consultation¹ setting out the impact of the FITs scheme on consumer bills, and proposing measures to limit it (the core FITs Review consultation). The consultation sought views on a number of issues but focussed on placing the FITs scheme on a sustainable footing, seeking to change the demand-led nature of the scheme. The consultation also reviewed the level of tariff support for solar PV, wind and hydro – a requirement of our State aid approval to ensure Government is not over-compensating supported generators.
3. The core FITs Review consultation did not seek views on the level of support for anaerobic digestion (AD) or micro-combined heat and power (mCHP), technologies also eligible for the scheme. AD has deployed successfully under the scheme. When the scheme was launched in 2010, Government projected 100 installations equating to 160 MW of installed capacity by 2020/21. By the end of March 2016, the number of installations accredited under the FITs scheme was 250, with an installed capacity of 177 MW. In contrast, mCHP has not seen a sustained level of deployment, with only 501 installations deployed since the scheme started in 2010.
4. This consultation seeks input on the future level of support for these technologies, and builds on proposals in the previous consultation on sustainability for AD. The proposals on future support levels in this consultation continue the principles set out in the core review of 2015: to ensure value for money for consumers in delivering our renewable energy targets.
5. Subject to stakeholders' views, Government will aim to implement any changes as soon as legislatively possible, and Government expects measures to be in place for January 2017. On the proposals for sustainability criteria and feedstock restrictions for AD, Government aims to set out its intentions in the response to this consultation, although any feedstock restriction changes may be implemented alongside the same proposed changes to the Renewable Heat Incentive (RHI). Government will confirm changes and the legislative timetable in the response to this consultation.

¹ <https://www.gov.uk/government/consultations/consultation-on-a-review-of-the-feed-in-tariff-scheme>

6. Government reiterates its commitment to the principle of grandfathering generation tariffs under the scheme and therefore existing installations will not be affected by the proposed changes to tariffs. Any new AD installations from 1 January 2017 will be subject to new tariffs. New installations are those that apply for pre-accreditation or (where installations have not applied for pre-accreditation) apply for full ROO-FIT accreditation from the date when the legislation implementing the proposals come into force.
7. We do not expect that implementation of the proposed changes will adversely affect our ability to meet our renewable electricity and carbon reduction targets. The UK is making good progress towards the EU target of 15% final energy demand from renewables by 2020 and the pipeline of projects towards 2020 remains healthy. The UK is on track to meet its next interim target of final average energy consumption over 2013/14.
8. We do not consider that any of the proposed changes, other than where indicated, would give rise to us having to re-notify the change to the European Commission. This is in line with the Commission's decision of 15 March 2013².
9. With the exception of the 'Background' section, each chapter of this consultation opens with a proposal, explains the reasoning of the proposed change, and then ends with consultation questions. A summary of all the consultation questions can be found at Annex A.

² Paragraph 20 : http://ec.europa.eu/competition/state_aid/cases/247528/247528_1418847_115_2.pdf

1. Background

History of the Feed-in Tariffs scheme

1. The FITs scheme was introduced in 2010. Alongside the Renewables Obligation and, more recently, the Contracts for Difference regime, the FITs scheme is part of a set of initiatives to encourage the deployment of renewable energy across the UK.
2. The objectives of the scheme on its introduction were to:
 - Encourage deployment of small-scale (up to and including 5 MW) low-carbon electricity generation;
 - Empower people and give them a direct stake in the transition to a low-carbon economy;
 - Assist the public take-up of carbon reduction measures;
 - Foster behavioural change; and
 - Help develop local supply chains and drive down energy costs.
3. The European Commission's State aid approval for FITs places an obligation on Government to review scheme performance every three years. A review was carried out in 2012, and a further review (with the exception of AD and mCHP support levels) was carried out in 2015 with final implementation in February 2016. We are required by our approval to consider whether generation and export tariffs continue to give investors an appropriate rate of return and prevent overcompensation. This consultation seeks to undertake that process for AD and mCHP technologies.

The Levy Control Framework (LCF)

4. Subsidies for low-carbon electricity generation are paid for through levies on consumer bills. This includes payments made through FITs, the Renewables Obligation, Contracts for Difference, and Final Investment Decision Enabling for Renewables.
5. In order to restrict the impact on consumer bills, Government set a limit on the annual low-carbon energy subsidy expenditure which could be collected from consumers, known as the LCF. The LCF is designed to control impacts of support for low-carbon generation on consumer bills. There are annual caps but the current final LCF year of 2020/21 sets an expenditure limit of £7.6bn (2011/12 prices).
6. Table 1 below shows that projections for spending on the FITs scheme under the LCF have consistently increased over time. The increased spending puts increasing pressure on consumer bills and is not sustainable.

Table 1. Changes to FITs spending projections over time

Time of estimate	Estimated spend by 2020/21, £m (2011/12 prices)
2010 (introduction of FITs)	490
2012 (review)	1,160
2015 (review)	1,740

7. As part of the core 2015 FITs review consultation, an overall cap of £100m was introduced for new spend under the scheme between February 2016 and March 2019 to limit the impact on consumer bills. MCHP already had an eligibility limit of 30,000 installations. On reaching this 30,000 unit limit, the technology was to become ineligible for FITs. However, spending on mCHP was not set within the £100m budget.

Implementation of key measures from the core 2015 FITs Review

8. Individual caps were introduced as a key cost control measure for solar PV, wind, AD and Hydro. They operate on a quarterly basis with new capacity allocation becoming available at the start of each calendar quarter, and have been set until the end of March 2019. The level of these technology caps and how they were calculated is set out in the core FITs review consultation Impact Assessment published in December 2015³.
9. Other measures were announced to provide more certainty to developers in light of the introduction of caps. We set out tariffs levels through to 2019 based on default degression, and pre-accreditation – the ability to secure a tariff before commissioning and therefore before committing significant funds – was reinstated.
10. The current consultation is focused on aligning support for AD and mCHP with the changes introduced last year. At the time of last year’s review, Government stated its intention to consider the mechanism for recycling underspend in deployment caps; Government also stated it would review eligibility and the balance of caps between technologies this year, as well as considering whether there are grounds for reviewing the proposed tariffs following implementation of these changes. This consultation does not prejudge Government’s decisions on these matters.

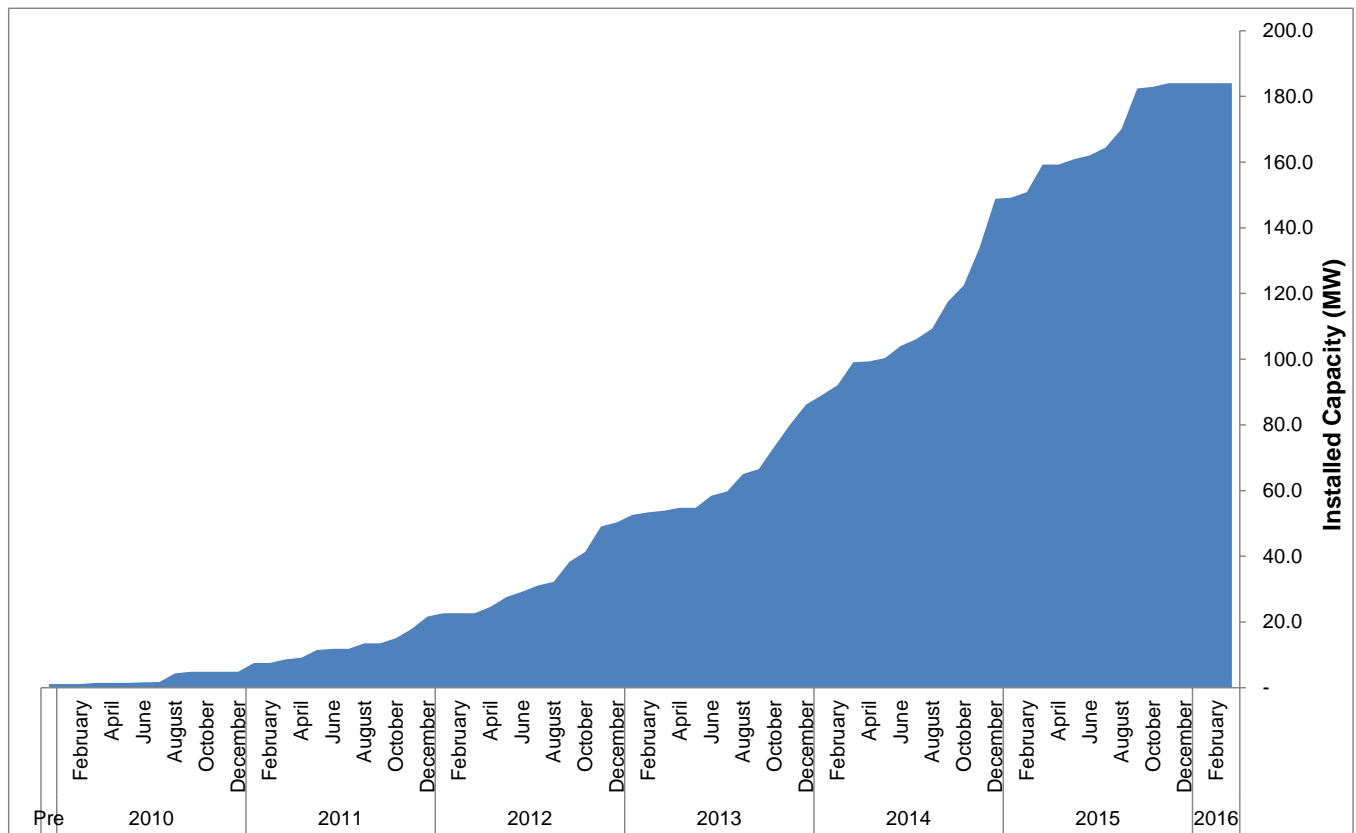
Performance of AD and mCHP under FITs

Anaerobic Digestion

11. AD technology supports Government’s aims of decarbonising electricity generation and reducing greenhouse gas emissions from waste and agriculture.
12. Support is currently available for up to 5 MW of capacity in each quarter under FITs. As at the end of March 2016, 250 installations had been accredited onto FITs via ROOFIT (including pre-accredited sites), representing 177 MW of installed capacity. Including FITs-scale sites awaiting full accreditation, the number of sites commissioned by end March 2016 was 270, with an installed capacity of 184 MW.

³ [https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486084/IA - FITs consultation response with Annexes - FINAL SIGNED.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486084/IA_-_FITs_consultation_response_with_Annexes_-_FINAL_SIGNED.pdf)

Graph 1: Cumulative commissioned AD installed capacity

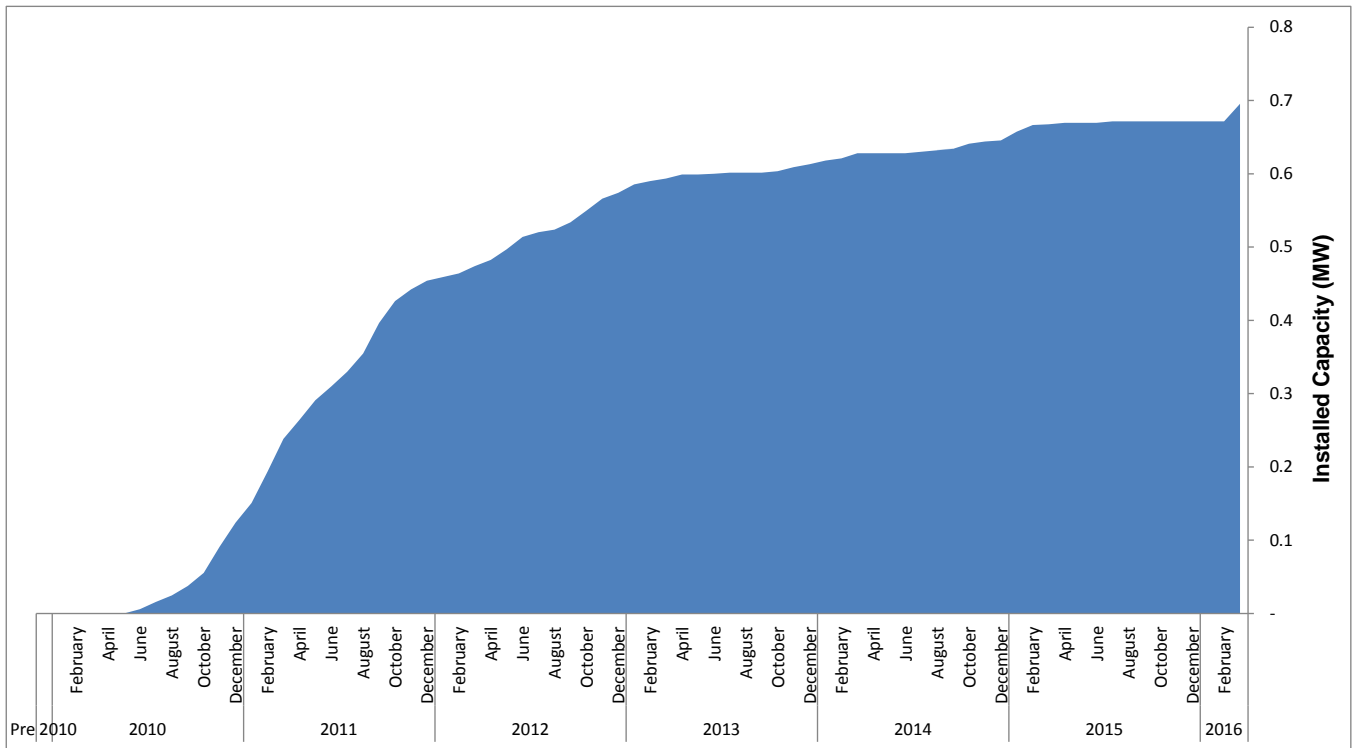


13. AD can be configured to generate heat as well as electricity (known as combined heat and power (CHP)). Utilising the heat as well as the electricity generated by an AD CHP plant is beneficial as it maximises its overall energy output. CHP plants can be eligible for both FITs and the Renewable Heat Incentive (RHI).
14. DECC believes that an increasing proportion of new AD plants choose to accredit under both schemes.

Micro-Combined Heat and Power

15. Micro-combined heat and power (mCHP) was originally included in the FITs scheme as a pilot. Under this pilot, support has been available for up to 30,000 installations (with an electrical capacity of 2 kW or less), with a policy to review the limit when deployment reaches 12,000 installations. Despite an increase in generation tariffs following the 2011/12 FITs Review, deployment of mCHP has remained low with only 501 installations supported under the scheme by the end of 2015, with a further 158 commissioned, and awaiting accreditation. Annual deployment rates have continued to fall since 2011 with only 18 installations deployed in 2015.

Graph 2: Cumulative commissioned mCHP installed capacity



16. Industry has suggested a number of reasons for these low levels of deployment over the past six years. Suggestions include high technology costs that are not fully reflected in current tariffs, and a dampening effect of the long-standing deployment cap. The unfamiliarity of the technology and a lack of awareness of its potential benefits amongst householders may also be factors.
17. The current review of FITs provides an opportunity to look again at the support available for mCHP and learn the lessons from the pilot to date. However, this needs to be in the context of the increased emphasis on affordability and the introduction of a new expenditure limit of £100m between 2016 and 2019.

2. Securing Value for Money

This chapter sets out **changes to ensure Anaerobic Digestion (AD) and micro-Combined Heat and Power (mCHP) tariffs under the scheme provide value for money**. The proposed changes include:

- Generation tariffs for AD
- A revised default degression mechanism for AD
- The introduction of annual deployment caps for mCHP
- The introduction of contingent degression for mCHP

Proposal

18. We propose to amend generation tariffs from 1 January 2017 as set out in Table 2 below. Table 3 sets out to whom the new tariffs will apply.

19. As stated in the Government Response to the core FITs Review consultation⁴, applications for pre-accreditation or full accreditation that miss out on a cap, and are therefore being held in a queue until the next cap, have no guarantee of FITs support or of eligibility for support at a particular tariff. This will apply equally here for applications made before 1 January 2017 that are still being held in the queue by that date.

Table 2 – Proposed generation tariffs

	Proposed Generation Tariffs for 1 Jan 2017 (p/kWh, Nominal prices)	Ofgem Tariffs for installations with an eligibility date on 1st April to 30th of June 2016 (p/kWh, 2016/17 values)
AD		
0 – 250 kW	5.98	8.21
250 – 500 kW	5.52	7.58
500 - 5000 kW	0.00	7.81
Micro CHP		
<2 kW	13.61	13.61

⁴ Paragraph 2.69:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487300/FITs_Review_Govt_respo_nse_Final.pdf

Table 3 – Applicability of new tariffs to installations

	Installation description	Subject to new tariffs?
Anaerobic Digestion	Installation commissioned on or after 1 January 2017; application for full ROO-FIT accreditation received by Ofgem on or after 1 January 2017 (where pre-accreditation has not been applied for)	Yes
	Installation commissioned before 1 January 2017; application for full ROO-FIT accreditation received by Ofgem on or after 1 January 2017 (where pre-accreditation has not been applied for)	Yes
	Application for ROO-FIT pre-accreditation received by Ofgem before 1 January 2017 and qualified for ⁵ a quarterly cap before 1 January 2017	No
	Application for ROO-FIT pre-accreditation received by Ofgem before 1 January 2017 but qualified for ⁶ a quarterly cap on or after 1 January 2017	Yes
	Application for ROO-FIT pre-accreditation received by Ofgem on or after 1 January 2017	Yes
Micro-combined heat and power	MCS certificate issued before 1 January 2017	No
	MCS certificate issued on or after 1 January 2017	Yes

Anaerobic digestion

20. For the 0-250 kW and 250-500 kW tariff bands, we propose to maintain the current tariff trajectory, which in January 2017 will bring tariffs down to 5.98 p/kWh and 5.52 p/kWh respectively (as set out in Table 2).

21. Monitoring of application and deployment levels since the introduction of caps in February 2016 suggests that tariffs under the current framework continue to provide adequate incentive to deploy AD. In February alone, applications for AD installations with a total capacity of more than 17 MW had been submitted to Ofgem. This compares to 4.5 MW of applications received in the first quarter of 2015. The caps for the first two quarters in 2016 (February-March and April-June) have been met. Applications are queued for entry into the

⁵ This means the date on which the installation qualified for pre-accreditation, i.e. the date it was received into the cap, and not the date on which Ofgem made the decision to grant pre-accreditation to the installation.

⁶ This means the date on which the installation qualified for pre-accreditation, i.e. the date it was received into the cap, and not the date on which Ofgem made the decision to grant pre-accreditation to the installation.

next two quarterly caps to December 2016 and are progressing towards meeting the first 2017 quarterly cap⁷.

22. In assessing AD tariff levels, Government has taken into account all cash flows, including likely costs, revenues and bill savings associated with the production of heat. In addition, the assessment has taken into account compliance with the proposed sustainability criteria and the proposed feedstock restrictions.
23. For the 0-250 kW and 250-500 kW tariff bands, the resulting modelled tariffs are higher than those currently available for the quarter April-June 2016. Government recognises the limitations of modelling to set generation tariffs and the uncertainty around a number of key assumptions underpinning the modelling. Government views the number of applications coming forward under the cap as a signal of industry's sustained interest in deploying at the associated tariff level. The applications coming forward are considered sufficient in order to deploy within the cap system to ensure best value for money to consumers.
24. We recognise that there are uncertainties around the proposal to continue with the tariff trajectory under the current framework. These relate to the potential financial impact of the feedstock restriction proposals and the possibility of queued applications withdrawing before obtaining accreditation, leading to depression not being triggered. However, given the number of applications for accreditation that have been made to date, we believe that there will remain sufficient interest in the industry to allow well-sited installations to continue to come forward under our proposals. We welcome stakeholders' views on this.
25. For the larger band of 500 kW-5 MW, Government proposes to reduce the generation tariff to zero. As explained in further detail later in this document, as well as in the Impact Assessment, our tariff-setting methodology considers AD installations claiming RHI payments, relying on 100% food waste as their feedstock and receiving a gate fee of £20 per tonne. Analysis shows that such installations are able to make sufficient revenues to make the deployment of the plant viable and achieve a 9.1% rate of return without support from the generation tariff.
26. Gate fee⁸ assumptions are based on various sources of information, including our current evidence. Previous sources include the 2014 RHI Biomethane Review⁹. £20 is based on the mid-point of the assumption that the current gate fee is £25 per tonne falling to £15 in 2020. The impact assessment that accompanies this consultation document sets out more details about our assumptions.
27. Generation tariff levels for this band are very sensitive to the gate fee value assumed for food waste and there is a high level of uncertainty around such fees. We particularly welcome evidence from stakeholders relating to our gate fee assumptions.
28. We also recognise the potential uncertainty around the future supply of food waste which may deter investment.
29. Also proposed is a default depression of AD generation tariffs in line with expected cost reductions from now until the end of the FITs generation tariff in March 2019.

⁷ <https://www.ofgem.gov.uk/environmental-programmes/feed-tariff-fit-scheme/feed-tariff-reports-and-statistics/feed-tariff-deployment-caps-reports>

⁸ A gate fee is the price at which food waste is exchanged between food-waste suppliers, such as local authorities and commercial food distributors, and AD generators.

⁹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384203/Biomethane_Tariff_Review_-_Impact_Assessment_-_Annex_G.pdf

Micro-combined heat and power

30. Government is proposing to maintain the current tariff for mCHP. The FITs Order also provides that Ofgem may not accredit more than 30,000 mCHP installations.¹⁰ We propose maintaining the existing 30,000 limit on the number of eligible mCHP installations.
31. We propose that support for the technology be brought within the £100m budget through the use of underspends from the other technologies. This will also entail the introduction of periodic deployment caps, as with the other technologies supported under FITs. We propose a deployment cap of 3.6 MW to March 2019.
32. The deployment cap for mCHP will also be divided in a similar way to other technologies across deployment periods, except that we propose annual caps rather than quarterly to reflect the slower rate of take-up and seasonality of installation seen under the scheme thus far.
33. Government further proposes contingent degression for mCHP, which is in line with other technologies. As with caps, contingent degression for mCHP will occur on an annual basis rather than quarterly.
34. We welcome views on these proposals together with supporting evidence, including any of heavily committed investments prior to the date of this consultation being published that would be adversely affected by these proposals.

Anaerobic Digestion Tariff

Background

35. The FITs scheme was designed to incentivise the deployment of small-scale renewables, allowing generators to benefit from:
 - Bill savings – the occupier of the building would benefit from using electricity generated on-site, and therefore have a reduced bill;
 - An export tariff – paid to the generator by the supplier for electricity exported to the grid to compensate for the market value to the supplier of the electricity generated; and
 - A generation tariff – paid to the generator by the supplier, designed to incentivise the deployment of the low-carbon technology as opposed to fossil fuel alternatives.
36. Initially in 2010 the generation tariff levels were broadly set to provide a return for AD of 5-8% for most well-sited projects¹¹. Returns up to these levels were considered appropriate within EU State aid guidelines and reflected a level of support appropriate to incentivise deployment at that time.
37. In the original State aid approval for the FITs scheme, the European Commission noted that:

“the UK authorities indicated that three-year reviews will be carried out by the DECC. They will reassess the costs of technologies, electricity price forecasts and whether the target rate of return is still appropriate, and consider revision of tariff levels and decrease rates accordingly. In particular, consideration of tariff and decrease levels will

¹⁰ Article 8, Feed-in Tariffs Order 2012

¹¹ http://ec.europa.eu/competition/state_aid/cases/235526/235526_1104588_39_2.pdf para. 21.

take account of any decreases in the levelised production costs to ensure there is no overcompensation.”¹²

38. The first comprehensive review of FITs in 2011/12 introduced new generation tariff levels which were broadly set to provide a return of between 4-8% for most well-sited technologies, with some technologies achieving more but not exceeding 13%.¹³ The core FITs review of 2015 amended our assumptions on rates of return to ensure the scheme targeted those individuals and small commercial entities for which it was initially intended, but remained within the boundaries of our State aid agreement. Since the review of FITs took place in 2011/2012, data on the cost of producing renewable energy for AD has been collected from a number of different sources. Coupled with additional certainty on the future of the RHI, generation tariffs for AD can now be considered on the basis of updated evidence. Government will take into account the outcomes of the recent consultation on the Renewable Heat Incentive (RHI) in our final decisions.
39. AD in the form of combined heat and power (CHP) installations is more efficient than power-only AD as it makes use of the heat resulting from the combustion process to generate electricity rather than just letting it go to waste¹⁴. This is consistent with the FITs objective of encouraging efficient installations. Market intelligence and anecdotal evidence suggests that AD installations are increasingly being set up as CHP and are applying for support under the RHI as well as FITs. To ensure value for money for the FITs scheme and to avoid overcompensation, we consider that the support provided for by the RHI needs to be accounted for when assessing FITs tariffs.
40. In addition to the above income streams (bill savings, export tariff and generation tariff), we have taken into account that AD also has the following:
- RHI payments – paid to the generator of AD CHP plant by the RHI;
 - Heat bill savings – the owner of the AD CHP plant would benefit from using the heat generated onsite, and therefore have a reduced bill related to the use of the alternative fuel that would have been used to generate heat;
 - Gate fees – paid to the generator for the use of certain types of feedstock.
41. Evidence gathered from the sources set out below have been used to calculate the modelled tariff for well-sited installations in the 500 – 5000 kW band. For the smaller tariff bands, as described above, we believe the current tariff trajectories are sufficient. The Impact Assessment published alongside this consultation sets out in more detail the sources of information used for all tariff bands.

Updating our evidence

42. DECC appointed WSP Parsons Brinckerhoff, an external consulting firm, to carry out an update of the data on small-scale renewable generation costs used to calculate generation tariffs, looking at costs and technical assumptions associated with all five eligible generation technologies ahead of the core FITs Review consultation in 2015. Their report¹⁵ has been used in evaluating AD generation tariffs.

¹² http://ec.europa.eu/competition/state_aid/cases/235526/235526_1104588_39_2.pdf, para. 39.

¹³ http://ec.europa.eu/competition/state_aid/cases/247528/247528_1418847_115_2.pdf, para. 14.

¹⁴ See also the UK Bioenergy Strategy: <https://www.gov.uk/government/publications/uk-bioenergy-strategy>

¹⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456187/DECC_Small-Scale_Generation_Costs_Update_FINAL.PDF

43. Due to some evidence gaps in the data provided by WSP Parsons Brinckerhoff, DECC used alternative data sources to gain more information. These data sources relate to feedstock, digestate disposal, the cost of deploying food waste plants and AD CHP, and load factors.
44. To inform assumptions on the costs of food waste plants and for AD CHP, evidence provided in the RHI Biomethane Review was used in combination with our current evidence on plants greater than 1 MW. The Biomethane Review was conducted in 2014 and summarised evidence from over sixty consultation responses (including some AD cost models), and published sources on AD costs (mainly for biomethane plants between 1-5 MW capacities).
45. Assumptions have been made about technical characteristics of installations and are in line with tariff setting for other technologies within the FITs scheme. The list below sets out the assumptions used in the analysis:
- type of installation and related feedstock;
 - reference installation size;
 - target rate of return;
 - capital expenditure (capex);
 - fixed and variable operating expenditure (opex), as well as digestate disposal costs, where relevant;
 - load factors;
 - export fraction;
 - revenues or cost associated with feedstock;
 - the value of electricity bill savings;
 - heat generation and use;
 - the value of heat bill savings;
 - RHI payments;
 - plant operating life;
 - technical potential; and
 - inflation assumptions.
46. The Impact Assessment, published alongside this consultation, sets out how the data was interpreted when proposing new generation tariffs, and default degression pathways.
47. AD can be configured to make use of the heat generated as a by-product of the AD process and electricity generation (combined heat and power). Government acknowledges that not all of this heat may be used to satisfy an existing source of heat demand, due to the seasonal variations in heat demand and transport heat losses.
48. The analysis assumes that out of the total heat generated, 80% goes to satisfying an existing source of demand and is therefore deemed as “useful” heat. This estimate is set to encourage FIT generators to make as much use of the heat generated as possible. The “useful” heat determines the income stream that FITs generators of an AD CHP plant make on the heat generated.

49. Major evidence gaps remain in relation to capital and operational expenditure of AD CHP plants, and the potential revenue streams these plants could achieve from gate fees and the production of digestate.
50. Additional evidence on the above items would be of great interest to DECC. If you wish to submit evidence, please fill out the evidence survey that accompanies this consultation, including related documents to prove the validity of the data provided.

Micro Combined Heat and Power Tariff

51. Several respondents to the core FITs Review consultation provided views and some supporting evidence concerning mCHP. Some additional evidence and information has also subsequently been provided by companies active or potentially interested in the mCHP sector in anticipation of this consultation. However, the information provided represents a very small data sample and suggests some differing views as to whether a significantly higher tariff is required to reflect technology costs, or whether there could be scope to deploy at a lower tariff.
52. Government does not consider there is sufficient evidence to propose any changes to the tariff for mCHP at this stage. We would welcome any additional evidence through responses to this consultation (bearing in mind the link between the tariff and the deployment cap proposed below). This could include information on the products currently available, their costs, operating parameters (e.g. capacity, typical load factors etc) and how any of these factors have changed since the FITs scheme started in 2010¹⁶.

Degression mechanism

Proposal

Default degression

AD

53. We propose that the default degression mechanism is amended for AD to ensure generation tariffs take into account projected changes to the bill savings and to the costs of installations. The evidence on expected cost reductions was taken from WSP Parsons Brinckerhoff.
54. Proposed levels of default degression for AD are set out in the table below and are in line with the approach for other technologies under the FITs scheme.
55. If, following this consultation, the tariff for the 500-5000 kW band is increased from 0.00p/kWh, we would propose to apply default degression along similar lines.

¹⁶ Further detail about the types of evidence typically used by DECC in its approach to setting tariffs for FITs can be found in the Impact Assessment supporting the August 2015 consultation on the FITs Review which is available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/458662/IA_for_FITs_consultation_August_2015_-_FINAL_docx_e-signature_included_v2.pdf.

Table 4 – Generation tariffs with default degression from January 2017 to March 2019

Generation Tariffs p/kWh, 2017 prices		Jan-2017	Apr-2017	Jul-2017	Oct-2017	Jan-2018	Apr-2018	Jul-2018	Oct-2018	Jan-2019
AD	0 - 250 kW	5.98	5.95	5.92	5.89	5.85	5.82	5.79	5.75	5.72
	250 - 500kW	5.52	5.50	5.47	5.45	5.42	5.39	5.37	5.34	5.32
	500 – 5000 kW	Not applicable – 0.00p tariff proposed.								

MCHP

56. We do not propose to introduce default degression for mCHP. This is because of the low deployment rate seen so far, and the scarcity of cost evidence on which to assess whether there will be any cost reductions.

Contingent degression

AD and mCHP

57. We do not propose to amend the contingent degression mechanism which was set out in the Government Response to the core 2015 FITs Review consultation. For AD, a contingent degression of 10% will be in addition to default degression, if a quarterly cap is hit, and it will result in 10% degression for all subsequent tariff periods. For mCHP, we propose to introduce an annual 10% contingent degression.

58. While the default and contingent degression mechanisms are designed to ensure tariffs remain in line with changes in technology costs, it cannot be guaranteed this will be the case should an unexpectedly rapid reduction in technology costs occur.

59. DECC will continue to monitor developments in technology costs. If we become aware that tariff levels are not in line with technology costs, we will consider conducting a future review of tariff levels and implement the revised tariffs as soon as practicable.

Caps

60. A system of quarterly caps was introduced for all technologies except mCHP as part of the core FITs review in 2015. In the consultation and Government response to the core FITs review, Government noted that if tariffs for technologies changed either as a result of consultation or future tariff reviews, including on these proposals, then caps may need to be adjusted accordingly¹⁷.

61. The second cap is currently live and we have seen deployment data begin to be generated by Ofgem. At the point of response to this consultation, it is likely that the caps will have changed for some tariff bands due to capacity rolling forward, a mechanism set out in the response to the core FITs consultation in 2015¹⁸. Government also committed in its response to the 2015 review to a budget reconciliation for FITs, which would bring together any underspend and, subject to addressing budgetary pressures, redistribute it as deployment cap “top-ups”. This may affect future cap levels. This consultation does not seek to amend the mechanisms or application processes put in place as part of that review

¹⁷ Paragraph 2.79 of the Government Response:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487300/FITs_Review_Govt_respo_nse_Final.pdf

for solar PV, wind, hydro or AD. Changes proposed in this consultation do not impact the level of the caps across technologies, which remain the same as set out in the 2015 core review.

62. Caps for solar PV, wind, hydro and AD will remain unaltered, as set out in the following table:

Table 5 - Maximum Deployment caps

		2017				2018				2019
Deployment Caps (MW)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
PV	<10kW	52.8	53.8	54.2	55.9	57.0	58.0	59.1	60.1	61.1
	10-50kW	18.2	18.6	18.7	19.4	19.8	20.3	20.7	21.1	21.5
	>50kW	15.8	16.2	16.4	17.1	17.6	18.0	18.5	19.0	19.4
	Standalone	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Wind	<50kW	5.6	5.5	5.5	5.4	5.5	5.4	5.4	5.3	5.4
	50-100kW	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	100-1500kW	6.4	6.3	6.2	6.1	6.1	5.9	5.8	5.7	5.7
	1500kW-5000kw	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Hydro	0-100kW	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4
	100-5000kW	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.3	6.3
AD	All	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Micro-CHP		1.6				1.6				0.4

Anaerobic Digestion

63. The Government intends to leave quarterly AD deployment caps unchanged. Projections of AD deployment under the proposed tariffs are lower than was set out in the Government Response to the core 2015 FITs Review consultation, suggesting the need for reducing quarterly caps because fewer installations are expected to come forward. Since caps for AD are already at their minimum, DECC does not suggest reducing caps further. Reducing the cap below 5 MW would prevent the largest plants from accrediting, restricting eligibility for plants of 5 MW capacity. AD caps remain therefore at 5 MW each quarter until March 2019, leaving other technologies' caps unaltered.

Micro Combined Heat and Power

64. The Government is concerned that should deployment of mCHP accelerate, the cost of nearly 30,000 installations would present an additional pressure – up to £15m a year - on the Levy Control Framework (LCF). As mCHP is a low-carbon, but not a renewable, technology and was included in FITs as a pilot, this level of expenditure is disproportionate to that available to other mainstream FIT renewable technologies.

65. We propose maintaining the existing 30,000 limit on the number of eligible mCHP installations. However we propose that support for the technology up to March 2019 be brought within the £100m budget.

66. The Government considers that additional expenditure of up to £1m to March 2019 is appropriate, which is represented by offering support for a further 3.6 MW of new capacity. Accordingly, we propose that a deployment cap of 3.6 MW for mCHP is introduced, limiting the amount that can deploy over the period to March 2019. As stated in the Government Response to the core FITs Review consultation, generation tariffs for new installations will end after March 2019. The proposed deployment caps are set out in the table below. We are proposing that all new mCHP installations with a time/issue date on their MCS certificate of on or after 1 January 2017 should be included in this cap.

Table 6. Annual deployment caps and approximate unit numbers for mCHP

Period	Deployment cap (MW)	Number of units (approximately)
January 2017 to December 2017	1.6	1,560
January 2018 to December 2018	1.6	1,560
January 2019 to March 2019	0.4	390
Total	3.6	3,510

67. We consider that this cap should work in a similar way to the deployment caps for other technologies, for example with deployment tracked on issue date and time of the Microgeneration Certification Scheme (MCS) certificate. However, we do not think that quarterly caps for mCHP are appropriate at this stage, given the low deployment to date and the consequent desirability of maximising simplicity for installers and generators as well as the seasonality of deployment. We are therefore proposing annual deployment caps which we consider should balance the desire for simplicity with budgetary flexibility.
68. Like other technologies, we are also proposing that if a cap is hit for mCHP, the tariffs for the next period should degress by 10%.
69. Government recognises that these proposals will be disappointing for those involved in the mCHP sector. In proposing the changes, Government is not ruling out a role for mCHP in the move to a low-carbon economy. Indeed, we are keen to learn the lessons from deployment under the FITs pilot to date and going forward. We also feel that, based on deployment to date (which is only about 650, including some that are yet to be FITs accredited), the proposed cap will still ensure that FITs support is available to early adopters of mCHP in the coming years, potentially supporting more than five times the capacity that has deployed to date.
70. In bringing forward these proposals, we have taken into account the fact that FITs support for mCHP was introduced as a pilot. Given the very low level of deployment to date, it has never moved beyond that pilot phase. Following the changes introduced after the core FITs Review consultation in 2015, the scheme is now operating under a limited budget of £100m for new spend. Government needs to ensure that the available funds are used in a way that ensures best value for money for bill payers whilst achieving the scheme's objectives. In light of these factors, it is clear that FITs is only able to continue to offer support for early adopters of mCHP rather than be the vehicle for a mass roll-out of this low-carbon technology.
71. Our assessment of the current mCHP market suggests that, while there is activity, deployment is unlikely to accelerate in the short term. Therefore, we hope that the proposed reduction in the cap will be primarily a precautionary step which the sector will be

able to take into account in their business planning. We will consider any evidence provided (e.g. in the form of signed contracts between householders and installation companies for new installations) which suggests that the proposals will have an adverse impact on investments committed prior to the date of this consultation being published.

72. Government proposes funding the new deployment cap for mCHP from some of the savings resulting from contingent degeneration being triggered under the deployment caps for standalone PV, wind in the 50kW-1500kW tariff bands and AD. By doing this, we will bring mCHP within the £100m budget for additional expenditure under FITs, but do not envisage needing to adjust the existing caps for other technologies.

73. In the Government Response to the core FITs Review consultation, we stated that underspends from non-mCHP technologies could be redistributed within a wider budget reconciliation process as deployment cap top-ups. However, we were clear that this would be subject to dealing with any budgetary pressures first¹⁹. The potential additional £15m that mCHP could present to the LCF is such a pressure and therefore needs to be addressed.

Questions

Consultation Question

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| 1. | Do you agree or disagree with the proposed AD and/or mCHP generation tariff rates? Please provide reasons to support your answer. |
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Consultation Question

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| 2. | Do you agree or disagree with the updated AD assumptions? If you disagree, please fill out the evidence survey provided as part of the consultation and include documented evidence, such as invoices and/or contractual agreements to support this evidence. Please also mark this evidence as commercially sensitive where appropriate. |
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Consultation Question

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| 3. | Do you agree or disagree that the proposed AD default degeneration pathways fairly reflect future cost and bill savings assumptions for AD? Please provide your reasoning, supported by appropriate evidence where possible. |
|----|--|

Consultation Question

- | | |
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| 4. | Do you agree or disagree with the proposal to set the deployment cap for mCHP at 3.6 MW to March 2019? Do you agree or disagree with the proposed annual caps for mCHP? Please provide your reasoning, supported by appropriate evidence where possible, including information about investment or contracts in place before the date of this consultation that may be affected by the proposal. |
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¹⁹ Paragraph 2.76:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487300/FITs_Review_Govt_respnse_Final.pdf

Consultation Question

- | | |
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| 5. | Do you agree or disagree with the proposal for contingent degression for mCHP? Please provide your reasoning, and please fill out the evidence survey provided as part of the consultation and include documented evidence, such as invoices and/or contractual agreements to support this evidence. |
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Consultation Question

- | | |
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| 6. | Do you agree or disagree with the proposal to not change caps for non-mCHP technologies? Please provide your reasoning, supported by appropriate evidence where possible. |
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3. Anaerobic digestion feedstock: sustainability and carbon cost effectiveness

This chapter contains proposals to **implement sustainability criteria and restrict payments based on feedstock type for new anaerobic digestion installations** deploying under the FITs scheme. We are seeking stakeholders' views on:

- the applicability to FITs generators of the sustainability criteria and feedstock restrictions;
- the design of sustainability criteria and feedstock restrictions; and
- the reporting systems which would be used to monitor compliance.

74. This chapter sets out two separate proposals that impact on feedstock used for anaerobic digestion (AD) installations. The first, on sustainability criteria, relates to setting minimum environmental standards. The second, on restricting payments based on feedstock type, relates to addressing the carbon cost effectiveness of AD deployment.

75. The proposals will apply to new installations. New installations are those that apply for pre-accreditation or (where installations have not applied for pre-accreditation) apply for full ROO-FIT accreditation from the date when the legislation implementing the proposals come into force.

Sustainability criteria

Proposal

76. Following on from last year's consultation, we propose introducing sustainability criteria for AD under FITs for new installations.

Background/Rationale for change

77. In the core FITs review consultation in 2015²⁰, we set out the reasons for considering the introduction of sustainability criteria. These proposals would reduce the risks of generating energy from material which does not achieve a substantial greenhouse gas saving, or has a detrimental impact on land with a high ecological value. They would also provide a consistent application of the principles of sustainability across incentive schemes. This will further encourage the use of waste and avoid the risk that AD operators gravitate to FITs if

²⁰ Chapter 6:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469476/Consultation_on_a_Review_of_feed-in_tariff_scheme.pdf

their feedstock is not likely to pass sustainability criteria in the Renewables Obligation (RO) or Renewable Heat Incentive (RHI) schemes.

78. We sought stakeholder views on this, although not with the intention of introducing measures immediately. The majority of respondents who gave an opinion were in favour of their introduction. In the Government Response to that consultation²¹, we committed to exploring further in this consultation the option of introducing such measures.

79. We want to ensure that any sustainability measures introduced offer:

- a. A minimal administrative burden (and consistent with existing reporting regimes in other schemes), given that there will be additional reporting requirements associated with implementing the sustainability criteria.
- b. Measures that are consistent when a single installation is accredited under both FITs and the RHI.

Proposal details

80. Whereas last year's core FITs consultation sought views on the concept of introducing sustainability criteria, this consultation sets out in more detail the proposals for implementing such criteria.

81. The following proposals will apply to all new AD installations.

82. The sustainability criteria and reporting obligations set out below will apply to a new AD installation, unless it is, or becomes, RHI accredited too. In such a case, the installation must instead comply with the sustainability criteria and reporting obligations that exist under the RHI scheme²².

Requirement to comply with sustainability criteria

83. A new installation must meet the sustainability criteria, which are:

- a. The land criteria as set out in the previous consultation²³:
 - That biomass was not sourced from land with a high biodiversity value, including primary forests, grasslands and of areas designed by law for nature conservation purposes;
 - That biomass was not sourced from land with a high carbon stock value, including wetlands, continuously forested areas or peatlands;and
- b. The greenhouse gas (GHG) emissions limit. In the previous consultation, we proposed that the GHG target should be consistent with that of the Renewables Obligation (RO). The RO sets out GHG trajectories that are dependent on the date that the generating station begins to operate. Given that we anticipate all new AD installations will have begun operating after 1 April 2013, the relevant minimum

²¹ Chapter 5:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487300/FITs_Review_Govt_respo_nse_Final.pdf

²² Part 2 of the Renewable Heat Incentive Scheme and Domestic Renewable Heat Incentive Scheme (Amendment) Regulations 2015 (SI 2015/145): <http://www.legislation.gov.uk/ukxi/2015/145/contents/made>

²³ Chapter 6, paragraph 145:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469476/Consultation_on_a_Review_of_feed-in_tariff_scheme.pdf

standard will be 66.7gCO₂e/MJ of electricity generated, falling to 55.6 gCO₂e/MJ from 1 April 2020 to 31 March 2025 and then to 50.0gCO₂e/MJ from 1 April 2025 onwards.

84. The RO allows a system whereby single consignments of feedstock are allowed to exceed the GHG threshold on condition that average GHG emissions over the course of the reporting year meet the minimum standards, and that they do not exceed a GHG ceiling. We do not propose implementing this mechanism in FITs because of the additional complexity involved. Furthermore, the RHI does not have such a system in place and we wish to have as consistent an approach as possible across the two schemes. This means that every consignment must meet the GHG threshold.
85. Feedstock that is made up wholly of waste will not have to comply with the land criteria or the applicable GHG emissions limit.

Requirement to comply with reporting obligations

86. The relevant generator or nominated recipient of FITs payments for all new FITs accredited installations must report to Ofgem on the installation's compliance against the sustainability criteria. The key requirements will be:
- Quarterly reporting to Ofgem which will contain a declaration as to whether or not the consignment(s) of fuel used in that quarter was waste or derived from waste. If it is not waste or derived from waste, there must be a declaration as to whether the consignment(s) of fuel met the land criteria and the RO GHG emissions limit and this must be accompanied by a GHG emissions figure for the consignment(s). The required information must be provided within 28 days of the end of the quarter in question.
 - For installations of 1MWe (electrical) or above, an independent annual audit report must also be submitted to Ofgem within three months of the first anniversary of the eligibility date that falls after the date ROOFIT accreditation was formally granted and then every year after this date.

Consequences of non-compliance

87. A new AD installation will not be entitled to FITs generation and export tariff payments for a particular reporting period unless it meets either:
- the sustainability criteria and reporting obligations set out above; or
 - where the installation is also RHI accredited, the sustainability criteria and reporting requirements that apply under the RHI regime,
- for that period.

Restricting FITs payments based on feedstock type

Proposal

88. We propose to introduce complementary measures to those that the RHI propose to introduce by restricting payments for electricity generated from biogas that is derived from feedstock that is not waste or residues. The RHI consulted on these measures earlier this year²⁴. Since the responses to the RHI consultation are still being analysed, this proposal

²⁴ Chapter 6:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/505127/The_Renewable_Heat_Inc_entive_-_A_reformed_and_refocussed_scheme.pdf

does not seek to pre-empt, or make any assumptions with regard to the Government Response to the RHI consultation. The proposal set out in this consultation would apply to new AD installations.

Background/Rationale for change

89. AD technology offers a carbon cost effective (i.e. amount of money spent per tonne of CO₂ saved) way to decarbonise our energy system. However, the cost effectiveness depends on the feedstock used. AD installations using waste tend to offer the greatest greenhouse gas emissions savings by displacing high carbon energy sources through the management of biomass-derived waste like food waste, and through the treatment of farm waste. AD installations that use crops tend instead to be at the more expensive end of the carbon cost effectiveness range.
90. It is also Government policy that the primary purpose of agricultural land should be for growing food. Data published at the end of 2015 suggests maize is increasingly being grown for AD installations²⁵.
91. In the core FITs Review consultation in 2015, we highlighted concerns that the increased use of crops posed risks to Government aims for AD regarding objectives on waste management and low carbon energy. In order to maximise the benefits of payments to contribute to carbon budgets, we are proposing measures to reduce or eliminate support for new installations relying on crops as their primary feedstock.
92. We recognise that there may be circumstances where generators find it preferable to use crops, so it may not be appropriate to ban them from AD installations entirely. However, it is not our intention to support an AD industry which has a high dependency on crops, so we need to consider ways of ensuring that AD installations operating on farms are based on the processing of waste and residues.
93. The recent consultation on the RHI scheme highlighted that the scheme's sustainability criteria are not sufficient to ensure that the cost of carbon abatement is low. The RHI consultation proposed measures to restrict payments to generators making use of crops as part of their feedstock.
94. We propose to introduce feedstock restrictions under the FITs scheme to minimise the use of crops, and align with the RHI proposed measures.

Proposal details

95. The following proposals will apply to new AD installations.
96. The requirement set out below on calculating the amount of eligible electricity on which generation and export tariff payments are based will apply to all new AD installations.
97. The annual audit reporting requirement set out below will also apply to new installations, unless they are, or become, RHI accredited too. In such circumstances, an installation will instead have to comply with the annual audit reporting regime that it is proposed will be implemented under the RHI scheme. See the RHI consultation for details²⁶.

²⁵ Area of Crops Grown for Bioenergy in England and the UK: 2008-2014. Published by Defra on 10 December 2015.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483812/nonfood-statsnotice2014-10dec15.pdf

²⁶ Paragraphs 6.22-6.24:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/505127/The_Renewable_Heat_Inc_entive_-_A_reformed_and_refocussed_scheme.pdf

Requirement to calculate eligible electricity on which to base FITs payments, and to report eligible electricity to Ofgem

98. A generator or nominated recipient of FITs payments must calculate the amount of electricity on which they are claiming generation and export payments in accordance with the following provisions. Details of the calculation must be sent to Ofgem on a quarterly basis. The claim for payment (sent separately by the generator or nominated recipient to their Licensee) must be made for the portion of electricity generated that is eligible for tariff payments according to the calculation. The Licensee's duty to check payments will not extend to checking the calculation.
99. The generator or nominated recipient will identify the total amount of electricity generated in the relevant quarterly reporting period, the feedstock type(s) used to do so and the apportionment by feedstock type of the total biogas produced (based on the energy content of each feedstock type). The electricity generated will be split in accordance with those apportionment percentages. Based on which of the options below is implemented, the apportionment will be used to determine how much of the total electricity generated can be used to calculate tariff payments. For example, under Option 1, if 80% of the total biogas yield is derived from waste or residues, 80% of the electricity generated in that reporting period will be eligible for generation and export tariff payments.
100. The amount of electricity generated that can be taken into account when calculating generation and export tariff payments will be adjusted in accordance with one of the options set out below.

Option 1 – Restrict FITs payments to electricity generated from biogas derived only from wastes and residues

101. If implemented, only electricity generated from biogas derived from wastes and residues will be eligible for generation and export tariff payments.

Option 2 – Limit FITs payments in relation to electricity generated from biogas not derived from wastes and residues to 50% of the total biogas yield

102. If implemented, electricity generated from biogas derived from wastes and residues will be eligible for generation and export tariff payments. Electricity generated from biogas derived from other feedstocks will be eligible for generation and export tariff payments but only up to a maximum proportion of 50% of the total biogas yield produced in that quarter.
103. The maximum is set at 50% because crops such as maize tend to have a higher biogas yield compared to typical farm waste feedstocks such as manures, resulting in a relatively low ratio of crop to waste per tonne of feedstock.
104. Option 2 is currently the preferred option because it provides for payments for electricity generated from biogas with high carbon abatement costs, but offsets some of the risks associated with investments and feedstock support from only using waste and residues.

Requirement to undertake independent annual audits

105. If the proposals to restrict payments based on feedstock are implemented, new AD installations of 1MWe (electrical) and above must send to Ofgem an independent annual

audit report of the feedstocks used for the purposes of FITs payments. The audit must be done in accordance with the ISAE 3000 standard²⁷ or equivalent.

106. Additionally, more limited auditing requirements for new installations under 1MWe will be introduced.
107. The audit reports will be used by Ofgem to provide assurance of the amount of each feedstock used, the classification of differing feedstocks and the resulting appropriateness of payments made to the generator.

Evidencing use of waste

108. As with the RHI, we are investigating whether waste permits can be used as evidence to demonstrate that the plant intends to process waste at the point of accreditation, or whether it is necessary to exclude specific wastes from unlimited payment to minimise the risk of unintended consequences.

Consequences of non-compliance

109. A new AD installation will not be entitled to FITs generation and export tariff payments unless it complies with the obligations to:
- a. Follow the process set out above for calculating the amount of electricity against which they are claiming generation and export tariff payments;
 - b. Provide the details of the calculation to Ofgem; and
 - c. Undertake audits as applicable.

Ofgem powers

110. Under the existing FITs Order, Ofgem has the power to direct a Licensee to reduce, withhold or recoup tariff payments to a generator. If our consultation proposals on sustainability criteria and feedstock restrictions are implemented, Ofgem will use this existing power in two new categories of case:
- a. When a generator is non-compliant with the new requirements during a defined period;
 - b. When a generator is overpaid, because the feedstock calculation is incorrect.
111. We have considered whether Ofgem's existing powers are adequate for dealing with these new cases. In particular we have considered whether Ofgem's power under article 35 of the FITs Order 2012 should be modified to require Ofgem to:
- a. Give generators notice of an intention to reduce, withhold or recoup tariff payments, and its reasons for doing so;
 - b. Give generators a period of time to make representations or objections to Ofgem's reasons;
 - c. Give reasons for a final decision to reduce, withhold or recoup payments.
112. We propose to amend the FITs Order to ensure that a generator is given a fair hearing before tariff payments are reduced, withheld or recouped. We welcome stakeholder views on this.

²⁷ International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information

Implementation

113. In our Government Response, we will set out our intentions of whether, and if so when, we will implement the proposals on sustainability criteria and on feedstock restrictions, although the earliest implementation date would be 1 January 2017. On the proposals for feedstock restrictions, we will take into account the crossover with the RHI and our desire to align the two schemes as much as possible in implementing any restrictions.

Questions

Consultation Question

7. Do you agree or disagree with the sustainability criteria proposals on:
- who the criteria will apply to;
 - the greenhouse gas emissions limits;
 - the reporting requirements; and
 - consequences of non-compliance?
- Please provide your reasoning, including on whether the proposals are proportionate to any additional administration and costs involved.

Consultation Question

8. Do you agree or disagree that limiting the use of some feedstocks will deliver more cost-effective carbon abatement? Apart from wastes and residues, are there other feedstocks which should not be subject to payment restrictions? Please provide evidence to support your answer. Please also confirm whether or not you have provided the same answer to this question in the RHI consultation.

Consultation Question

9. Do you prefer option 1 or 2 for restricting payments based on feedstocks? Please provide your reasons and any supporting evidence, including any impacts on generators/nominated recipients and feedstock suppliers. Please also confirm whether or not you have provided the same answer to this question in the RHI consultation.

Consultation Question

10. Do you agree or disagree with the proposals on restricting payments based on feedstock type regarding:
- sending the calculation of eligible electricity to Ofgem for assessment;
 - introducing auditing requirements (including for installations below 1 MWe);
 - consequences of non-compliance?
- Please provide your reasons, including in particular any impacts on generators/nominated recipients. Regarding the introduction of auditing requirements, please confirm whether you have provided the same answer in the RHI consultation.

Consultation Question

11. Do you think there are any wastes which should not be subject to unlimited payments or whether there is additional evidence that can demonstrate that the generator intends to use waste? Please provide your reasons. Please also confirm whether or not you have provided the same answer to this question in the RHI consultation.

Consultation Question

12. Do you think the introduction of sustainability criteria and/or restrictions on payments based on feedstock will have an impact on:
- current installations, in particular their profitability (bearing in mind the proposals are aimed at new installations);
 - the type and size of future installations;
 - feedstock suppliers?
- Please provide your reasoning, including any evidence to support your answer.

Consultation Question

13. In relation to the sustainability criteria and feedstock restrictions proposals, do you agree or disagree with the proposal to amend the FITs Order to ensure that a generator is given a fair hearing before tariff payments are reduced, withheld or recouped? Please provide your reasons.

Annex A: Full list of consultation questions

Consultation Question

1. Do you agree or disagree with the proposed AD and/or mCHP generation tariff rates? Please provide reasons to support your answer.

Consultation Question

2. Do you agree or disagree with the updated AD assumptions? If you disagree, please fill out the evidence survey provided as part of the consultation and include documented evidence, such as invoices and/or contractual agreements to support this evidence. Please also mark this evidence as commercially sensitive where appropriate.

Consultation Question

3. Do you agree or disagree that the proposed AD default degression pathways fairly reflect future cost and bill savings assumptions for AD? Please provide your reasoning, supported by appropriate evidence where possible.

Consultation Question

4. Do you agree or disagree with the proposal to include mCHP within the current £100m cap for the FITs scheme, including the proposal to introduce annual caps? Please provide your reasoning, supported by appropriate evidence where possible, including information about any heavily committed investments from before the date of this consultation.

Consultation Question

5. Do you agree or disagree with the proposal for contingent degression for mCHP? Please provide your reasoning, and please fill out the evidence survey provided as part of the consultation and include documented evidence, such as invoices and/or contractual agreements to support this evidence.

Consultation Question

6. Do you agree or disagree with the proposal to not change caps for non-mCHP technologies? Please provide your reasoning, supported by appropriate evidence where possible.

Consultation Question

7. Do you agree or disagree with the sustainability criteria proposals on:
- who the criteria will apply to;
 - the greenhouse gas emissions limits;
 - the reporting requirements; and
 - consequences of non-compliance?
- Please provide your reasoning, including on whether the proposals are proportionate to any additional administration and costs involved.

Consultation Question

8. Do you agree or disagree that limiting the use of some feedstocks will deliver more cost-effective carbon abatement? Apart from wastes and residues, are there other feedstocks which should not be subject to payment restrictions? Please provide evidence to support your answer. Please also confirm whether or not you have provided the same answer to this question in the RHI consultation.

Consultation Question

9. Do you prefer option 1 or 2 for restricting payments based on feedstocks? Please provide your reasons and any supporting evidence, including any impacts on generators/nominated recipients and feedstock suppliers. Please also confirm whether or not you have provided the same answer to this question in the RHI consultation.

Consultation Question

10. Do you agree or disagree with the proposals on restricting payments based on feedstock type regarding:
- sending the calculation of eligible electricity to Ofgem for assessment;
 - introducing auditing requirements (including for installations below 1 MWe);
 - consequences of non-compliance?
- Please provide your reasons, including in particular any impacts on generators/nominated recipients. Regarding the introduction of auditing requirements, please confirm whether have provided the same answer in the RHI consultation.

Consultation Question

11. Do you think there are any wastes which should not be subject to unlimited payments or whether there is additional evidence that can demonstrate that the generator intends to use waste? Please provide your reasons. Please also confirm whether or not you have provided the same answer to this question in the RHI consultation.

Consultation Question

12. Do you think the introduction of sustainability criteria and/or restrictions on payments based on feedstock will have an impact on:
- current installations, in particular their profitability (bearing in mind the proposals are aimed at new installations);
 - the type and size of future installations;
 - feedstock suppliers?
- Please provide your reasoning, including any evidence to support your answer.

Consultation Question

13. In relation to the sustainability criteria and feedstock restrictions proposals, do you agree or disagree with the proposal to amend the FITs Order to ensure that a generator is given a fair hearing before tariff payments are reduced, withheld or recouped? Please provide your reasons.

