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EDM 2196

Dear Tessa,

Thank you for your letter dated 9 November to Ed Miliband, on behalf of your constituents, about the Government's proposals for a Feed-in Tariffs (FITs) scheme. I am replying on behalf of the Secretary of State and I apologise for the lengthy delay.

EDM 2196 claims that the Government's expectation that small-scale renewable and low-carbon electricity generation will contribute 2% of this country's electricity by 2020 is lacking in ambition. It calls for the Government to increase the proposed levels of tariffs in order to deliver a significantly higher return on investment. FITs form only one part of the Government's overall renewable strategy, which aims to deliver 15% of our final energy demand from renewable sources across all sectors – electricity, heat and transport – by 2020. Chapter 2 and Annex E of the Renewable Energy Strategy (RES) look at how we might meet our targets. The 2% figure to which you refer is not a target. It is however the most likely scenario. We will encourage the development of small-scale generation to exceed the figure if possible. The RES is available at:

[http://www.decc.gov.uk/en/content/cms/what we do/uk supply/energy mix/renewable/res/res.aspx](http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/energy_mix/renewable/res/res.aspx).

On 1 February, the details of the FITs mechanism, including tariff levels, were set out in the Government's Response to the Renewable Electricity Financial Incentives (REFI) consultation, which was published on 15 July and closed on 15 October. The documents and related material are still available from the DECC website at:

http://decc.gov.uk/en/content/cms/consultations/elec_financial/elec_financial.aspx. In considering the tariff levels we tried to balance the need to offer a reasonable rate of return with the need to achieve value for money for the scheme as a whole, bearing in mind that it is to be paid for by electricity consumers, as well as considering international experience in designing and operating FITs schemes. We have set tariff levels which provide a rate of return of approximately 5-8% for well sited installations, taking into account the risks associated with deploying the different technologies and the likely effect those risks would have on investors' willingness to invest. The tariffs will be index-linked to the RPI, so the

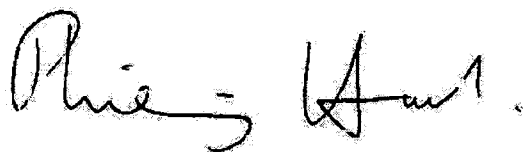
return on investment will be maintained in real terms. The approximate cumulative cost to consumers of this proposal to 2030 is £6.7 billion. Higher tariffs may increase the costs to electricity consumers without having a justifiable impact on take up.

This rate of return has been chosen as the recommended option as it achieves the best overall balance between delivering policy objectives, including engaging households and communities in the climate change and renewable energy agenda through providing them with a reasonable but not excessive rate of return, whilst limiting the overall costs of the policy to a level that is deemed acceptable. This schedule of tariffs is projected to deliver a wide range of technologies which will allow competitive markets to develop, driving innovation and bringing down costs into the future. Tariffs have been proposed at such a level that significant numbers of householders, communities, businesses and public sector organisations will have the opportunity to become producers of renewable electricity, bringing electricity generation into the public arena and fostering behavioural change.

We are pleased that reactions to the finalised FITs scheme have been positive and reflect the benefits that we think the scheme will deliver. For example, some quotes in national and online press have included:

- Rapid Electronics quoting Dave Timms, Green Homes campaigner for Friends of the Earth: the scheme is "a fantastic opportunity for householders to make money, cut fuel bills and play their part in slashing carbon dioxide emissions"¹;
- Click Green quoting Maria McCaffery, BWEA Chief Executive: "The feed-in tariff has encouraged substantial renewable energy deployment across Europe and we are certain that it will have the same effect in Britain"²;
- The same publication quoting Juliet Davenport, Founder and CEO of Good Energy: "The rates that will be paid to renewable generators should provide the incentive that a lot of homeowners, landowners and businesses have been waiting for to generate their own energy"³;
- The Guardian newspaper: "...the government has finally agreed to reward households and businesses installing electricity-generating measures with enough of a return to make it a serious financial, as well as an environmental, investment"⁴; and
- Jeremy Leggett, Executive Chairman of Solarcentury: "For the UK to reach its carbon reduction targets, people have to be given the opportunity to generate their electricity in a rewarding and accessible way, this makes it possible"⁵.

We are confident that the FITs scheme will be a success and will trigger a small-scale electricity revolution. We believe that the measures we outlined in the response to the consultation will mean that small is not only beautiful but also worthwhile.



THE RT HON LORD HUNT OF KINGS HEATH OBE

¹ <http://www.rapidonline.com/latestnews.aspx?id=19603292&tier1=Electrical+%26+Power&title=Feed-in-tariff+announcement+meets+mixed+response>

² <http://www.clickgreen.org.uk/news/national-news/121071-positive-reaction-to-uks-feed-in-tariff-scheme.html>

³ *ibid*

⁴ <http://www.guardian.co.uk/money/2010/feb/06/solar-power-bright-investment>

⁵ <http://www.solarcentury.co.uk/News/Solarcentury-News/Solar-electricity-now-a-reality-for-homeowners>