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FUNDING RENEWABLE ENERGY PROJECTS

An introduction to the Feed-In Tariff and Renewable Heat Incentive schemes and associated funding options

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This Information Paper introduces the Feed-In Tariff (FIT) and Renewable Heat Incentive (RHI) schemes as new stimuli to investment in renewable energy, replacing renewable energy grants. It outlines the capital financing options and their pros and cons, considers community investment options and features case studies of renewable energy projects. It is aimed in particular at developers, energy companies, registered providers of housing and local authorities.

BACKGROUND
Government policy and support for renewable energy in the UK

The UK Renewable Energy Strategy[1] and the UK Low Carbon Transition Plan[2] set out the government's 2020 vision for the switch towards a low-carbon economy and society. By 2020 the government aims to be firmly on track towards its target to achieve an 80% reduction in carbon emissions by 2050. Renewable energy from wind, water, sun and sustainable bioenergy will play a crucial role in making this vision a reality.

The desire to increase renewable energy consumption is shared across the European Union (EU), with the 2009 Renewable Energy Directive[3] setting a binding target of having 20% of the EU's energy consumption coming from renewable sources by 2020. The UK share of this target commits us to sourcing 15% of our energy from renewable sources by 2020.

The UK Renewable Energy Strategy, published in July 2009, sets out the comprehensive policy framework within which these goals can be achieved, and describes possible sources for this renewable energy. In the strategy, the government envisages that 31% of the UK's electricity could come from renewable sources by 2020, compared with 5.4% in 2008. This could be made up of 29% large-scale electricity generation and 2% small-scale electricity generation.

Figure 1: Westmill Wind Farm

From renewable energy grants to Feed-In Tariffs and the Renewable Heat Incentive

Renewable energy is most typically attractive in a policy-driven market. This is because it is often only marginally competitive, if at all, compared with conventional power. Additionally, financial institutions may have less familiarity with some of the technologies or sub-sectors of the renewable energy industry and therefore may overestimate the risk. Some form of fiscal support is imperative for the projects to be attractive to equity investors and lenders, as they will be comparing this investment against alternative uses of that capital that may provide higher returns, including conventional forms of energy.