

Box 1: How the degression mechanism will operate

- a. Degression will take place **every three months** starting on 1 November 2012, with generation tariffs changing on the first day of the first month of the period for new installations eligible from that date (i.e. 1 November, 1 February, 1 May, 1 August).
- b. Tariffs will be published **at least two months before the degression date**, and will be **based on deployment in the three-month period before publication**.
- c. There will be **three bands with separate degression mechanisms**: (i) for installations in the 0–4 and >4–10kW tariff bands; (ii) for installations in the >10–50kW tariff band; and (iii) for installations tariff bands larger than 50kW and in the stand-alone tariff band.
- d. The **degression mechanism will operate independently for each degression band**, with separate deployment thresholds (but no larger tariff band will ever get a higher tariff than a smaller tariff band).
- e. The **baseline degression rate will be 3.5% every three months**.
- f. **Degression will be skipped if deployment is below a floor threshold** (for a maximum of two successive degenerations – so there will be a minimum of 3.5% degression every 9 months).
- g. The **baseline degression rate for a degression band will be doubled each time deployment within that band exceeds a threshold**, up to a maximum of 28%.
- h. **Deployment statistics will be published on a monthly basis by DECC**, and **new tariffs will be published by the end of the first month of each three-month period by Ofgem**, based on the deployment statistics.
- i. Deployment will be assessed based on the **capacity of installations registered on the MCS database** (for installations up to 50kW) **or determined to meet the requirements for ROO-FIT accreditation** (for installations over 50kW) in the relevant period.

Box 2: Example degression on 1 February 2013

The following example illustrates how the degression mechanism might operate for a hypothetical set of deployment figures:

- In November 2012, DECC publishes deployment statistics showing that between 1 August and 31 October 2012, there was 210MW of 0-10kW PV capacity and 45MW of 10–50kW PV capacity registered on the MCS database, and 60MW of over 50kW PV capacity determined to meet the criteria for ROO-FIT accreditation.
- New tariffs would be calculated from these statistics, as illustrated in Table 4 below. Ofgem would publish the new tariff table by the end of November 2012 for new PV installations with eligibility dates between 1 February and 31 March 2013.

Table 4: Example degression based on hypothetical August–October deployment

Degression band	Tariff band	Generation tariff from November (p/kWh)	Hypothetical deployment	Degression amount	Generation tariff from February (p/kWh)
0–10kW	•4kW	16	210MW	7%	14.88
	>4-10kW	14.5		7%	13.49
>10–50kW	>10-50kW	13.5	45MW	0%	13.49 ¹
>50kW and stand-alone	>50-100kW	11.5	60MW	3.5%	11.10
	>100-150kW	11.5		3.5%	11.10
	>150-250kW	11		3.5%	10.62
	>250kW-5MW	7.1		3.5%	6.85
	stand-alone	7.1		3.5%	6.85

Note: the deployment figures in the table above are purely hypothetical, to illustrate how the degression mechanism operates, and are not projections for deployment in the period or for what generation tariffs might be from 1 February 2013. In this example, the November generation tariffs are the same as the generation tariffs from 1 August – 31 October, which would be the case if deployment in May – July was beneath the thresholds for baseline degression in all degression bands (i.e. the 1 November degression was 0% for all degression bands).

Deployment thresholds

32. The consultation proposed that the scheduled degeneration would be brought forward if deployment reached 125% of the expected deployment level for that month. Respondents to the consultation were fairly evenly divided on this proposal, with suggestions for both higher and lower thresholds.
33. Our new proposals for degeneration of variable amounts at fixed points in time mean that it is not possible to directly compare deployment thresholds with the consultation proposals. However, in general our proposed deployment thresholds would allow more total deployment to come forward for any given level of degeneration than would have been possible under the consultation proposals.
34. We have set deployment thresholds based on modelling the level of deployment that we expect to come forward given assumed reductions in installation costs. The thresholds have been set such that under central assumptions, modelled deployment would not lead to any degeneration for any degeneration band of greater than 3.5% before November 2014, and even under the high scenario there are no contingent degenerations at 28% before August 2014. Had this degeneration mechanism been in place since the start of the FITs scheme, there would have been one degeneration of 28% for installations within the 0-10kW degeneration band following the surge in installations in the last three months of last year, and no other degenerations of greater than 7%.
35. These thresholds are as follows (and are set out in Table 3 below).
- For the 0–10kW degeneration band, there will be no degeneration if the total deployment of 0–10kW installations in the relevant three-month period is less than 100MW; generation tariffs for the 0-4kW and 4-10kW tariff bands will be reduced by 3.5% if total deployment of 0-10kW installations is between 100 and 200MW, and the degeneration amount will double for each additional 50MW of deployment, up to a maximum of 28% degeneration if deployment in one three-month period is over 300MW.
 - For the >10–50kW and >50kW and stand-alone degeneration bands, there will be no degeneration if the total capacity installed in that degeneration band in the relevant three-month period is less than 50MW; generation tariffs will be reduced by 3.5% for all tariff bands within the degeneration band if total deployment in that degeneration band is between 50 and 100MW, and the degeneration amount will double for every additional 50MW of deployment up to a maximum of 28% degeneration if deployment in one three-month period is over 200MW.

Table 3: Deployment thresholds and degeneration of generation tariffs

Tariff point	Max deployment in 3-month period (MW)			Degeneration (%)
	0-10kW	10 – 50kW	>50kW and stand-alone	
point 1	100	50	50	0%
point 2	200	100	100	3.5%
point 3	250	150	150	7%
point 4	300	200	200	14%
point 5	>300	>200	>200	28%