Does it FiT? Government consults on "improvements" to the Feed in Tariff scheme

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On 9 February 2012, the British Government published a further consultation on their review of the Feed in Tariff (FiT) scheme for subsidising low-carbon energy generation. This follows a previous consultation published on 31 October 2011, and a series of judicial reviews following the first consultation.

The consultations have followed recent demand for solar FiTs, which have significantly outpaced both expectations and the government's budget. As a result, the first consultation included proposals to halve FiT incentives. In order to slow demand, the first consultation also, controversially, set out an intention to implement the cuts 11 days before that consultation closed. While the results of the consultation could not be known until they were published, any business performed before the publication of the consultation results, but after the implementation date, would be performed without certainty of the FiT rates applicable to that work. Although the decision to pre-implement the cuts has been the subject of a successful judicial review, the government has maintained the uncertainty by successive appeals, with a Supreme Court hearing now pending.

The new consultation further reviews the FiT scheme, and confirms that the previous planned cuts of 50 per cent will be implemented. Greg Barker, the Minister of State for Energy and Climate Change, has said that the "new improved scheme" that is being proposed by the consultation will "deliver for the many". But is this the case? The industry generally does not believe so, but there are a few reasons for optimism in the consultation.

Proposed changes

The consultation represents further bad news for the industry. It proposes further cuts, the level of which will depend upon the demand for solar FiTs between now and the end of April. If more than 200MW of solar capacity is installed before the end of April, the government could cut support by a further 35 per cent, to a maximum level of 13.6p/kWh, effective 1 July.

For larger installations, with more than 250kW of capacity, the government is proposing an even lower level of support; if there are high levels of deployment in the coming months, the tariff could be as low as 4.7p/kWh, down from 30.7p/kWh less than a year ago.

Following a model currently applied in Germany, the government is then proposing to make a further cut in October, followed by cuts every six months. The aim is to reflect the fall in technology costs as the PV sector becomes more efficient and reliable over time, and demonstrates the government's view that the solar industry should "stand on their own two feet" (i.e. achieve grid parity without subsidies), "sooner rather than later". This is consistent with comments made by the UK Energy Minister, Charles Hendry, that the government is planning much more regular reviews and much more regular pricing changes to renewable subsidies.

A further, and less predictable, cut is contained within the proposal to stop increasing the FiT in line with inflation.

In addition, the consultation includes a proposed reduction of the payment period for the FiT incentives, from 25 to 20 years. This proposal comes as no surprise – at the rate with which technology is currently advancing, even where an installation would last for the duration of an anticipated 25-year design life, it would probably be more profitable to replace the installation with a more efficient installation before the 25-year period is up, and wrong for the government to incentivise the retention of an antiquated and inefficient system.

Finally, in a move that will disappoint large businesses, the consultation includes a proposal to implement a 20 per cent cut on FiTs to "multi-installations" (i.e. individuals or businesses with more than 25 installations). This further cut is likely to disincentivise large companies such as major supermarkets and hotel chains from installing solar across their portfolio.

Industry reaction

Unsurprisingly, the reaction from the solar industry has been generally negative. Many feel that additional cuts will further undermine an industry that already feels vulnerable following its exclusion from the Renewable Energy Roadmap. For more discussion on the Renewable Energy Roadmap and the related Energy White Paper, click here.

In addition, although the government has stated that it anticipates "steady growth" of the sector, this is not what the impact assessment that accompanies the consultation states. The impact assessment actually shows a contraction of the sector in the next couple of years (including 5,000 fewer people employed full time in the sector within a year), with employment levels only returning to the current level in 2015.

But there are also positives in the consultation, the most significant being the government's aim to reach 22GW of solar developments by 2020, a huge increase from the 1GW currently installed. Additional funding has also been identified to cover the budget over-spend over the recent months (the result of the surge in installations prior to the first set of cuts coming into force), and allocating £460 million for new installations in the current Spending Review period.

There is further good news in the relaxing of the plan previously stated to limit FiT eligibility to buildings with only "C" energy efficient ratings and above. Incentives will now be available for buildings with "D" ratings and above, which analysts have suggested will allow 50 per cent of buildings to be able to install solar panels, rather than 14 per cent if the government had insisted on limiting eligibility to "C" ratings and above.

Conclusion

Obviously, further cuts will not be well-received in the solar industry, especially for commercial developers; it now seems (because of the lower tariffs and the multi-installation provisions) that the increasingly limited FiT budget is being intended or focussed primarily for homeowners at the expense of commercial use. Some developers are already considering bypassing the FiT regime altogether, focusing instead upon larger installations where economies of scale can be found, and for which Renewable Obligations Certificates (ROCs), rather than FiTs, may be available.

That said, a stated commitment to 22GW of installations by 2020 is definitely a step in the right direction.

Questions arise from this commitment, though; namely, how will the government achieve this? As stated above, the government expects job cuts in the short term, instead of an expanding industry. Will the government increase tariffs at a later date if it thinks the 22GW target will not be reached? If the government does plan to increase tariffs, how would such an increase be funded, given the government's commitments to those other forms of renewable energy which may also require investment towards the end of this decade? The commitment is a positive step, but the implications need to be considered, and the solar industry will not feel secure until it has more certainty as to the methods of achieving such commitment.

The consultation on the changes to the solar PV FiT regime is open for comments until 3 April 2012.