

DBULLETIN

Feed-in Tariff Cuts and Consultation: How will this affect you?

DECC have delivered a substantial blow to solar PV schemes which are in the making. During months of speculation regarding the certainty of the level of Feed in Tariff (FiT), minds have been focused on April 2012 when a reduction to the currently available FiT was expected to take effect. So it was surprising when DECC announced on 31 October 2011 that it proposes to apply new generation tariffs to all new solar PV installations which are registered (as eligible) on or after 12 December 2011.

The proposed new rates are set out below - the most significant cut is to 4kW retrofit schemes which will see tariffs reduce by almost 50% from 43.3p/kWh to 21p/kWh.

Bank (kW)	Current generation tariff (p/kWh)	Proposed generation tariff (p/kWh)
4kW (new build)	37.8	21.0
4kW (retrofit)	43.3	21.0
>4-10kW	37.8	16.8
>10-50kW	32.9	15.2
>50-100kW	19	12.9
>100-150kW	19	12.9
>150-250kW	15	12.9
>250kW-5MW	8.5	8.5
stand alone	8.5	8.5

Source: Table 3 of "Feed-in Tariffs Scheme: Consultation on Comprehensive Review Phase 1 – tariffs for solar PV", published by the Department of Energy & Climate Change

The cuts in FiTs are being announced as part of wider consultation which is also aimed at making other changes to the FiT Scheme. Despite the fact that the cuts of FiT levels are part of a consultation process, the cuts are proposed to apply to installations before the consultation period has ended.

DECC's reasons for bringing forward the cuts and for the proposed level are twofold. Firstly, the cost of the equipment has significantly reduced due to increased supply to meet increased demand. Secondly, there has been an unexpectedly high uptake of the scheme (which had a finite funding allocation). DECC, and perhaps more importantly HM Treasury, appear to have become increasingly

nervous about not only the take-up for the schemes but also the pipeline of projects. The effects of continuing with current FiT levels would be unintended increases in domestic electricity bills, a topic which is very much a political and economic hot potato at the moment.

There are many opinions in the sector over whether DECC's reasoning and approach to the cuts are justified. Many view the cuts as applying to schemes too early, scuppering some projects with programmes which were set to ensure installations would be carried out prior to April 2012 to take advantage of existing tariffs.

Feed-in Tariff Cuts and Consultation: How will this affect you?

DECC estimates that the new tariffs will offer a rate of return of around 4% to 5%, index linked for well situated solar PV. They say this is broadly comparable to that intended when the scheme was set up. However, this is a marked reduction from prevailing anticipated rates of return.

The cuts have understandably left many investors and Registered Providers, who have been in the process of setting up solar PV schemes, re-assessing their options as quickly as possible to establish whether their projects remain viable. It is clear that many pipeline projects are now unlikely to come to fruition, which will have inevitable consequences for the wider supply chain and sector. It remains to be seen whether disadvantaged parties will be seeking to judicially review the decision, as was mooted in relation to the fast track review of commercial large-scale PV installations earlier this year.

Not to be overlooked, the solar PV consultation also introduces a new energy efficiency requirement and new multi-installation tariff rates for aggregated solar PV schemes.

The energy efficiency requirement would mean that from 1 April 2012 a FIT generator would need to demonstrate that the building to which the installation is attached meets a certain level of energy efficiency (EPC rating C or above or possibly linked to the installation of Green Deal measures) to receive the proposed new tariff rates. If the requisite level is not met the installation would only be eligible for a much lower tariff of 9p/kWh. It is not proposed that this applies to existing installations prior to 1 April 2012 and it is proposed that there would be transitional arrangements for those installations with an eligibility date between 1 April 2012 and 31 March 2013. Nonetheless, this is a significant hurdle for future schemes to overcome.

Another important part of the consultation is the proposal for new multi installation tariff rates. These will apply to schemes where a single individual or organisation owns or receives FIT payments from more than one PV installation, located on different sites. The tariffs are proposed to be set at 80% of the proposed standard tariffs for individual installations. This may not be attractive to individuals or organisations who are likely to be carrying out multiple installations in order to achieve economies of scale.

DECC say they are also considering whether more could be done to enable genuine community projects to be able to fully benefit from FITS - more details are expected on this in the second consultation due to be carried out later this year.

In the context of social housing the solar PV projects which Registered Providers have been involved with have not just been aimed at taking advantage of the scheme on offer and improving energy efficiency, but they have also been aimed at tackling fuel poverty prevalent in social housing. Registered Providers will still need to find ways in improving energy efficiency of homes and tackling fuel poverty. Whilst the cuts may have removed the investment angle from solar PV projects, Registered Providers and others may still be seeking to achieve their more altruistic aims. Will other new initiatives such as the Renewable Heat Incentive, the Green Deal and the Energy Company's Obligation provide some of the answers for the housing sector?

If you require any information on solar PV or any other energy and climate change matters please contact Caroline Mostowfi or Paul Buckland.

Caroline Mostowfi on 020 7065 1855 or caroline.mostowfi@devonshires.co.uk

Paul Buckland on 020 7880 4346 or paul.buckland@devonshires.co.uk