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Feed-in Tariff Coalition Joint Response

Comprehensive review of Feed-in Tariffs, Consultation 2A Solar PV cost control framework.

The feed-in tariff (FIT) coalition led the campaign for a feed-in tariff in the 2008 Energy Act and comprises representatives from NGOs, the renewables industry, business groups, and unions.

This joint position paper is written in response to the comprehensive feed-in tariff review phase 2A consultation. It sets out proposals to ensure that the feed-in tariff review delivers an ambitious scheme, accessible to a diverse range of non-traditional investors that opens up the UK energy market, creates much needed employment at a local level across the UK, engages the public, and delivers on the UK's renewable energy ambition. It is relevant to questions 1-9 of the consultation.

The feed-in tariff was introduced in April 2010 after a campaign that saw the three main political parties support its inclusion in the Energy Act 2008. It was introduced to increase deployment of small-scale renewable electricity by incentivising businesses, households, and communities outside the traditional energy market players to generate their own green energy, and to engage the public in renewable electricity generation, in order to contribute to our renewable energy and climate change targets.ⁱ

The scheme has been a great success in achieving both of these aims. Householders, farmers, local authorities, housing associations, churches and mosques, small businesses, supermarkets, cooperatives, football grounds, schools, hospitals, and even London's river fire service has invested in our green energy future since the start of the scheme.ⁱⁱ There have already been over 200 000 installationsⁱⁱⁱ, leading to the creation of an additional 27,000 jobs in solar alone in 2011, a ten-fold increase.^{iv} Each installation is estimated to create some 14 days' paid work in a variety of occupations, so that every 25 installations are likely to provide for the equivalent of one year's paid employment^v. Over £275 million a year is being raised in income tax, national insurance and VAT.^{vi} In addition to these strong employment and economic benefits to the UK economy, studies show that producing energy locally is having an impact on the public's behaviour surrounding energy use,^{vii} and communities with local schemes are becoming more aware of energy that is wasted.^{viii} Furthermore, a significant majority of the public supports a move away from fossil fuels towards renewable energy generation^{ix}.

At the heart of this success have been two principles that underlie feed-in tariff schemes internationally: simplicity and certainty. The simplicity with which the scheme can be understood and used; and certainty of the financial return that green energy projects under the scheme can deliver, has allowed a wide variety of participants. We believe that these two principles must continue to sit at the heart of the feed-in tariff mechanism.

The Government's announcement on 9th February 2012 was a significant step forward from the feed-in tariff review proposals (comprehensive review phase one) announced in October 2011, which threw the scheme into chaos and would, if implemented, have reduced demand for solar by up to 90% according to the Government's own figures.^x

In particular we welcome the increased level of ambition for Solar PV announced by Climate Change Minister Greg Barker. The ambition of 22GW by 2020 is three and a half times the level previously projected, and is in line with the increased ambition called for by the feed-in tariff coalition at the outset of the scheme.^{xi} However, ambition is not the same as a concrete plan to deliver this scale of PV. We are concerned that this ambition is not hard-wired into the 2a proposals and it is unclear what status the ambition has in terms of the future development of PV policy. We are also concerned that deployment in the first year be high enough to ensure capacity so that jobs and investment in the industry are not lost in the immediate term, and recommend the proposed trajectory to 22GW takes this into account.

We also welcome the Department of Energy and Climate Change's recognition that increased flexibility in the budget for the feed-in tariff scheme is needed to deliver this ambition. International best practice schemes do not have

capped budgets and are flexible to the dynamic nature of new technologies and markets. A permanent return to this model rather than a strict, Treasury-imposed cap would be welcomed. We also welcome the commitment from Minister Greg Barker that this will not result in any decrease in support for other renewable energy projects. This budget flexibility must not affect the level of support for either energy efficiency or renewable energy projects.

We believe that the change in the required level of energy efficiency from C to D is an improvement although is still not justified. It is doubtful whether this would have any significant impact on energy efficiency while it would depress the take up of solar PV. However decreasing the level is a significant step forward that stops this measure being a fatal blow to solar PV installations in the UK.

We are very doubtful whether the proposed 'cost control framework' can deliver this level of ambition without a mechanism that ensures the tariff rates are responsive to the market. There is a great deal of uncertainty over the future costs of solar and therefore whether the new tariff rates, combined by steep and frequent depressions of 10% every 6 months, will deliver the expected deployment. It relies on further significant cost reductions over and above the fall in costs of 45% since 2009 that the recent tariff cuts, implemented on 3 March 2012, took into account. However, the impact assessment attached to the proposal notes that there is a very large range of potential future costs for solar, giving wildly differing outcomes: from 1.3GW of solar by 2020, just over what exists now, to 31GW, which would take the UK over Germany's current level. .^{xii}

Three improvements to the proposals are needed to overcome this uncertainty, deliver investor confidence, and ensure the increased ambition is delivered on:

1. The first is for feed-in tariff rates to be responsive to the real world costs of solar. In this respect, it is helpful that a clear relationship between tariff rates and deployment is proposed; alongside a proposed deployment trajectory for how much solar is expected to be installed each year between now and 2020. Currently this responsiveness is one-sided. The consultation proposes an over-deployment trigger to lower the tariff rate further if deployment is 25% above the Government's central deployment scenario. This needs to be matched with a **parallel under-deployment trigger** to raise the feed-in tariff rates if, conversely, less than 25% of the central deployment scenario is delivered. This would give potential participants confidence that the feed-in tariff rates are responsive to the market, and give investors confidence that the Government is committed to delivering the 22GW level of ambition outlined on 9th February. This confidence is especially needed in the context of a more complex scheme where rates are potentially changing as frequently as every two months, and to restore some of the recent damage to confidence.
2. The second improvement needed is **greater knowledge and transparency on costs**. There is a great deal of uncertainty within the Government-commissioned PB report on solar costs,^{xiii} yet it is important to ensure that the feed-in tariff rates neither under or over subsidise installations. A clear solution is for the Government to collect data on cost as part of the FIT register. Each participant, when registering for the FIT, would also submit the cost of the installation. This would ensure that Government had up-to-date cost data on which to base tariff changes. It is particularly necessary to have accurate data for projects larger than domestic sized installations, the rates for which have been set too low to bring forward projects of this size. This data and policy changes based on it should be regularly shared and considered with the solar PV stakeholder community.
3. The third improvement is certainty for projects about what tariff rate they will receive at the outset of the project. If depressions are to take place with just two months' notice, projects with a longer time-span than this pre-FIT registration will not know which FIT rate they will be eligible for at the point of making investment decisions. The Government has proposed a welcome way to provide this certainty for non-solar FIT projects, by making them eligible for whatever the FIT rate is at an earlier stage of the project's development. This must also apply to solar FIT projects which have a longer lead in time than two months, and we therefore recommend it apply to Solar PV projects over 50kW, as they require planning permission.

The fall in the cost of solar over the past two years changes its potential role as an energy technology. In part, the Government commitment to 22GW by 2020 is recognition of this. We call on the Government to ensure that energy policy is updated to reflect this. The Renewable Energy Roadmap must reflect the fact that solar is now below the marginal cost of renewable energy at some scales. Therefore, analysis that says it does not have a role in meeting the 2020 Renewable Energy target is out of date. Likewise, the current FIT review should take into account the

contribution that small-scale renewable energy plays in meeting our renewable energy goals. The rationale that certain types of solar (stand-alone, multi-building projects, projects without a Level D Energy Performance Certificate) should only qualify for 4.5p/kwh because solar has no role in meeting the renewable energy target is outdated and therefore should also be revised.

The new household energy efficiency requirement for solar PV should also be revised. The principle of using Government policy to encourage energy efficiency is correct, but this policy should drive take up of energy efficiency measures more than it depresses demand for solar PV. The Government has not currently calculated what the impact will be on take-up of energy efficiency measures, but has noted that it would depress solar PV by 40%. Instead, we recommend that feed-in tariff projects should be required to install loft and cavity wall insulation. There are still 10 million un-insulated lofts and 8 million un-insulated cavity walls despite the short payback time for consumers taking these measures and availability of free insulation until the end of 2012.^{xiv}

The EPC D requirement in particular throws up uncertainty and additional costs in relation to farm buildings (where it is not clear whether some or any require EPC, being unheated) and farm based schemes where farm building mounted PV will not be connected to the farmhouse as many of these are historic properties not capable of achieving grade D at a reasonable cost. This reinforces the call for energy efficiency to be based on practical and useful requirements such as the installation of loft and cavity wall insulation (where cavities exist) rather than on the inappropriate EPC basis (which was never designed for measuring historic buildings).

Small-scale renewable electricity has a big role to play in the transformation of our nation to a low-carbon society. The power of the feed-in tariff scheme open to participants and investors from across society arises from the simplicity and certainty that it offers. Phase 2 of the feed-in tariff review takes some positive measures towards putting the feed-in tariff on a stable footing, and recognises the potential role that solar has to play. However, without the recommended improvements, the scheme risks not delivering on the original aims of growing an industry, opening up the energy market and combating climate change.

Recommendations:

1. **Under-Deployment Trigger:** The consultation proposes an over-deployment trigger to lowering the tariff rate further if deployment is 25% above the Government's central deployment scenario. This needs to be matched with a parallel under-deployment trigger to raise the feed-in tariff rates if, on the other hand, less than 25% of the central deployment scenario is delivered.
2. **Greater knowledge and transparency on costs:** Initially this could be significantly improved by collecting consumer data on the FIT register, and by sharing and considering policy changes with the solar PV stakeholder community.
3. **Certainty about tariff rates:** This would allow projects to know which tariff rate they will receive at the outset of their project.
4. **Revision of the Renewable Energy Roadmap:** The revision should take into account the fact that solar is now below the marginal cost of renewable energy at some scales.
5. **Standalone and multi-building tariff rates:** Rates for these projects should be revised in accordance with the level needed to achieve the target rate of return for these projects. There is no clear rationale or evidence base for giving these projects just 4.5p kwh, half the marginal cost of renewable energy.
6. **Loft and cavity wall insulation:** Feed-in tariff projects should be required to install loft and cavity wall insulation before receiving the standard FIT rate.

We call on the Government to ensure that the feed-in tariff scheme achieves its ambition of delivering 22GW of solar by 2020 and continues to work not just for householders but for businesses and communities by acting on the recommendations outlined above.

Since the drafting of this position paper, DECC has indicated to stakeholders that they are developing a new proposal, not in the consultation, that the over-deployment trigger ('contingent depression') and 6 monthly 10% depression could be replaced with a single, three-monthly depression. It has been indicated that this depression would be less than the 20% per annum currently proposed, and that it would be dependent on deployment: the depression would not happen or be skipped if a minimum deployment threshold had not been reached, but could also be higher if it exceeded a certain level. It is not possible to comment in full without knowing the detail of proposed depression levels or deployment triggers. However, the principles outlined in this paper should be applied. This would be a welcome step towards linking depression to both over and under deployment, due to the ability to

skip degression if expected deployment has not happened. However, whatever mechanism is used, it must be designed at a level to ensure deployment stays on track to delivering the ambition outlined by the Government. Additionally, it remains crucial for projects to know which tariff rate they will be receiving at the start of their projects, which becomes even more of an issue with 3-monthly degression. Therefore all projects with a lead in time of over 3 months, including solar projects over 50kW, will require tariff guarantees.

Yours sincerely,



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ⁱ DECC, Fast-Track Review of Solar PV impact assessment, February 2010, <http://www.decc.gov.uk/assets/decc/consultations/renewable%20electricity%20financial%20incentives/2710-final-ia-feed-in-tariffs-small-scale.pdf>

ⁱⁱ London Fire Brigade, Green initiatives.

<http://www.london-fire.gov.uk/GreenInitiatives.asp>

ⁱⁱⁱ DECC, Weekly PV Installation Figures, w/e 25.03.2012

http://www.decc.gov.uk/en/content/cms/statistics/energy_stats/source/fits/fits.aspx

^{iv} Element Energy report findings summary, 'Implications of the Comprehensive Review of the Feed-in Tariff for the UK PV Industry' December 2011-

^v DECC Impact assessment Comprehensive review phase 2A- Consultation on feed-in tariffs for solar-

<http://www.decc.gov.uk/assets/decc/Consultations/fits-review/4320-feedin-tariffs-review-phase-2a-draft-impact-asses.pdf>

^{vi} Element Energy report findings summary, 'Implications of the Comprehensive Review of the Feed-in Tariff for the UK PV Industry' December 2011- http://www.foe.co.uk/resource/briefing_notes/element_energy_summary.pdf

^{vii} Consumer Focus, 'Keeping FIT' December 2011.

<http://www.consumerfocus.org.uk/news/good-customer-feed-back-on-feed-in-tariffs-but-flaws-need-to-be-fixed>

^{viii} IPPR, Green Streets, Strong Communities, July 2011. http://www.ippr.org/images/media/files/publication/2011/07/green-streets-strong-communities_July2011_7703.pdf

^{ix} Friends of the Earth Press Release- big six inquiry poll, February 2012

http://www.foe.co.uk/resource/press_releases/big_six_inquiry_poll_20022012.html

^x DECC Impact assessment- Comprehensive review phase 1- Consultation on feed-in tariffs for solar-

<http://www.decc.gov.uk/assets/decc/Consultations/fits-review/4310-feedintariff-comprehensive-review-phase-1-impact.pdf>

^{xi} Friends of the Earth- Response from Friends of the Earth to the DECC consultation on Renewable Electricity Financial Incentives (Feed-in Tariffs) 2009- http://www.foe.co.uk/resource/consultation_responses/feed_in_tariff_october_2009.pdf

^{xii} DECC Impact assessment Comprehensive review phase 2A- Consultation on feed-in tariffs for solar-

<http://www.decc.gov.uk/assets/decc/Consultations/fits-review/4320-feedin-tariffs-review-phase-2a-draft-impact-asses.pdf>

^{xiii} Parsons Brinckerhoff, Solar PV Costs Update, January 2012 <http://www.decc.gov.uk/assets/decc/11/meeting-energy-demand/renewable-energy/4290-solar-pv-cost-update-report--3-feb-2012-.pdf>

^{xiv} DECC Statistical release: Experimental statistics estimates of home insulation levels in Great Britain, April 2011

<http://www.decc.gov.uk/assets/decc/11/stats/energy/energy-efficiency/1918-statistical-release-home-insulation-0611.pdf>