

Briefing for MPs

Feed-in tariffs

1. Introduction

The future of the UK's successful solar power industry is in the balance because of Government mishandling of the feed-in tariff scheme. Urgent action by Government is needed to restore confidence in the feed-in tariff scheme and in investment for renewables more widely. 30,000 jobs are at risk.

Government must immediately accept the ruling of the High Court and the Court of Appeal that it is illegal to change the tariff rates retrospectively. They must scrap plans for another costly court appeal and instead concentrate on putting solar on a stable footing.

This briefing will explain the background to the debacle; explain the current proposals and what happens next; and suggest how MPs can help save solar – including thousands of jobs in constituencies nationwide.

Solar success

The feed-in tariff scheme has been a great success since its launch in April 2010. Household, community and social housing projects have resulted in more than 100,000 solar installations, stimulating growth in jobs from 3,000 to 30,000.

The package of Government proposals under consultation would, if implemented, reduce the solar industry to 10% of its current size, reversing this success.

The falling cost of solar

Solar modules continue to fall in price, a trend which is expected to continue. Some estimates say the rate of reduction will see solar having a marginal cost equal to that of offshore wind by the end of 2012.

Friends of the Earth believe tariff rates should be reduced in line with falling costs, but this should be done in a planned and legal way avoiding the surge and decline of installations such as those seen recently.

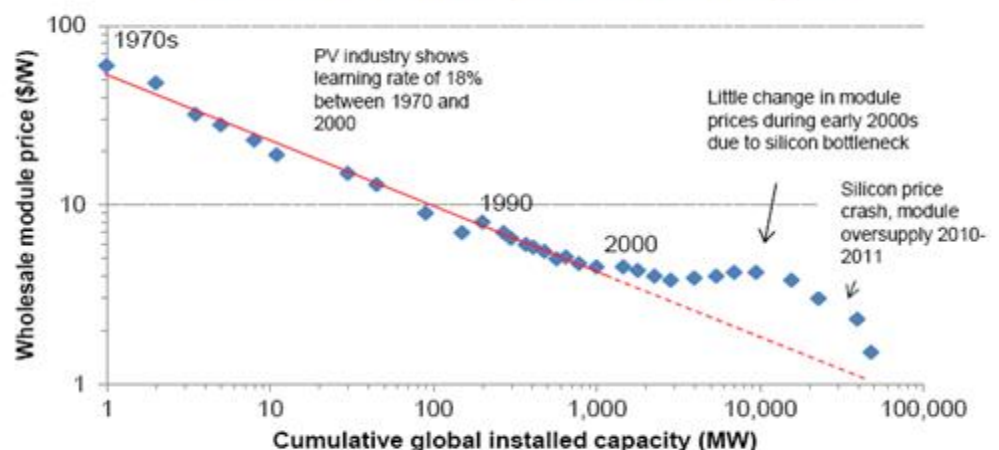
“The judgement should be used to draw a line under this saga, which saw the Government scoring a spectacular own goal and confidence in the renewables sector undermined”

John Cridland, CBI Director-General

“Solar PV can have strong and vibrant future in UK and we want a lasting FITs scheme to support that future and jobs in the industry”

Chris Huhne MP, Secretary of State for Energy and Climate Change

Historical trends in global PV module price



Paying for the Feed-in tariff

Treasury cap

Six months after the scheme's launch, the Chancellor introduced a new £867m budget cap to the solar feed-in tariff scheme for the duration of the comprehensive spending review (CSR) period. The £867m cap was based on out of date projections of the scheme's take-up and cost of PV. In practice it has proved to be far too tight.

This artificial and arbitrary cap was the central driver to Government belatedly trying to change tariff rates and considering proposals to exclude 9/10 households from eligibility for the scheme.

However, following the announcement of the current consultation, some more flexibility has been introduced and the budget increased by £197m on 8th December 2011. The cap now stands at £1,064m. However, only £128 million remained by the December 12 cut-off date; an insufficient amount to support the scheme for the two and a half years of the CSR period remaining.

Using tax revenue to increase the feed-in tariff budget

An extra **£265 million** a year must be found for the scheme if the industry is to continue to grow and the current 30,000 jobs to be protected. (Friends of the Earth figures, based on [Element Energy modelling report](#) on the future of solar).

This can be paid for by the **£275 million** a year the solar industry generates in taxes from income tax, VAT, and national insurance according to Element Energy. This figure does not include corporation tax, which Friends of the Earth estimates would take the figure to **£338 million a year**.

Government has also clarified that there is now a 20% annual 'headroom' for extra spend on policies such as the FIT; whose budget is estimated on projected uptake and are funded through energy bills as part of the '[Control Levy Framework](#)'. The £265 million extra required for the feed-in tariff scheme for the remaining CSR years falls easily within this 'headroom'.

Whichever way falling rates are decided, stability for and confidence in the industry will only return if the budget for the scheme matches the size of the industry it supports, and is managed flexibly. Increasing the budget will also reduce solar costs over time – [research by Element Energy](#) commissioned by Friends of the Earth shows that a 300% increase in solar electricity is achievable from a 75% increase in spending. Further analysis by Friends of the Earth shows that the additional budget needed in the CSR period to fund this 75% increase could come from taxes generated by solar jobs.

Germany

The German feed-in tariff scheme – approximately 10 years ahead of the UK and now responsible for 25GW of installed capacity (UK is currently <1GW) – sees tariff rate changes triggered by the total volume of solar generation installed. An approach such as this 'capacity trigger mechanism' should be introduced in the UK and would encourage stability to return to the scheme – but it needs to be set at an ambitious level. Germany installed more solar last year – 8GW – than Britain currently plans to install this decade.

Friends of the Earth have invited members of the German department of energy to visit the UK on 8 February to share learning from the German fit scheme. Please get in touch if you would like to attend.

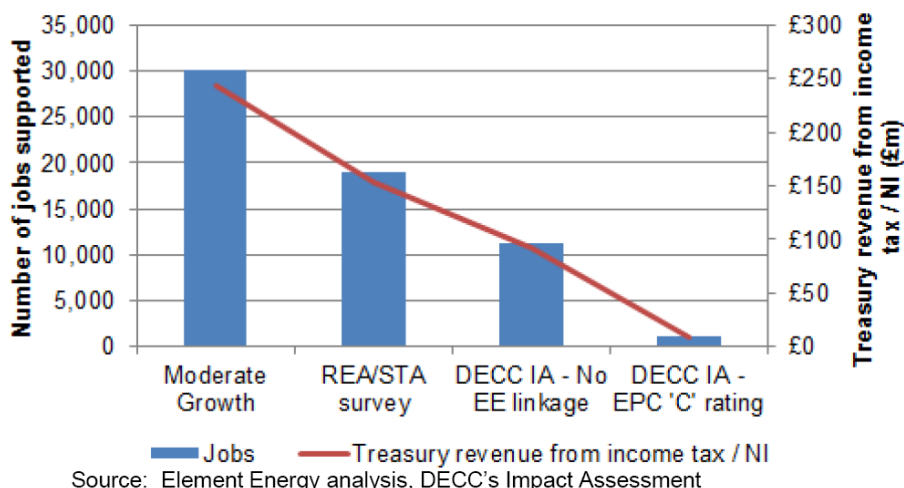
Growing – not shrinking – the industry

A solar future that protects jobs, grows the industry, and has enough volume to drive price reductions – in labour costs as well as component parts – is essential.

Reversing recent growth in the industry in order to stay within a fixed budget cap makes little economic or environmental sense. The proposals are likely to cost more than they save as they risk losing the value invested in building up the industry and reducing costs, reducing economic activity and tax inflows from the sector, and decreasing wider business and investor confidence.

The final bar in the above graph represents the impact of the Government’s ‘preferred option’ in the consultation.

Comparison of industry jobs and Treasury inflows in Element Energy's Moderate Growth scenario and DECC's Impact Assessment



2. Government reviews, legal challenges

Multiple Government reviews of the feed-in tariff scheme – sometimes hurriedly brought forward – have undermined consumer and investor confidence in solar and renewables in general. The current review (a consultation which closed on 23 December) proposed tariff rates be reduced for all installations after 12 December – a cut-off date which was incredibly 11 days prior to the end of the consultation.

#solar, Win, lose or draw today, important we move forward together, drive down costs + step up deployment

Greg Barker MP tweeting ahead of losing in the Court of Appeal on 25 Jan 2012

On 21 December 2011 the High Court ruled this retrospective approach to tariff rates was illegal following a challenge from Friends of the Earth and two solar companies HomeSun and Solar Century. This judgement was upheld by the Court of Appeal on 25 January. Despite their approach being twice ruled illegal, the Government have announced their intention to seek permission to appeal once more.

Government must accept the ruling of the High Court and the Court of Appeal. They must scrap plans for another costly appeal and instead concentrate instead on lifting the budget cap and putting solar on a stable footing.

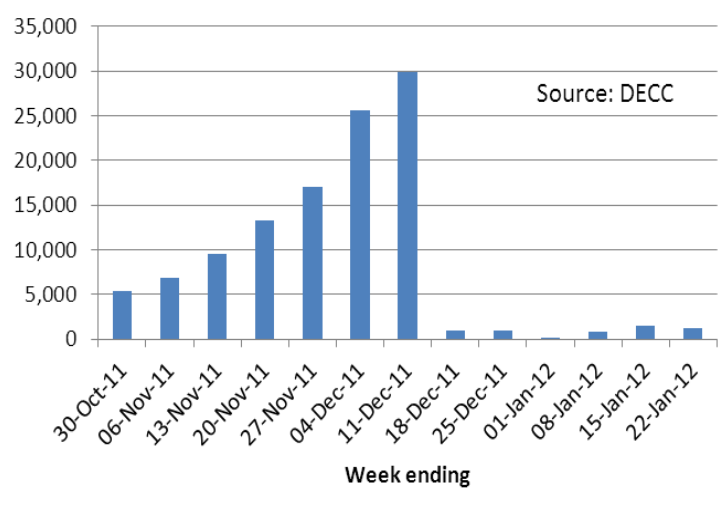
“The very least that the DECC Secretary of State can now do is to show some integrity, accept that his ministers got it wrong on solar, and pull the plug on this legal merry-go-round which is putting UK jobs and future investment at risk”

Caroline Lucas MP

Uncertainty and job losses

A surge in solar installations took place in an

Number of solar installations



attempt to meet the 12 December cut-off date. This was followed by a cliff-edge drop in installations, a scenario that has not recovered while rates remain unclear.

Solar firms large and small have laid off staff due to empty order books. Energy firm Carillion put all of its 4,500 staff on redundancy notice and are currently in the middle of a 90 day statutory redundancy period.

“Small companies based in and around my constituency are concerned as they feel that they stepped up to the plate as the Government asked them to do, and created growth, businesses and jobs—yet they now face an uncertain business model going forward”

Dan Byles MP

Countless projects were unable to meet the 12 December deadline and now stand shelved or put on hold. This is particularly acute among social housing projects, the impact of which is most keenly felt by tenants who stood to benefit from reduced energy bills and other benefits.

New regulations to change tariff rates in future

Responding to [pressure from Friends of the Earth and more than 100 organisations](#), Government laid regulations in Parliament on 6 January to ensure a 21p tariff rate will apply from 3 March. This was a welcome first step in providing some certainty for the industry, and in light of the Appeal Court's verdict was prescient.

This means that the tariff rate, whatever the final legal outcome, will drop to 21p on the third of March. The tariff rate for 12th December to 2nd of March will be the current rate of 43.3p, unless the Supreme Court overturns the previous two court rulings.

3. Putting the solar industry back on track

On 9 February the Government will announce its response to the current consultation, and launch part two of the comprehensive review of the feed-in tariff.

Current proposals risk contracting the industry to 10% of its size and excluding social housing schemes.

On February 9 the Government must:

- Abandon plans to introduce a reduced ‘multi-roof’ tariff for projects across more than one site that would make housing association, school, local authority and community schemes unviable.
- Moderate its energy efficiency proposals to make receiving the feed-in tariff conditional on installing loft and cavity wall insulation, rather than much tougher proposals that would effectively exclude 9 out of 10 households.
- Come forward with proposals for a community energy tariff that includes social housing.
- Propose an ambitious volume target that protects current jobs, a stable framework for reducing the tariff as costs fall, and secure a budget for the scheme that supports this.

“The subsidy has more than halved in 18 months and it is expected not to be required at all within 5 years – surely obliterating an industry which has done so well at creating jobs and at cutting its costs in the space of 18 months is madness, particularly in the current climate?”

**Erica Robb
Director, Spirit Solar**

More detail on these proposals is below

Social housing schemes must be excluded from multi-roof tariff

The proposed reduced ‘multi-roof’ tariff (a cut of 20% over and above the proposed 21p rate) applies to projects with panels on more than one roof. Using the Government’s definition, this

proposal would apply equally to a FIT generator with two 3kW installations as it would 200.

According to Element Energy this proposal would produce returns of 1-2% making projects with wider social benefits – such as social housing, school and local authority schemes – financially unviable.

The Government should come forward with a proposal that demonstrates the scale at which larger schemes benefit from economies of scale and receive a lower tariff. Until then, the proposal should be put on hold, and under no circumstances should it apply to social housing, local authority and other community projects.

“If we were to put a single 54kWp array on our building at Cuthbert Bank at 19p/kWh the reality is that we’d make 2.03% return, nowhere near 5% and less than our financing costs”
Craig Jackson – South Yorkshire Housing Association

Eligibility restrictions must support Energy Efficiency – not hold back renewables

The current review proposes houses should achieve an energy efficiency rating of ‘C’ or above to be eligible for the feed-in tariff, or that households must undertake all energy efficiency measures financeable under the Green Deal. According to the [Government’s own impact assessment](#), requiring an EPC band C would exclude 9 out of 10 households from the scheme and reduce demand for solar PV by 92%.

Bizarrely, the proposal to link to the Green Deal is estimated to have no impact at all on solar take up - showing how little analysis has been done on the proposal. In reality this would be a significant hurdle for the scheme, and mean that, as energy consumption varies from house to house, identical houses would be required to have different amounts of work done to them in order to be eligible for the feed-in tariff.

Shutting out the fuel poor

Improving homes to a ‘C’ rating or above **costs on average £7560** according to Consumer Focus; and with insufficient fuel poverty funding, this is set to further exclude those on low incomes in the worst insulated homes. This would be keenest felt for off-grid householders and the rural fuel-poor.

For the Green Deal Criteria, it is also proposed that the ‘golden rule’ need not apply – again putting a significant financial barrier in front of the scheme likely stopping solar deployment rather than helping efficiency measures.

Friends of the Earth supports linking FIT eligibility to loft and cavity wall insulation - but only where these measures are possible.

The principle of using Government policy to encourage energy efficiency is right, but this should be done in such a way as to increase energy efficiency take up - for example allowing feed-in tariff financing to contribute to the Green Deal so households can take up more energy efficiency measures without breaking the ‘golden rule’.

“The Government’s chaotic mismanagement of the cuts to tariffs for solar power has led to many projects being ditched and people losing their jobs, and has dealt a hammer blow to the prospects of future investment in the green economy”

Caroline Flint MP
Shadow Secretary of State for Energy and Climate Change

4. What MPs can do

Politicians from all political parties have expressed concern at the Government's actions and called for measures to put solar on a secure footing, including the chairs of the Energy and Climate Change Committee Tim Yeo, and Chair of the Environmental Audit Committee Joan Walley MP, who produced a [joint report into the review](#), as well as Transport Minister [Norman Baker MP](#); [Caroline Lucas MP](#) and Leader of the Opposition [Ed Miliband](#).

MPs should now call on Government to:

- **Accept the rulings of the High Court and the Court of Appeal – and not seek to appeal to the Supreme Court.**
- **Consult on a stable policy framework to support growth in the industry while allowing tariff rates to be reduced in a planned fashion as the costs of solar fall.**
- **Lift the Treasury cap – top up the budget using taxes already generated by solar jobs.**
- **Remove prohibitive restrictions that prevent collective projects, such as social housing projects, from going forward; and exclude nine tenths of the housing stock.**

Feed in tariff timeline

April 2010 Feed-in tariffs introduced. Backed by all political parties after campaign led by Friends of the Earth

February 2011 Government announces its intention to bring forward the expected 2013 review of feed-in tariffs to 2012

July 2011 Government cuts installation tariffs for large scale (>50kW - ≤250kW) projects, reducing the incentive for industrial scale 'solar farms'

27 October 2011 Leaked news of fast-track review, sends panic through the solar industry

31 October 2011 Nine months after announcing its intention to do so, DECC releases consultation on comprehensive review of FIT. It proposes the existing deadline of 1 April 2012 for installations at 43p be brought forward to 12 December 2011 - 11 days before the end of the consultation

Installations increase rapidly, while thousands of planned or in train projects are abandoned

14 November Friends of the Earth and two solar companies, HomeSun and Solar Century, take the Government to court over their plans

22 November Solar installers march on Parliament, demanding that Government stand up for the industry

23 November House of Commons debates the issue. Opposition are defeated in a vote to scrap the 12 December cut-off date

8 December DECC publishes details of £197m increase to feed-in tariff budget amid fears that sharp rise in installations will blow the existing cap

12 December Cut-off date for the old existing tariff. 30,000 installations take place in the week preceding 12 December, but only 1,000 during the whole of the following week. Solar workers begin to be laid off as companies order books dry up

21 December High Court rules that Government's review was illegal

4 January 2012 Government appeals this decision. The 12 December cut-off date effectively becomes dependent on outcome of this appeal

19 January Responding to pressure from Friends of the Earth and others, Government lays regulations in Parliament meaning 21p tariff rate will take effect from 3 March

25 January Court of Appeal unanimously rejects Government's appeal. Government announces intention to go to Supreme Court

9 February Government will respond to consultation submissions, and will launch part II of their review

Further Information

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