

Feed-in Tariff Review

Introduction

The Government has proposed to cut by half support for householders, businesses, and communities that generate their own clean solar energy from 12 December 2011. The reduction in support to the solar Feed-in Tariff is due to apply just six weeks following the announcement – and before the consultation on the proposals has ended.

This abrupt cut is having a devastating impact on small businesses, jobs, and investment in both the solar industry and beyond, in addition to halting solar schemes across the country. The CBI, Federation of Small Businesses, TUC and Local Government Association are among those opposing the Government action.

The abrupt December 12 date has subjected companies and communities to an unreasonable moving of the goal posts and impacted investor confidence across the low carbon sector.

But the proposals themselves are even more devastating. Everyone agrees that the tariff rates should fall as the scheme brings down the cost of solar - but the Government's proposals would lead to an enforced contraction of the solar industry to almost the size it was before the feed-in tariff scheme was introduced.

According to the Government's own impact assessment, its proposals will see the loss of the majority of the 27 000 jobs created in the solar industry in the last two years. It will remove the opportunity for 9 out of 10 households to take advantage of the feed-in tariff scheme.

"Moving the goal posts doesn't just destroy projects and jobs, it creates a mood of uncertainty that puts off investors and they wonder what's coming next. Some companies have invested heavily in solar photovoltaic systems and in the supply chains needed to install them. That commitment has been undermined by the feed-in tariff decision - and so industry trust and confidence in the Government has evaporated."

John Cridland, Director-General, CBI

MPs should call on the Government to abandon the retrospective December date for applying the tariff changes. Instead Government should then take the time to create a stable policy framework designed to support growth in the industry – not cull business and jobs – while allowing tariff rates to be reduced as the costs of solar fall.

Over 60 organisations including the National Farmers Union, the Federation of Small Businesses, Co-ops UK as well as council leaders from all three parties have written to David Cameron and Nick Clegg to request this – and are now asking that MPs add their support to [the statement](#) and oppose the proposals in Parliament.

This briefing outlines the impact of the Government's plans and details how instead creating a stable framework of support for the fledging solar industry could sustain jobs and growth, enable households to break free from spiralling fossil-fuelled energy bills and make a real contribution to the creation of a low carbon economy.

Further Information

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The feed-in tariff review: proposals and impacts

Early cut-off date

Applying new rates to all projects installed after the 12 December is causing planned solar projects nationwide to be shelved and millions in investment to be lost. The retrospective nature of this change – where the new rates start in April but apply to schemes installed from December – has undermined confidence in Government policy beyond the solar industry. The 6 week gap between the announcement and the December implementation date is much shorter than the lead-in time of many projects. Households, businesses and others who had invested in good faith are set to lose out.

“Rushing through these cuts before the consultation has even finished is going to leave local authorities stuck between a rock and a hard place.

“To expect councils and the solar industry to deliver projects and have them registered by Ofgem within six weeks is unrealistic and unacceptable. As a result many projects will now be stopped immediately.

Dave Parsons, Conservative Chair of LGA Environment Board.

Reversing the growth of solar and impact on industry and jobs

It is widely recognised that Feed-in Tariff rates should reduce as costs fall. However all options in the consultation are designed not just to check the rates, but to reverse recent growth in solar – the proposal would see the size of the industry and level of solar projects taking place reduced by between 50 and 95%. The worst option reverses all the growth in solar that has taken place since the introduction of Feed-in Tariffs. The 95% reduction in demand under the plans is not primarily a result of the main cut to tariffs, rather 1) the extra cut to projects across multiple buildings (such as social housing projects), and 2) the requirement for householders to improve the energy efficiency of their property to EPC band C – which alone would reduce annual overall uptake of solar by 92% according to DECC’s impact assessment. This would put 29 000 of the 30 000 jobs in the solar industry at risk [according to research by Element Energy](#). In addition, a [survey by the Renewable Energy Association](#) found that 57% of companies now anticipate laying off at least half their current staff, and 33% of companies are concerned that their business may be forced to close altogether. Fewer than one in six firms were confident their business could weather the changes. The planned changes would also lead to an equivalent reduction in economic activity and tax inflows and see solar PV contributing just 0.21% of electricity generation by 2020.

New tariff levels and social housing

While the new rates alone (without the EPC band C link) would allow some schemes to go ahead, the proposed changes to the tariffs will restrict the Feed-in Tariff increasingly to homeowners who have access to capital or savings – and make many social housing and community projects unviable. Reducing the tariffs by 50% is designed to give a 5% return on investment. But this assumes one party receives both the Feed-in Tariff income and the free electricity. In social housing or community projects where, for example, a tenant or a school receive the free electricity, this level of return will not be realised. Additionally, the cost of financing is not taken into account and with standard bank lending of 6-7% this could be an insurmountable barrier. This is exacerbated by an additional proposal that projects with more than one roof at the same site – like many council or housing association schemes – receive a further 20% less support than the new proposed rates. Analysis by Element Energy due to be published by Friends of the Earth next week shows such projects would receive a return of 1-2% at this level.

Energy Efficiency link

Proposals to restrict the Feed-in Tariff to homes with energy efficiency rating of ‘C’ or above would exclude 9 out of 10 households from the scheme and reduce demand for solar PV by 92% - while having no impact on the take up of home insulation according to [the impact assessment for the review](#). 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’. 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.

Background to the feed-in tariff scheme: a solar success story

The Feed-in Tariff was designed to support householders, communities and businesses to generate their own green energy – such as from solar panels or wind turbines. They get paid a guaranteed price for the energy they generate, and benefit from reduced electricity bills. The Feed-in Tariff is designed to be reduced over time with planned reviews as industry is built up and costs fall, supporting nascent technologies to the point where subsidy is no longer needed.

The scheme has been a huge success since its introduction in April 2010:

- More than 100 000 solar panels projects have been installed.
- The number of jobs in Solar has risen from 3000 in 2010 to 30 000 today.
- The number of companies operating in solar has risen from 350 to 4000.
- Scores of community-led energy groups and co-ops have been established across the country involving local communities in clean energy projects.
- The cost of Solar PV has fallen by 30% in just over a year as global prices fall and installation scaled up in Britain, leading to the Solar Trade Association calling for planned moderate reductions in the tariffs of 25% earlier in the year.

The feed-in tariff also plays a wider role in the energy market – opening up energy generation from beyond the traditional energy companies to diverse groups from farmers and businesses to hospitals and schools; reducing people's energy bills; and leading to more energy efficient consumer behaviour and take up of home insulation through engagement of the public with energy.

This wider role has been understood by the Coalition parties, who both supported the introduction of the scheme, called for an increase in its ambition in April 2010, and committed in the Coalition Agreement to ***“encourage community owned energy where local people benefit from the energy produced.”***

David Cameron recognised the aim of the scheme to “create a virtuous circle in which the market for micro-generation grows, driving the development of better and cheaper technologies, increasing consumer uptake and further growing the market” while the Liberal Democrats called for increased ambition as it could create “real market-based economy with the wide participations of citizens”.

Paying for the feed-in tariff scheme

The Feed-in Tariff scheme is funded by a levy on energy companies which is passed onto energy consumers, and currently costs the average householder approximately £1 a year. At the Comprehensive Spending Review, the Coalition Government decided to place a ‘cap’ on the scheme of £867 million for the four year spending review period. The popularity of the scheme now means that this ‘budget’ is not sufficient. Staying within it would lead to a massive reduction in the current size of the industry – as proposed by the current review.

Government claims that the Feed-in Tariff will cost £26 on household bills by 2020 are based on a ‘do-nothing’ scenario in the impact assessment where rates are left unchanged – which no one is advocating. No evidence has been released on the higher figures referenced by Ministers in the Opposition day debate – the details of which are examined [here](#).

What is the cost of holding the cut until April as planned?

The Government's own figures show that the difference between cutting tariffs from April 2012 and cutting them in December 2011 is less than £1 a year on domestic energy bills, equivalent to less than 10p a month. For the sake of such a small difference, schemes that would directly benefit those on lower incomes – such as local authority-led schemes on social housing – are being abandoned nationwide.

What is the cost of putting solar on a sustainable footing going forward?

Friends of the Earth commissioned Element Energy to examine a moderate growth scenario which found that a FIT regime that would by 2014 generate 300% as much electricity as the best option proposed by the Government would require only 75% additional funding – due to efficiencies in reducing tariffs as the cost of solar falls.

This would cost an average of £214 million a year for the CSR period – or a total of £7.20 a year in total on householder bills in 2014. However, the research also found that Treasury receives £267 million in the direct taxes a year in VAT, Income Tax and National Insurance from the solar industry. It is worth noting that the Feed-in Tariff does not have to be funded by consumer bills - its sister scheme the Renewable Heat Incentive is paid for out of general taxation in recognition of the importance of the scheme. Treasury receives significant inflows from 'green taxation' – for example, the £734 million garnered in just one year by the Carbon Reduction Commitment. The Conservative Green Paper, [Power to the People](#), advocated the creation of a Decentralized Energy Fund, funded from EU ETS receipts.

Urgent action is needed – in the form of increased winter fuel payments and help with energy efficiency – to help the most vulnerable who are struggling to pay their energy bills. But hastily cutting the Feed-in Tariff is not justified on these grounds when recent bill rises have been driven by the increasing price of fossil fuels, not the £1 added by the Feed-in Tariff this year.

Opposition to the proposals

More than 60 organisations ranging from the Federation of Small Business to the National Farmers Union, and leading community energy groups have written to David Cameron and Nick Clegg calling for:

- The retrospective date to be abandoned
- A cash injection so that tariff levels, including for social housing and community schemes, can be set to allow moderate growth in the industry
- The scheme to be reformed to provide a framework for reviews that provides more certainty going forward.

“We're really concerned about the impact of these changes on our residents' ability to avoid fuel poverty...Peabody has invested significant amounts of money developing our solar scheme. This now looks as if it will have to be written-off – a huge and unnecessary waste at a time when we are striving to make austerity savings... We had planned to place young apprentices within our scheme. These too will be lost.”

Stephen Howlett, Chief Executive, Peabody

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.

Politicians from all political parties have also expressed concern at the proposed changes. Dan Byles MP was one of a number of MPs who raised the impact of the changes on small businesses on the day of the announcement, stating that: “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”. Since the announcement, Transport Minister [Norman Baker MP](#), Mayor of London [Boris Johnson](#) and Leader of the Opposition [Ed Miliband](#), who introduced the original scheme, have been among those who have raised concerns.

What you can do

MPs should **call on the Government to immediately abandon the retrospective December date** for applying the changes. Instead Government should consult on **creating a stable policy framework designed to support growth in the industry** – not cull business and jobs - while allowing tariff rates to be reduced in a planned fashion as the costs of Solar fall.

Key to this is securing the additional funding required, and removing prohibitive measures that prevent both collective projects, such as social housing projects from going forward, and exclude nine tenths of the housing stock. Please **write to the Prime Minister** in support of [this statement](#) signed by more than 100 organisations asking the Government to 'Cut not kill' Solar PV, oppose the proposals in Parliament, and highlight the devastating impact of the review.