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Rolling cuts to solar feed-in tariffs on the way

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A rolling system of cuts to solar feed-in tariffs (FITs) is to be introduced from 1 July to reflect expected drops in solar panel prices, the energy and climate department (DECC) announced on 8 February.

Rates, already due to fall on 3 March, will fall again in July and October, potentially by a total of 40%.

They will then fall by 10% every six months unless the number of panels installed is above government forecasts. If this is the case, the cuts will come in earlier.

Under the proposals,[1] a household or small business that installed panels from April 2013 could receive just 11.6 pence per kilowatt hour of electricity generated. This compares with 43.3p/kWh today (see table).

SOLAR FEED-IN TARIFFS (p/KWh)

Unit size (kW)	Current	From Mar	From 1 Jul*	From 1 Oct*	From Apr 2013*
≤4	37.8-43.3	21	13.6-16.5	12.9-15.7	11.6-14.1
>4-10	37.8	16.8	10.9-13.2	10.4-12.5	9.4-11.3
>10-50	32.9	15.2	9.9-11.9	9.4-11.3	8.5-10.2
>50-150	19	12.9	7.7-10.1	7.3-9.6	6.6-8.6
>150-250	15	12.9	5.8-10.1	5.2-9.6	4.7-8.6
>250	8.5	8.9	4.7-7.1	4.5-6.7	4.1-6
Standalone	8.5	8.9	4.7-7.1	4.5-6.7	4.1-6

* Rate will vary depending on how much solar is installed. Table shows best- and worst-case scenarios

The proposed
system is similar to that which operates in Germany.

APPENDIX B

DECC wants to stop a repeat of the situation that emerged last year when it had to propose emergency cuts to tariffs of up to 55% because installation levels were soaring (ENDS Report, November 2011).

The government had anticipated just 137 megawatts of solar being installed by April 2012, but there was at least triple that operational at the time. There is now almost 800MW operational.

Those proposals were due to apply to any solar panel installed after 12 December, but were ruled illegal by the High Court and Court of Appeal (ENDS Report, 25 January). DECC still has until 21 February to appeal to the Supreme Court, and intends to do so. If it fails in this final appeal, the cuts will apply to installations from 3 March.

The new system has three separate phases:

- **Phase 1:** On 1 July, tariffs will fall by 21-35%. The exact drop will depend on how much solar has been installed in March and April. The lowest drop will occur if less than 150MW of solar is installed in those months; the highest if more than 200MW is installed.
- **Phase 2:** On 1 October, tariffs will fall another 5%.
- **Phase 3:** Tariffs will then fall 10% every six months, beginning on 1 April 2013. But this will depend on installation levels. The cut will come in earlier if installations creep above DECC forecasts. DECC may evaluate take-up levels by size of projects. This means cuts could come in early for, say, domestic installations, but not for industrial-sized schemes.

DECC's consultation includes several other proposals that could mean lower returns for solar projects:

- **Tariff life:** Tariffs for projects installed after 1 July will only last 20 years, rather than the 25 years they currently do. This brings solar subsidies in line with other renewables.
- **Export tariff:** The owners of solar projects currently receive a top-up payment of 3.1p/kWh for any electricity they export to the grid. DECC believes the value of exported electricity is higher than this and the consultation asks for views on a more suitable price. However, if export payments are increased, the department may reduce generation payments to ensure projects are not overcompensated. Any increases in export payments would only apply to new schemes.
- **Indexation:** Tariffs increase each year in line with the retail price index. DECC is asking for views on whether it should use the consumer price index instead or stop increasing tariffs at all.

The consultation runs until 3 April. The proposed system received an immediately poor response from commentators.

Daniel Guttmann, renewables director at PricewaterhouseCoopers, said: "Given the current uncertainties around costs, it feels like a six-monthly 10% reduction risks creating a severe stop-start market. I think that a lower rate should be considered."

There has been some good news for solar firms. On 8 February, DECC also issued a response to its original consultation on cutting solar FITs.[2] This says the department has found money to cover the overspend under the FITs regime due to high PV uptake, while still allowing £460m for new installations to 2014/15.

It has also lowered energy efficiency requirements for households and businesses installing solar after 1 April. It initially proposed that any building with solar panels would have to achieve a C energy performance rating. It now says this would add excessively high costs and so buildings will only need a D rating.

It would cost £1,300 for a detached home with an F rating to be upgraded. Some 51% of homes and 63% of commercial properties already meet the D rating requirement.

DECC has also relaxed proposals to cut tariffs further by an extra 20% for businesses that own more than one solar installation. Businesses or public sector bodies will now have to own 25 or more installations before the cut comes into force.