# Where next for UK solar?


Credit: Belectric

**Solar support policy |** The UK's solar industry has grid parity within reach, but recent proposals to cull various subsidy schemes threaten to pull the rug from beneath its feet. Liam Stoker asks whether the UK can embrace alternative forms of support to help solar achieve long-term freedom from subsidy

The UK's utility-scale solar sector enjoyed a booming start to 2015, installing 2.53GW of capacity in Q1 as the country cemented its position as one of the world's leading PV markets. But less than six months later, the industry is facing a cliff edge in deployment.

The recent proposed cull of no fewer than nine renewably energy subsidy schemes has alarmed numerous stakeholders and is the cause for considerable consternation amongst those who consider grid parity for solar PV to be within touching distance. It has thrust new importance on the UK industry to be creative and led many to come up with alternative methods of support that just might bridge the gap between now and 2020, when the industry has predicted it can operate subsidy free.

The UK's current malaise started with the UK Conservative Party's surprise general election victory in May, which acted as the precursor for a steady stream of subsidy cuts with onshore wind and solar in the government's crosshairs. The most notable casualty was the proposed closure of Renewable Obligation support for sub-5MW solar farms a year earlier than planned. Support for such projects could now cease as of 1 April 2016, exactly a year after the programme closed for projects larger than 5MW in size.

But while many have accused chancellor George Osborne and his government departments of making politically motivated decisions when it comes to energy, it is a fact that there are very real financial constraints that have to be tackled. The Levy Control Framework – the government mechanism used to control the cost of energy subsidies handed down to taxpayers – was revealed by energy and climate change secretary Amber Rudd to be on course for a £1.5 billion overspend by 2020/2021, leaving the Department for Energy and Climate Change (DECC) with no choice but to take drastic action.

While a 20% head room had been budgeted for in order to compensate for energy price fluctuations, that the spend was on course to reach £9.1 billion meant that without intervention, there would be precious little left in the pot for future subsidies, let alone additional Contracts for Difference (CfDs) rounds. Rudd's recent confirmation that the future of CfDs is now up in the air after just one round is evidence enough of the parlous state of DECC's finances.

Right-leaning think tank the Policy Exchange did not waste any time in sticking the boot in. It accused DECC of "reckless and wasteful" management of renewable subsidies and proposed a complete overhaul of various subsidy programmes. Richard Howard, head of environment and energy at Policy Exchange, authored a report examining the extent of DECC's mismanagement and said that while the government must "take its decarbonisation commitments extremely seriously", it was down to them to "meet energy and climate objectives at lower cost to consumers".

**Despite a recent boom, the UK solar industry is now on an unexpected cliff edge following a number of government policy announcements.**

## Wrong place, wrong time

The message from the Conservative government was simple. It did not want – and could not afford – anymore ground-mounted solar deployment in the UK, having seriously underestimated the technology until now. Rudd swiftly defended the decision, insisting renewables could not have a "blank cheque" paid for by people's bills, but many within the industry merely reiterated the importance of stability and certainty. "After delivering price falls of 80% since the introduction of the feed-in tariff, no-one is asking for a blank cheque, just a sensible, transparent and predictable transition to 'subsidy-free' solar by 2020/21," says Seb Berry, head of external affairs at UK-based firm Solarcentury.

But deployment of utility-scale solar is realistically still needed if the UK is to meets its decarbonisation targets. The

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country is already behind in its efforts to do so and failure to deliver a consistent message at this year's COP21 summit in Paris will seriously undermine the country's commitment to the cause.

DECC's own impact assessment of its early RO closure proposals even reveal that it expects to incur costs of between £75 million and £115 million under the European Union's Emissions Trading Allowance scheme due to the extra reliance on power derived from fossil fuels caused by curtailing subsidy support a year earlier than originally planned.

Not only that, but simply culling subsidies without an alternative means of support also threatens to jeopardise the entire UK industry. Giving evidence at a recent select committee hearing, DECC permanent secretary Stephen Lovegrove insisted that it was during the period immediately after subsidies have been withdrawn that the "greatest innovations" emerge from within industries, but the solar sector has rallied to counter his view.

A recent report compiled by consultancy KPMG in collaboration with the Renewable Energy Association provided detail on three markets – Spain, Greece and Italy – which saw significant downturns in market activity just after subsidy support was withdrawn. "If there's no subsidy or no substitute for subsidy, then it's likely the industry will decline quite rapidly and there'll be lots of economic impacts as well, particularly slower decarbonisation and so on," says Robert Hull, director at KPMG and co-author of the report.

While it's true the UK did survive and subsequently flourish after a significant cut in subsidies in 2011, their complete removal without equivalent support, Hull says, would be altogether more damaging than before. Hull likens the effect to a cliff edge, and warns of the dangers the industry faces. "It is lower deployment rates, loss of jobs in the industry and slower installation of solar," he adds. For Solar BIPV owner and REA senior advisor Ray Noble the importance of bridging the gap between now and a time when solar can be subsidy free is starker. "With 35,000 jobs hanging in the balance as an industry we need to work with government to find an acceptable solution," he says.

### Vision for the future

To avert UK solar falling off the cliff, and with the UK government seemingly unwilling and unable to change tack, KPMG has put forward a number of alternatives to support that could be capable of steering solar to grid parity. Utility-scale deployments could benefit from relaxed planning regulations – a significant development hurdle – but from a financial perspective various tax breaks or incentives could prove to be the way forward.

It's a mechanism used in other industries to support but not directly subsidise development, and would shift the financial burden from the creaking LCF to the Treasury. The UK's oil and gas industry in the North Sea has enjoyed similar benefits for several years now – Osborne confirmed an extension to this support for a further year during his summer budget in June – and Hull notes that a similar system has been introduced in other markets with tangible success. "I think the main [market] is North America, where a number of states have used tax credits to encourage solar development. There's huge growth in their solar industries and also at the same time, costs are falling very dramatically," he says.

Whether or not George Osborne would be willing to incur the costs involved with granting such incentives remains to be seen, particularly at a time when the Treasury is tightening its belt to reduce the UK's national deficit. But allowing large-scale projects currently in the pipeline that would otherwise fall off the subsidy cliff to access tax credits would not only help stimulate the market but also reinforce secure confidence. John Dashwood, director of energy and utilities at PricewaterhouseCoopers, says it is imperative for the UK to continue to earn the trust of potential investors, adding that recent policy decisions threatened to "create uncertainty at an important time".

A US-style net metering scheme, which would enable small-scale generators to sell electricity back to the grid for a pre-determined fee, could also be introduced and would stand to become popular with smaller developments favoured by community energy schemes, which the UK government is on the record for wanting to continue to support.

One other, altogether more contentious method of support suggested by KPMG would be a withdrawal from the European Union's minimum import price (MIP) undertaking, applied to Chinese modules sold in the EU. The MIP has created a market in which component prices are artificially inflated, effectively reducing margins on generated energy by increasing development costs. Allowing EPC firms to source cheaper modules would make solar farms cheaper to develop.

Repealing the MIP and its implications would be a political hot potato, and while it has been suggested as a potential alternative to subsidies, it is by no means touted as the right way for solar to achieve its goal of moving past subsidy and onto grid parity. "That's a government decision and it does affect the industry, and maybe a change in that could have a beneficial impact," Hull says. "That's certainly something the solar sector has lobbied to get changed, and what we've done is state that it exists and changing it could make a difference."

Hull believes it is this end goal that warrants the need for special action on solar's behalf. "My sense of the solar industry is that it recognises you have to move past subsidy, which not every industry does, and from what I've seen it is keen to find a solution that removes it from subsidy and makes sure there aren't barriers to being able to fit into energy markets and compete in open markets," he says.

The Conservative government has made it abundantly clear that, as far as the LCF is concerned, there is no more scope for extensive subsidy support for large-scale solar farms, but this does nothing to aid the industry on its way to a sustainable future. A failure to provide it with an alternative, far from Lovegrove's vision of innovation, only threatens to create the same kind of developmental cliff edge seen previously in other markets as well as the associated after-effects.

A number of meaningful alternatives have been put forward, and it is now up to UK solar as an industry to put its message across. Grid parity is a realistic goal, but not one that can be achieved without the necessary help. ■

### If the tariff FiTs

While the proposed early closure of the Renewable Obligation for sub-5MW solar farms has stolen the headlines, hinted changes to the feed-in tariff also stand to have a significant impact on the uptake of solar in the UK. The feed-in tariff for standard domestic installations is currently set to fall to 4.28p/kWh on 1 October, but could be cut far lower if the "cost-cutting measures" alluded to on 22 July come to pass. The Policy Exchange has already condemned the feed-in tariff as "enormously generous" and average returns have swelled to around 12%. There is every expectation DECC will trim back the FiT to within the 5-8% annual returns originally forecast, but a worst-case scenario could see the small-scale FiT removed entirely.

*Finlay Colville analyses the prospects for large-scale solar under the Contracts for Difference scheme overleaf*