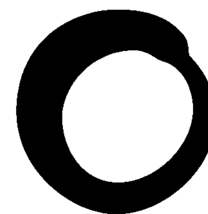
December 2011



Friends of the Earth

Element Energy Report Findings - summary

Economic analysis of the current proposals by DECC to cut the solar feed-in-tariff (FIT), undertaken by Element Energy for Friends of the Earth and Kingspan, finds that:

- DECC's plans will have dramatic, negative impacts on the solar industry and on the deployment of solar PV in the UK. DECC's own Impact Assessment concedes that PV installations will fall 50-95%.The rate of new installations forecast by DECC in its proposals would support only around one-third of the jobs currently in the sector, placing at least 18,000 jobs at risk.

- In addition, the Treasury will lose out: the revenue earned from employment taxes and VAT on domestic installations, which is currently around £275 million per year and could total £875 million over the next three years, assuming changes to the proposals to support moderate growth, would shrink to around £125 million under DECC's current proposals.

- In the short-term, DECC's imposition of an early cut-off date of 12 December 2011 (meaning that schemes registering after this date will face severe tariff cuts from April 2012 onwards) will leave solar businesses struggling to make a return on existing stock purchased, and installation contracts made, on the basis of the higher tariff rates.

  While the costs of installing solar have fallen significantly, DECC has wrongly assumed that the latest data on costs represent actual costs for companies that are planning their businesses over longer periods of time.

- Investors including councils, housing associations and specialist solar companies, will be particularly hit. A lower tariff for schemes where councils and others install panels on multiple roofs, providing free electricity to the householders, but receive the tariff themselves, will render such schemes unviable unless the costs of solar fall significantly again between now and April 2012. This would push solar PV out of reach of many social tenants on lower incomes.

- In the medium term, the Government's 'budget cap' for spending on FITs will significantly restrict the size of the PV sector relative to the installation rate achieved in 2011.

The research also quantifies the costs of alternative, more ambitious scenario for solar installation using the feed-in-tariff, in which tariffs are cut for schemes from April 2012 (rather than December 2011), but the overall amount of money available is increased and finds that:

- Under a ‘moderate growth scenario’ for deploying solar PV in the UK, three times more solar electricity could be generated by 2014/15 than in DECC’s projections.

- This 300 per cent increase in solar electricity would require a maximum increase in the FIT budget of only 75 per cent because the level of support per unit of electricity generated would be lower.
- If this higher budget were funded from electricity bills, it would require an increase in the costs paid by bill-payers of £3.80 per year (or 0.3 per cent of an average annual dual fuel bill of £1345) over and above DECC’s proposals.

- This increase would be lower if PV panel costs fall at more than 10% per year; Ernst and Young recently predicted that costs would fall at 13-17% per year over the next three years.

- The scenario is modest in an international context. This ‘moderate growth scenario’ would leave the UK in 2020/21 with just over half the solar PV capacity expected in Germany by the end of 2011.

You can read the full report here:

http://www.foe.co.uk/resource/reports/element_energy.pdf