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Responses by Respondent : Feed-in tariffs scheme: Consultation on Comprehensive Review Phase 1 – tariffs for solar PV

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Answers for respondent BHLF-5RZX-WFYS-2

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NOW REQUIRED TO BE CONFIDENTAL AS WELL AS SUPPORTING DOCUMENT. REFER EMAILS TO WHO CONFIRMS WILL NOT BE PUBLISHED 11/1/2012
Tags:
Q1. Agree/Disagree:
Agree
Q1. Comments:
Tariff rates: SSE supports this significant cut in tariffs. The proposed tariffs will align the rate of return with what was envisaged for the scheme, levelling the playing field with the returns for similar technologies and provides a reasonable incentive. For this reason we think that the proposed tariff rates will be about right in the long run. The Energy Savings Trust uses the assumption that the ratio is a 25:75 usage:export ratio which reduces the rate of return compared with DECC's 50:50 assumed ratio.2 The 2 EST Solar Energy Calculations: http://est2.solarjuice.com/static/downloads/est/Solar%20Energy%20Calculator%20-%20Assumptions- 3ea8583e7814429c5f661b6736316e64b4501c1e.pdf rate of return is extremely sensitive to a change in ratio. SSE thinks that customers should be made aware that their behaviour in the home could alter the rate of return significantly before they make their installation. Management of the tariff cuts: SSE has a number of concerns regarding how the cuts have been managed: 1. The chaotic changes we are now experiencing are due to a failure to properly manage the scheme within the budget. Given where we are now, it may have been better to allow some flexibility in the budget to allow for a smoother transition, and then to regain control of future budgets by better management. 2. It reduces the incentive for schemes which manage installations and cover the capital cost for those who cannot afford it themselves. Such schemes allow anyone to benefit and have helped to reduce fuel poverty. If these schemes cannot operate then it only enables the able to pay to stay in the market, depriving those who pay for the feed in tariff subsidy on their bills but who cannot afford to benefit themselves from an installation. This is also the case in the social housing market where tenants benefit only if their landlords can afford the upfront capital investment. To overcome these issues, SSE would like to flag up the option of including all or some of microgeneration costs in the Green Deal finance mechanism making this route available not just to those with upfront capital.3 SSE is seriously concerned over the speed of this review, the job losses that it will create, and the resulting uncertainty and messaging it sends out across the entire policy framework, especially considering the upcoming considerable changes in the electricity market with the EMR. SSE believes it would have been better to have adopted a longer transitional period to allow businesses to adapt.
Q1. File upload:

No file uploaded

Q2. Agree/Disagree:

Disagree

Q2. Comments:

SSE understands the advantages in avoiding a huge peak of installations occurring over a few months followed by a period with very few. However implementing eligibility dates earlier than the 1st April, which DECC had set as the expectation date for tariff changes, leads to increased insecurity. It is likely to result in customers and system providers occurring financial losses due to agreements which have already been made under the presumed 1st April eligibility date. Therefore SSE does not agree with the proposal to introduce an eligibility date prior to the 1st April. SSE believes that a reference date before the end of the consultation period adds a significant amount of uncertainty and seems to disregard the point of a consultation and the opportunity to respond if the deadline for responses is after the date the change will have been executed. 3 This would be done by including the FIT payments in the golden rule calculation. Note that there are a range of policy options available to limit the impact of this inclusion on the FIT budget, such as restricting it to certain customer groups. If an eligibility date prior to the implementation of the tariffs was to occur a date in January or February would seem more appropriate, allowing the consultation period to end, some time to adjust to changes, whilst still benefiting from some budget

Q2. File upload:

No file uploaded

Q3. Agree/disagree:

Not Answered

Q3. Comments:

See answer to question 2.

Q3. File upload:

No file uploaded

Q4. Agree/disagree:

Disagree

Q4. Comments:

SSE doesn't see the need for a multi installation tariff as it is likely that most if not all of the free Solar PV schemes will be halted anyway due to the already drastic cut to the standard tariff. In addition we see no reason why individuals and businesses should be encouraged to just install one system if they have more than one suitable building when we are trying to meet ambitious carbon targets by reducing CO_2 emissions and encouraging microgeneration. SSE is concerned about what this tariff could mean for community projects and for schemes where businesses install and manage solar PV for customers who don't have the capital. These projects have helped those in fuel poverty, and community projects have created employment and increased awareness of such measures. SSE thinks that community projects and social housing should be exempt from any further reductions such as the multi installation tariff proposed. SSE believes that if these tariffs are to be implemented they should do so on the original review date, 1st April, as it gives businesses time to adjust to the changes especially in the case of multi-installations which are likely to be larger schemes. It is likely that a large number of contracts agreed prior to the release of the consultation may result in unintended tariffs being received by customer as the accreditation date will be after the 12th December eligibility date.

Q4. File upload:

No file uploaded

Q5. Agree/disagree:

Disagree

Q5. Comments:

SSE views a 20% reduction as too high on top of an already drastic cut. For the reasons stated in the previous answer SSE think that it would discourage schemes which offer deals which manage installations for those who can't afford to do it by themselves, including: individual households, social housing and community schemes.

Q5. File upload:

No file uploaded

Q6. Agree/disagree:

Agree

Q6. Comments:

SSE welcomes the introduction of an energy efficiency requirement in order to be eligible for the standard tariffs for their solar PV installation, resulting in a lower reliance on centrally generated electricity and the possibility of exporting more of the electricity generated back onto the grid. However this should have been implemented earlier in the scheme when the rate of return was more favourable and the uptake high, which would have incentivised greater uptake of energy efficiency. Introducing this now reduces the incentive even further and is unlikely to have the same level of benefits, as it will probably put people off microgeneration more than it will encourage an increased level of energy efficiency. Energy efficiency and reducing energy demand are fundamental to reducing emissions and increasing energy security therefore the introduction of an energy efficiency requirement increases the justification for supporting an expensive technology/scheme. SSE believes that if there is evidence that significant energy saving behavioural change results from solar PV installations, and other economic benefits, then a high level of support can be justified. However with limited budgets for such measures, funds must be distributed to the policy areas and technologies which deliver the most cost effective results. Whilst it is clear there are further benefits to the installation of solar PV, SSE would like to see more research in this area. Currently the evidence for engaging wider energy saving behavioural changes is weak and it would be extremely useful if research could be conducted on both electricity and heat micro-generation to strengthen the evidence and to quantify the impacts so its value can be properly assessed in policy development.

Q6. File upload:

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Dwellings:

Requiring the installation of all measures that are identified on an EPC as potentially financeable under the Green Deal

Non-domestic buildings:

Requiring the installation of all measures that are identified on an EPC as potentially financeable under the Green Deal

Q7. Comments:

SSE prefers the second option which is a requirement to install all the measures identified as potentially financeable under the Green Deal. The impact assessment showed that this was not expected to reduce the uptake of solar PV. In reality it is likely to put off some investors but not as significantly as an EPC level requirement would as measures financeable under the Green Deal will not add any further upfront capital cost to the investor. This will avoid blocking out those who can't afford it and is able to be tailored to the specific household. This view is based on DECC's current policy position of excluding FIT payments from the golden rule calculation for Green Deal finance. If this were to change, then more stringent requirements might be reconsidered. We think that under this efficiency requirement the focus should be on electricity efficiency improvement that would align with the goals of a solar PV installation to reduce the demand for centrally generated electricity. It should be noted that in the nondomestic market there is an increased scope for electricity saving measures than in domestic properties.

Q7. File upload:

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Q8. Agree/disagree:

Disagree

Q8. Comments:

SSE strongly disagrees with an energy efficiency requirement based on an EPC rating. Despite being only one level higher than the national average, having an EPC level C as the required level blocks a significant number of households out of the market as it would be impossible to meet such requirement. It should be noted that these customers would still have to pay for the FIT on their energy bills even though they couldn't benefit. Even for homes which could meet this level it may be at an unaffordable capital cost. In the UK we have large numbers, around 25%, of solid walled homes; solid wall insulation is a costly measure which is unlikely to fit in the golden rule eligibility for the Green Deal.

Q8. File upload:

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Q9. Agree/disagree:

Agree

Q9. Comments:

SSE agrees that there should be a transitional period which allows time for a building to meet the required energy efficiency standard. This will also allow time for the supply chain to meet the increase in demand and to mature. In addition it will allow polices and schemes such as the Green Deal and ECO to become implemented which will assist homes in meeting such a requirement.

Q9. File upload:

No file uploaded

Q10. agree/disagree:

Agree

Q10. Comments:

Despite agreeing with the principle of a transitional arrangement, we think that it needs to be over a longer period of time, perhaps 18 or 24 months. This is primarily due to the introduction of the ECO and the Green Deal proposed for October 2012, 6 months into the 12 month transitional period. In reality more than 6 months is required after the introduction of such policies otherwise the supply chain would be unlikely to become established in such a short period of time. 12 or 18 months after the introduction of the Green Deal and ECO would be a more realistic timescale. The transition period should be kept under review so that any delay to the launch of the Green Deal, or to the availability of offerings from Green Deal Providers, can be reflected in the transition period.

Q10. File upload:

No file uploaded

Q10. Comments:

No comment

Q10. File upload:

No file uploaded

General comments:

SSE has a significant interest in the solar PV market as our contracting business, SSE Contracting, is one of the country's leading mechanical and electrical contractors and offers a range of renewable and low carbon energy solutions including solar PV installation. SSE also has an interest in the solar PV supply chain, holding 12.3% of Solar Century through its ventures arm, SSE ventures. The key messages in this response are: · The timing and management of this consultation in particular the introduction of an eligibility date prior to the end of the consultation period has led to avoidable disruption and has created uncertainty across the policy framework; · The risk of unrecoverable cost to suppliers who administer the FIT is high owing to the difficultly in predicting uptake. SSE believes that DECC should introduce a mechanism which removes this risk such as a cap on installations per year or an annual target payment to FIT generators per supplier; · SSE agrees with the proposal to significantly reduce tariffs, albeit not with the timing or mechanism for achieving this; · SSE disagrees with the proposed introduction and rates for multi-installation tariffs; · SSE agrees with the proposed energy efficiency requirement but thinks it should have been implemented when the uptake was high. SSE's preference of the two options presented is the second option of installing all eligible Green Deal measures.

Timing and management of the FIT reviews The Feed-in-Tariff has been successful at encouraging increased uptake in microgeneration, particularly solar PV, and has led to the development of a significant solar PV market and subsequent jobs by providing certainty on investment. SSE understands the rationale for a significant cut in tariffs to stay within allotted treasury budgets given the pressure on prices and the regressive effect that additional levies on bills have on vulnerable customers, who would generally not have the upfront capital to benefit from these schemes. This is particularly true of solar PV as it accounts for 97% of all installations under the feed-in-tariff scheme therefore needs to be revised to stay within this budget and allow access for the deployment of other technologies. However the multiple reviews of the scheme have added significant costs to business and damaged investor confidence by creating policy uncertainty in the micro-generation market and wider energy policy. SSE recommends that DECC reconsiders its review process to ensure that there is not a repeat situation where three amendment orders are published in a single year and an eligibility date for proposed new tariffs before the end of the consultation period. SSE believes that this could have been managed better by aligning with Government's Better Regulation principles1 to: · remove or simplify existing regulations that unnecessarily impede growth; · reduce the overall volume of new regulation by introducing regulation only as a last resort; · improve the quality of any remaining new regulation; and · move to less onerous and less bureaucratic enforcement regimes where inspections are targeted and risk-based. Government outlines that these are to be achieved by 'carefully assessing the impact of any new regulations,' and are supposed to 'complement, not complicate, the way people work'. SSE would argue that for the following reasons this latest announcement has failed to comply with this Better Regulation framework: 1. The timing and speed of this review, in particular the December eligibility date, is a major concern to companies of all sizes in the industry. SSE believes that a more suitable eligibility date for new tariff rates would have been the 1st April 2012. However SSE would suggest that if an earlier eligibility date is necessary then a January or February date would be more appropriate. This is to allow time to deal with the change whilst still benefiting from budgetary savings. Some flexibility in the budget for FITs should be sought to accommodate this. 2. It should be noted that the publication of this latest review has added a huge volume of additional work to teams that administer the Feed-in-Tariff.

1

Better Regulation principles: http://www.bis.gov.uk/policies/bre

This increase in work volume has also been seen by installers. This is likely to have had an impact on the safety of installations and the standards they have been installed at. This is due to installers trying to get as many sales in before the cut in tariff rates. SSE suggests that DECC should have handled this announcement in a way that would have enabled suppliers to deal more effectively with the changes and allowed a smoother transition process that would have helped across the board.

Despite this, SSE would like to acknowledge the Feed-in-Tariff team at DECC for assisting with queries we have had during the consultation period and for producing useful documents to aid communication of these changes to customers. These have included Q&A sheets for communicating with customers and the methodology for how DECC calculated the IRR. 1.3. Jobs Despite agreeing from a supplier's perspective that a significant cut in tariffs is required, there is a concern to SSE's contracting business that this has been too big of a cut too soon. There have been low levels of sales and enquiries for new solar PV installations since the consultation was released for those who would be unable to meet the 12th December eligibility date. The implementation of a cap would ensure businesses did not suffer from such a situation in the future.

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Analyst notes:

Tags:

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