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Answers for respondent BHLF-5RZX-WFYX-7

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Email address:

Contact address:

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Analyst notes:
Tags:
Organisation name:
    E.ON UK
Organisation type:
    Other
If other please specify:

Distribution
Confidentiality:
Yes
Reason for confidentiality :
In addition we have attached a confidential appendix to support our comments within the response on grandfathering rates for solar PV installations committed to before the publication of the consultation, which we were unable to complete within the timescales.
Analysed:
No
Analyst notes:
Tags:
Approved:
No
Analyst notes:
Tags:
Q1. Agree/Disagree:
Agree
Q1. Comments:
1. We are pragmatic about the need to significantly lower the tariff available for solar PV installations. The market has been very successful to date, with uptake significantly exceeding Government expectations. If the Government is to meet the spending review commitments then action is needed as the affordability of the scheme has clearly come under threat. 2. We agree that costs have come down since the launch of the scheme in April 2009, and that returns for some investors have been higher than expected. Businesses have been keen to invest in this industry because of the attractive returns it has provided. It was widely anticipated across industry that because the tariff has been attractive, it was only a matter of time before cuts were needed. We also recognise that Ministers are under pressure to take action in the light of rising energy bills. However, we are disappointed that cuts were not introduced earlier, in a more manageable way. 3. The speed at which the cuts are being made creates the greatest concern for us, as the ability to unwind from contracts is limited and it will leave many consumers both disappointed and disengaged with the concept of generating their own energy. We are concerned that this will not only have a negative impact on the future market for the FiT, but also future schemes such as the RHI and Green Deal. Tariff levels 4. Through different targeting and messaging, we believe a smaller solar PV market can exist. If a small market is to continue, then projects in the south of the UK should just remain economically viable at 21p. We expect a more limited market, where customers are not reliant on external financing from the bank. 5. That said, when the tariff is proposed to reduce further to 16.8p from the 1st April we do not envisage this model working at all for the ‘rent-a-roof’ model (including social housing schemes), and as such would ask that this remains at the 21p level. Please see our response to question 4 which sets out why rent-a-roof schemes should not receive a lower tariff. 6. Solar PV arrays above 10kW – 50kW could continue to be installed at the lower proposed tariff, especially if customers are not motivated only by financial returns, or reliant on external financing. As with the <4kW market (which is essentially the domestic market), we anticipate this will continue but at a significantly slower pace. 7. For installations above 50kW we have already seen sales decline significantly following the fast track review earlier this

year. However, it is still feasible some organisations will continue to invest in PV even at this low rate, perhaps to meet other energy efficiency standards and carbon

Q1. File upload:

No file uploaded

Q2. Agree/Disagree:

Agree

Q2. Comments:

8. We support the need for change, but we are disappointed this did not happen in a more manageable and controlled way. The timescale for the changes is unreasonable and left insufficient time to unwind from existing contracts, leaving companies open to significant liabilities with no or limited ability to manage this risk. 9. As a result of this unusual approach taken by Government with respect to the enforcement date under the consultation, the only rational option for developers to take is to treat 12th December as the cut-off date for PV installations no longer receiving the current tariff. The Government may have anticipated that prudent developers would have included appropriate change in law provisions in their contracts. However, the consequence of cutting off the current tariffs on 12th December before the final decision on future tariffs levels has been made is that those change in law provisions may have been rendered ineffective where they require the change in law to have come into force before the affected party can take action. We are currently in negotiations with one local authority who is unwilling to vary the agreement to recognise the particular circumstances and, as a result, we may be forced to continue to install post-12 December (which is unviable on this particular project) in order to avoid breach and termination. 10. This speed with which the existing tariff level will be removed has had a significant impact on the economics of our products and project proposals. As a result of the consultation we have already had to close down our domestic offering, this will have a negative impact on engaging consumers to undertake other renewable energy and low carbon measures. We have also invested heavily in our own recruitment and supply chain to support what we viewed as a growing market and much of this investment is now at risk. 11. We had intended to install solar panels on up to 10,000 social houses (18MW generation) in the pipeline and contracts were placed three months ago for the solar panels for 8MW of this when panel costs were higher than the prices we are starting to see in the market today. If the FiT cut were to progress to the timetable proposed, we estimate that this loss is between £2-£3 million in inventory costs as well as jeopardising some 425 local jobs and letting many customers down. 12. It is unacceptable to set a cut-off date which is before the end of the consultation period. We believe sufficient time should be provided for companies to unwind from existing contacts. 13. Government should consider grandfathering existing contracts at the current FiT rate, using the 31st October consultation publication date as the cut off point. We ask that Government provides this exemption for individuals and organisations that can demonstrate that they contracted for their PV panels before the consultation was announced, but are unable to have them installed before the rates change. 14. We also ask that Government commit to consult more closely with business on timelines as well as policy content for future changes. 15. Finally, we would also like to stress the importance of protecting the renewables industry over the long term. We are worried that the action taken by government to apply an early reference date will cause irreversible damage to the sector.

Q2. File upload:

No file uploaded

Q3. Agree/disagree:

Disagree

Q3. Comments:

16. No, please see the reasons as set out in response to question 2. 17. The timescale provided no time to complete all of our existing schemes in respect of which we already have contracts in place. As a result of the swift changes, we have had to reorganise our supply chain and that has required us, in some instances, to re-open agreements to negotiate new terms. Many of our suppliers and subcontractors, due to the spike in demand, are now requesting significant premiums to deliver and this threatens to exacerbate our losses. 18. There are a number of external factors beyond our control such as DNO approval timescales, stock lead times, mortgage lenders consent, legal cooling off periods and resourcing to complete programmes originally designed in some cases to take five months, which are constraining our ability to respond quickly to the changes proposed. As a result of these changes many of our social housing customers and domestic customer installations will not be completed. 19. The action taken by Government to cut the tariff only six weeks after their announcement has left us with a very significant stock liability. This is likely to affect our view of investment risk associated with other Government incentive schemes operating within defined budgets, so it is important that Government both manages the current FiT review in a way which is sensitive to business and customer perceptions and learns the lessons for other schemes. Many customers will feel let down by this abrupt withdrawal of funding levels and this may affect confidence in other similar schemes e.g. RHI or the Green Deal.

Q3. File upload:

No file uploaded

Q4. Agree/disagree:

Not Answered

Q4. Comments:

20. There are two quite different emerging propositions within the domestic solar PV market, “bought PV” (where the consumer buys the panels and receives the FIT payment), and “rent a roof” (where an MSG buys the panels and receives the FIT payment – a market created by tailoring the FiT regulations to allow re-allocation of the tariff). There are also examples of cases in the market where the FiT value and upfront capital outlay are split between an MSG and the end-consumer. 21. We strongly believe that there is a necessity to preserve both markets, each of which offers unique benefits. Ultimately, both “rent-a-roof” and “bought PV” contribute towards the UK’s 2020 renewable and carbon reduction targets, and Government’s aim to connect consumers with their energy consumption. Rent a roof can be very relevant to different customer segments, who cannot afford the capital outlay. 22. The current structure of the FiT allowed companies like E.ON to provide ‘rent a roof’ packages to enable customers to access energy savings which they otherwise would be unable to access. In the social housing sector this extends to some of the most deprived areas, helping to reduce tenants’ energy bills, provide energy efficiency advice and to fund training for locally unemployed people. 23. We particularly believe that the “rent-a-roof” model has a substantial role to play in engendering customer engagement, making solar PV visible and accessible to the wider mass market, including those customers who otherwise could not afford a system. 24. The rent a roof mechanism operating in the social housing sector means that a roof rental payment is offered to the registered social landlord and the energy savings are passed onto the tenant. The benefits of the Feed in Tariff are shared three ways. This is vital

in a sector which otherwise would not be served due to the lack of affordability of the technology for the tenant. 25. The level of additional cost incurred in setting up a rent-a-roof scheme and effectively servicing the end-customer is significant. Whilst overall in the solar PV market we have seen substantial improvements in prices of panels over the last 12 months, it must be noted that panels make up just one of a number of elements of the market price of a solar PV installation. Other considerations include inverter cost, labour cost, scaffolding, cost of sale, survey, design and conversion rates. Whilst MSGs may experience some economies of scale in comparison with an individual consumer, there are additional costs to be considered for MSGs, including financing costs, metering and monitoring and portfolio insurance. In addition MSGs do not benefit from the reduction in energy costs. All these factors should be a consideration when setting the tariff rate. 26. Further, when reviewing how to set the appropriate tariff, consideration should be given to the effect this indecisive action is having on the industry and impact to existing jobs. The solar industry employs thousands of people and a number of these will now be in jeopardy. If the tariff is set at the proposed low rate, Government could consider offer training grants or support to allow people to be retrained for what is coming under RHI and Green Deal to help the people they are forcing into redundancy now, and to mitigate the concerns of companies wanting to participate in the Green Deal on an ongoing basis. 27. Additionally, because the scheme has gained momentum it has also had a key role in influencing mortgage lenders and estate agents to value properties at a higher level because microgeneration has been installed. The awareness this has created, in part due to the renta- roof model, can act as a key driver of penetrating low carbon and renewable solutions in the future, which should be a benefit to other measures in the long term.

Q4. File upload:
No file uploaded

Q5. Agree/disagree:
Disagree

Q5. Comments:
28. We disagree with the proposed tariff for the reasons set out in response to question 4 above. We believe the tariff is too low and will close the market. We would like to see the 21p rate applied to all <4kW installations. Social Housing schemes 29. For social housing schemes an absolute minimum tariff of 21p is required to make some projects in the south of England work and for all other projects this would need to be closer to 25p. This difference is down to the different radiation levels which are 10-20% higher in the south of England. However, we support the 21p tariff because it is important that technologies are installed in the optimum locations. 30. We would suggest a voucher based scheme is introduced, at a tariff of 21p from 1st April, where the Local Authority or registered social landlord (RSL) bids for a proportion of the FiT budget for their local scheme. This allows a competitive market to remain and for costs to be better controlled as DECC would have greater sight over the number of schemes coming online. The tariff also ensures only the very best PV schemes are provided for.

Q5. File upload:
No file uploaded

Q6. Agree/disagree:
Not Answered

Q6. Comments:

31. We support the proposal to introduce energy efficiency measures in the future, but this should be basic insulation only, i.e. cavity and loft insulation. 32. Energy efficiency should be a key priority as it is the cheapest way to save carbon emissions and with the Green Deal launching in October 2012, this allows customers to undertake measures at no up front cost, making energy efficiency hopefully both accessible and affordable. We believe in an 'insulate, moderate, generate' approach to improving the UK's housing stock and non-domestic buildings. However, until we understand what will be incorporated in the Green Deal and how affordable measures will be to consumers, we are concerned that the minimum criteria proposed could be too stringent and unworkable. 33. We are of the view that the requirements should extend to all buildings, but Government must recognise that for non-domestic buildings there are significant challenges which must be considered before setting stringent minimum energy efficient requirements. 34. For non-domestic buildings there are a number of available efficiency measures, but the application of suitable measures is likely to vary from customer to customer as different businesses and building types will have different needs. We support a whole-building approach, combining the delivery of energy efficiency and renewable heat and electricity measures to provide the most efficient mix of measures for each property. However, in the non-domestic sector difficulties arise between the tenant and landlord ownership structure. These structures are often complex and need the approval of a number of parties before any work can commence. In addition some of the contractual arrangements can make it difficult for tenants to be charged for improvements, although they receive the benefits. This is to do with the way the service charge is calculated and paid. The difficulties arise if a Green Deal package is taken out whereby the tenant would be responsible for repaying the measures through the energy bill. Although this is perhaps more of a consideration for the Green Deal, it should also be a consideration here when setting the requirements, that obstacles are considered appropriately.

Q6. File upload:

No file uploaded

Dwellings:

Not Answered

Non-domestic buildings:

Not Answered

Q7. Comments:

35. For both dwellings and non-domestic buildings we have a number of reservations with the proposed approach. Concerns with requiring EPC level C or above option 36. Some properties may never be able to achieve EPC level C and will restrict the market by discriminating against older properties which would still benefit from having solar PV. 37. In addition, it is not clear how expensive it will be, or indeed what measures are required for potential FiT consumers to invest in bringing the property up to level C. This may not be affordable, even with the forthcoming Green Deal scheme. 38. We are also concerned that the SAP rating system of calculating the EPC rating is not of an adequate standard and could lead to confusion in the market. For example we are aware of customers requesting an EPC in the same week from two different companies and both organisations coming back with different EPC level ratings (and these were more than one level apart). We need the measurement to be consistent before this policy can be implemented. 39. We suggest this option is discounted immediately. Concerns with a Green Deal led option 40. The Green Deal is not expected to be launched until late 2012. It is not reasonable to base the

efficiency criteria on a scheme due to be launched, at a minimum, six months after the criteria has been introduced. The Renewable Heat Incentive Premium Payment scheme (RHPP) has seen a sluggish uptake because customers are unwilling to invest in expensive technology where it is not clear what the eligibility criteria will be to access the full RHI programme once launched. The same is likely to be true in this case as customers will not invest in solar PV if it is not clear upfront what the investment criteria is. 41. Eligible measures under the Green Deal are still being consulted upon and without this clarity it is difficult to truly judge this option. What we do know is that it is likely to include big capital measures such as solid wall insulation (SWI) or potentially even a new condensing gas boiler. Requiring customers to replace their existing boiler before considering solar PV is very restrictive, plus may be to the detriment of the RHI also expected to be launched for domestic customers next year. 42. This option recommends that all Green Deal measures should be installed which may create a further issue in that certain measures, mainly those needing warranties and guarantees, may not be economical for Green Deal Providers (GDP) to install in the initial years of Green Deal and may not be readily available even if they are a recommended measure. Therefore a customer may find themselves in the position of having to install an approved Green Deal measure but not being able to find a GDP in their area to do it. In addition, there may also be long lead times due to the scheme being new and processes being bedded in, which will make it harder to meet the criteria requirements. 43. Customers may not wish to undertake intrusive measures no matter how affordable, so rather than having a positive effect of creating demand for the Green Deal alongside the FiT, it may have the opposite effect, deterring customers from any scheme. Making the decision process too complex will also deter customers from taking decisions to invest in microgeneration. 44. There is a risk that customer demand for the Green Deal may be low because customers are not keen to take on green deal debt, or because financially the Green Deal is not affordable (it is unable to attract low cost finance and meeting the golden rule is too difficult). If uptake is slow (in terms of the number of GDPs entering the market) customers installing solar PV in April-June 2012 may not be able to install the measures via the Green Deal within the year as GDPs may not be in place for the first few months. It would leave those installing at the market's mercy, a risk which the customer has not control or protection over, but one which will have severe financial penalties. Whilst we hope this is not the case, we do not believe that all other government policies should rest on the success of this one scheme. What do we propose? 45. Until we know how successful the Green Deal is, we believe that customers should only be required to undertake basic energy efficiency measures, for example loft and cavity wall insulation, heating controls.

Q7. File upload:

No file uploaded

Q8. Agree/disagree:

Disagree

Q8. Comments:

46. No. We understand that Government wishes to reduce the demand for solar PV by requiring customers to tackle the fabric of the building first, but an EPC level is not fair assessment. Some properties are unable to meet the criteria and we are also concerned that the methodology for calculating the EPC level is not fit for purpose and therefore cannot be relied upon.

Q8. File upload:

No file uploaded

Q9. Agree/disagree:

Disagree

Q9. Comments:

47. Aside from the potential confusion this creates for the customer, a transitional period would create a significant burden to energy suppliers processing the FiT payments. Suppliers would need to chase customers to find out if the measures had been installed and they would need to remind the customer in good time to install the measures so customers are not left with only a couple of weeks to install measures (otherwise suppliers will be at risk of further unhappy phone calls). It is not clear whether the anniversary is the final date and if this is missed the customer remains on the lower tariff for the lifetime of the measure, or if the customer subsequently complies after the cut off date, whether they are eligible to claim the higher rate again. Switching between rates makes it more complicated from an audit perspective and the suppliers would have to pro-rata payments between tariff rates. 48. In addition suppliers would also need proof measures were installed which will mean the need to obtain a receipt of the measures installed, as well as the updated EPC. Both would be required in order to reduce the chance of fraud.

Q9. File upload:

No file uploaded

Q10. agree/disagree:

Disagree

Q10. Comments:

49. No, please see comments to question 8 and 9.

Q10. File upload:

No file uploaded

Q10. Comments:

Appendix A: Confidential Feed-in-Tariff As set out in our response, E.ON had committed to a number of contracts before the consultation was published that, due to the short timescales for implementing the change to the FiT, we were unable to honour. We believe Government should allow us to complete these installations at pre- December 12th 2011 rates. We believe this should apply to all contracts entered into before the consultation was published, to limit installers' financial exposure and customer disappointment. Our initial analysis indicates that we were unable to meet our commitments by around 4,500 installations. These installations were all <4kW. We urge Government to consider grandfathering these contracts at the higher rate. If Government believes this may be possible we can provide a firmer view on our outstanding installations.

Q10. File upload:

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General comments:

50. As commented upon in questions 7-10, Government needs to consider: The non-domestic landlord / tenant ownership and service charge issues that create hurdles in undertaking energy efficiency measures in the commercial sector. The reliability of EPC data. There is currently a lack of consistency with the calculation method which would need to be resolved before it can be relied upon in this manner. Green Deal measures are yet to be defined. The customer will want to be able to assess situation fully before committing themselves. Asking customers to sign up to completing all measures financeable under the Green Deal without being clear what this commitment will entail may not only deter people from the FiT market but may also not have the desired effect of creating demand for the Green Deal. The launch of the Green Deal

framework does not guarantee a Green Deal market form day one Some properties are unable to reach level C rating and is an unrealistic ask, discriminating against some bill payers.

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Analyst notes:

Tags:

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