



Has the Government put the solar sector back in the shadows?

Executive summary

This article considers the likely impact of the Government's consultation into the subsidies that are currently received by both individuals and companies who have installed solar panels or solar photovoltaics, as they are officially known (Solar PVs).

The Government's consultation suggests a reduction in the subsidy of over 50% in some cases; this is likely to result in a reduction in demand for Solar PVs affecting the entire industry from manufacturers to developers. We think that this is likely to result in an increase in firms becoming insolvent in the sector.

The consultation is currently being challenged in the High Court and we expect the result shortly.

Introduction

Over the last few years investors, including the Dragons from BBC2's Dragons Den, have been investing left, right and centre in Solar PV firms.

As many of you will be aware the Government has committed to a reduction in the country's use of traditional sources of energy. As part of this initiative, and to promote the use of sources of renewable energy, the government introduced what amounted to a subsidy for those people who decided to install Solar PVs. This was called the Feed-in Tariff (FIT) and consisted of effectively two separate benefits; the first is that the owner of the Solar PVs would receive money for every kilowatt/hour that was produced by those Solar PVs (Generation Tariff), the homeowner could then use the electricity produced rather than using and paying for power from the grid in the usual way.

If the solar panels produced more than the homeowner needed then the excess could be exported onto the grid and the homeowner receives a price for this electricity (Export Tariff). The government's stated aim was that this was aimed at making Solar PVs more attractive to individual homeowners.

What the government had not predicted was that the cost of Solar PVs would reduce so dramatically as technology has improved and that the uptake of the FIT would be so large. Some sources have quoted that costs have reduced by 30% or more while the FITs have remained unchanged and therefore the Solar PVs looked very attractive to both individuals and developers. The sector has blossomed and the companies that manufacture and install the Solar PVs have seen a huge growth in demand.

Since the introduction of the FIT we have also seen the growth of companies (Multi-installation Companies) that provides Solar PVs, cheaply or even free of charge, to homeowners and allow them to use the electricity and receive the Export Tariff whilst the Multi-installation Company receives the Generation Tariff from each of the Solar PVs that they have installed.

Consultation?

On the 31 October 2011 the government released 'Feed-in tariff scheme: consultation on Comprehensive Review Phase 1 – tariffs for solar PV', the catchy title for its consultation on its proposal to, among other things, significantly reduce the Generation Tariff and to introduce a new multi-installation tariff for aggregated Solar PV projects or Multi-Installation Companies as they are otherwise known.

The consultation closes on 23 December 2011.

Below is a table setting out the proposed changes to the generation tariffs:

BAND (Kw)	Current generation tariff (p/kWh)	Proposed generation tariff (p/kWh)	New Multi-Installation generation tariff (p/kWh)
4kW (new build)	37.8	21.0	16.8
4kW (retrofit)	43.3	21.0	16.8
>4-10kW	37.8	16.8	13.4
>10-50kW	32.9	15.2	12.2
>50-100kW	19	12.9	10.3
>100-150kW	19	12.9	10.3
>150-250kW	15	12.9	10.3
>250kW-5MW	8.5	8.5*	8.5**
Stand Alone	8.5	8.5*	8.5**

* Note that these are the current tariffs which the Government is not proposing changing and which, like all other current tariffs, will be adjusted in line with the Retail Price Index from 1 April 2012.

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The consultation proposes that these revised tariffs will apply from 1 April 2012 to all new Solar PV projects with an eligibility date (the date from which an installation's eligibility for FIT payments commences) on or after 12 December 2012.

As you can see the consultation is proposing huge reductions in the Generation Tariff. It should be noted that the tariffs for very large developments remain unchanged, this is generally considered to be because the rates were set so low originally.

This consultation has been met with huge opposition from the sector and at the time of writing there are reports of a legal challenge of the consultation itself.

Impact

Many Solar PV companies have been reaping the rewards from low costs and high tariffs. Inevitably these companies' financial models are likely to be based around the current FITs. The speed at which the consultation is proposing to change the Generation Tariffs is likely to cause lots of smaller companies in the sector; a problem as they will need to adapt their business and financial model within a very short amount of time.

It is our opinion that Solar PV manufacturers are likely to be hardest hit if the government's proposals are implemented. Reports state that since the consultation was published they have experienced a surge in demand as developers and individuals alike try and rush through their projects to ensure that they are completed on or by the 11 December 2011. We believe that the problems will arise when this surge diminishes as individuals are likely to be put off by what they see as an uncertain market and uncertain returns on their investment. Developers meanwhile will have to look at their portfolio of future projects and decide whether to continue with them in what is sure to be a marketplace where financing is going to be harder to come by. From the developers' point of view, if they decide not to pursue some or all of their intended projects, they are in all likelihood only going to lose their investment in early development of the site; very few will have invested in Solar PVs until financing has been confirmed.

As this change does not affect Solar PVs that are already installed, multi-installation companies will be able to maintain their income from the Generation Tariff of the installations they have installed by midnight on the 11 December 2011. It will however affect their business model going forward and it may well put pay to any ideas of expansion.

Stand alone and sites in the 250kW-5MW bands are unaffected by this consultation as they had already been reduced following a separate consultation. The consultation specifically under review here also refers to further tariff reductions happening in the future if this does happen the sector is likely to suffer even further. This continual shifting of the goal posts will harm the sector as it leads to uncertainty which is likely to put potential investors off.

Conclusion

It should be noted that at this stage, all of the points we have made above are conjecture on the proposals in the consultation being fully accepted. In our opinion, despite the large amounts of opposition to the proposals they are, on the whole, likely to be adopted as the Government looks for cost saving measures and is unwilling to continue to pass what is seen as the excessive cost of the FIT subsidy to consumers of electricity from other sources.

Due to higher profit margins and a reduction in demand, manufacturing and small development businesses are likely to find things very difficult from the date of the consultation and we believe we will see a slow down in this sector and a greater risk of insolvencies as a result. The firms that will survive will be the firms that are most able to swiftly adapt their business and their business strategy to the new market conditions.

No matter what the result of the recent legal challenge to the consultation, a lot of damage has already been done to the Solar PV market and the uncertain regulatory framework that now exists is going to further harm the chances of future investment in the sector.

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