



Securing jobs and investment

A more progressive reform of the Feed-in Tariff

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1. Introduction

“By enabling people to generate their own electricity, we are literally giving them more power over their own lives. This really is power to the people.”

David Cameron launching the "Power to the People: The Decentralised Energy Revolution"
Green paper, December 2007

The Feed in Tariff (FIT) has been a huge success. It has enabled hundreds of thousands of homes, communities and businesses to generate their own energy. It has also, remarkably, led to the price of solar power tumbling to a point where it is close to competing without subsidy.

The government is now proposing dramatic cuts in a review of the FIT that risks bringing this success story to a halt. These cuts will save the average household £6 per year on its energy bill by 2020/21¹ - equivalent to 0.4 per cent of the average £1,369 family dual fuel bill - whereas fossil fuel subsidies currently cost every person in the UK £400 per year². The government's Impact Assessment notes that jobs will be lost³ as a direct result of the proposals. Communities, schools and businesses up and down the country will also be prevented from generating their own energy.

The government is right to target a subsidy-free renewable energy sector. However the proposed 87 per cent cut in support for small-scale renewable energy, combined with tough caps on total amount of projects, will be devastating to the industry. If we are to reach a stage where subsidy-free renewable energy is a reality then a more steady reduction in support is necessary.

To inform this debate and the Review of the FIT, Regen SW has set out below evidence of the actual cost to consumers of renewable energy subsidies and the economic and employment benefits generated in return. The briefing concludes with recommendations for the FIT Review that would allow millions of households and businesses to benefit from low carbon energy and stable bills without the need for public subsidy.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456633/IA_for_FITs_consultation_August_2015_-_FINAL_docx_e-signature_included_.pdf

² Fossil fuel subsidies cost every person £400, The Times, 5th August 2015

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456633/IA_for_FITs_consultation_August_2015_-_FINAL_docx_e-signature_included_.pdf

2. Changes to the FIT puts jobs and new business opportunities at risk...

The FIT has been successful in helping to establish a renewable energy industry that now employs an estimated 112,000 people⁴. The FIT has also played an important role in helping the UK's low carbon energy sector attract more than £42 billion worth of new investment over the past four years. Such is the scale of its success that investment in renewable energy has been equivalent to the total growth in private sector investment over the last four years⁵.

The growth of the sector and the declining cost of renewable energy has enabled the government to reduce FIT subsidies for household solar panels from 43.3p/kWh⁶ in 2011 to 13p/kWh now. However, under the government's proposal that support would be cut to just 1.63p/kWh⁷ for small-scale renewable energy from January 2016 - a reduction of 87 per cent.

The £6 per year that this will save the average household on their energy bill in 2020/21 is based on a comparison with a 'do nothing' scenario where subsidies are maintained at their current rate. The renewable energy sector is not, and has not, advocated for the status quo. Reductions in subsidies are needed and justified. However with a more gradual reduction in support it would be possible to deliver subsidy-free renewable energy during this Parliament. Once subsidy free no further costs will be added to consumers' energy bills - however future investment opportunities and the potential to create thousands of new jobs and businesses will be secured.

In addition to cuts in subsidies the government is proposing to introduce a deployment cap. Current deployment is an average of 500 per cent higher than the cap the government is proposing. This would lead to a devastating loss of jobs in renewable energy. According to DECC there were 2,800 jobs in the south west 2013 in solar PV¹⁰. We calculate the proposed cap to FiT rates would reduce quarterly deployment of solar PV in the south west from approximately 20 MW to 4MW. This could lead to 2,200 less jobs in the south west alone and over 27,000 jobs lost nationally in solar alone – and more in other technologies.

3. ...whilst exposing households to volatile fossil fuel prices

The government argues that cuts in renewable energy subsidies are necessary to deliver value for money to the consumer. However the £6 per year the average household will save in return for devastating the renewable energy sector, is considerably less than the £400 per year fossil fuel subsidies currently cost each person in the UK⁸ and less than the £14⁹ that will be added to the

⁴ <http://www.businessgreen.com/bg/news/2406555/green-energy-jobs-surge-leaves-uk-economy-in-its-wake>

⁵ <http://greenallianceblog.org.uk/2015/07/07/low-carbon-infrastructure-is-vital-to-uk-investment-ambitions/>

⁶ POSTNOTE Number 398, January 2012

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/458660/Consultation_on_a_review_of_the_Feed-in_Tariffs_scheme.pdf

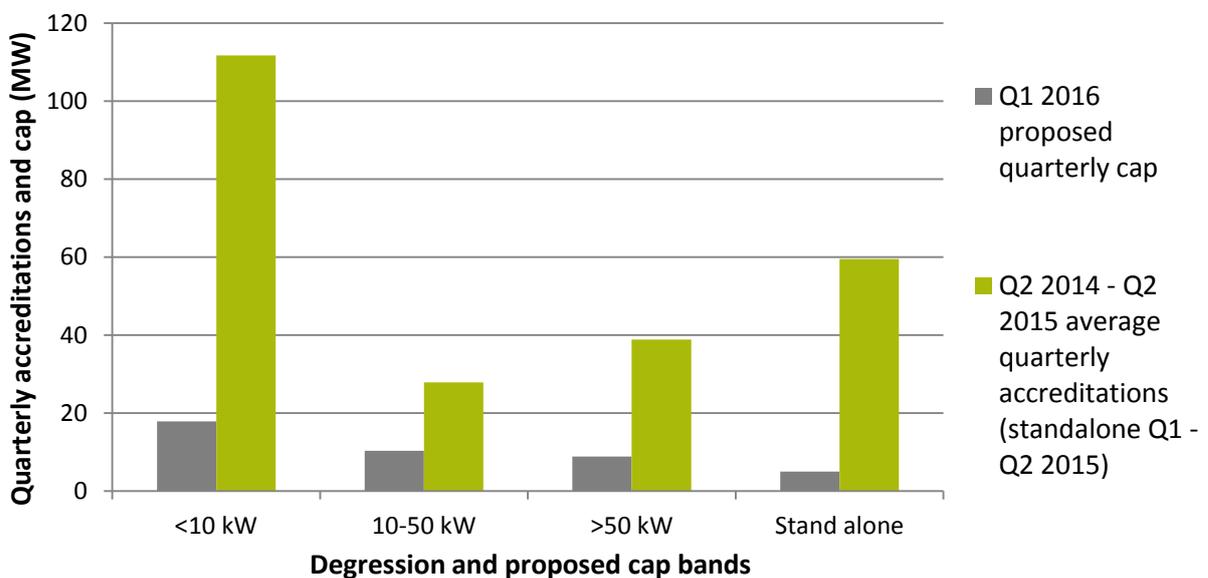
⁸ Fossil fuel subsidies cost every person £400, The Times, 5th August 2015

average bill from subsidies for the Hinkley Point power station. Not to mention the annual £79 per household cost of dealing with the UK's nuclear waste – a cost that makes up 65% of DECC’s annual budget¹⁰.

Slinging out renewable energy subsidies as the cause of rising energy bills is misleading. The Committee on Climate Change recently concluded “the annual energy bill increased by 75% in nominal terms from £650 in 2004 to £1,140 in 2013 for the typical dual-fuel household. Of the £490 increase, around 80% was associated with rising costs of wholesale energy and system costs and therefore unrelated to low carbon policy”¹¹. The FIT itself was responsible for just £9, or 1%, of the average £1,369 annual family dual fuel bill¹² in 2014.

Globally, the fossil fuel sector currently receives subsidies of \$5.3 trillion a year, more than the total health spending of all the world’s governments¹³. Exposure to volatile fossil fuel prices is one of the primary challenges for consumers. Renewable energy helps to stabilise energy bills as its costs are fixed.

Average quarterly solar FIT accreditations¹⁴ against new quarterly cap by degression bands



⁹ <http://www.greenpeace.org.uk/newsdesk/energy/analysis/comment-why-hinkley-bad-deal-uk-consumer>
¹⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/419024/DECC_LowCarbonEnergyReport.pdf
¹¹ <http://www.nda.gov.uk/what-we-do/>
¹² <https://www.theccc.org.uk/wp-content/uploads/2014/12/Energy-Prices-and-Bills-report-v11-WEB.pdf>
¹³ <https://www.gov.uk/policy-impacts-on-prices-and-bills>
¹⁴ <http://www.theguardian.com/environment/2015/may/18/fossil-fuel-companies-getting-10m-a-minute-in-subsidies-says-imf>
¹⁵ <https://www.gov.uk/government/statistical-data-sets/monthly-mcs-and-roofit-statistics>
¹⁶ <https://www.gov.uk/government/statistical-data-sets/monthly-mcs-and-roofit-statistics>

4. Opportunities for local communities could be lost



Because of the FIT communities up and down the country have had the opportunity to harness their own natural energy resources, helping to reduce and localise energy spend, tackle fuel poverty and generate an income to re-invest in the local area. In the south west alone there are over 250 community groups generating enough energy to power 2,300 typical homes a year.

Regen SW has, for example, worked to support Mole Valley Farmers, a farmer owned business, whose members' renewable energy projects have generated an estimated income of £90 million into the rural economy. These projects have helped to diversify the incomes of the region's farmers and boosted the local economy.

"Through two highly successful community share offers, we have raised nearly £1.5 million in community investment, resulting in 29 schools and community buildings benefiting from free solar PV, with more to come. None of what we have achieved would have been possible without renewable energy support systems. In the future solar will no doubt be free from direct support, but we need a stable pathway to get there."

Alistair Macpherson, CEO of Plymouth Energy Community

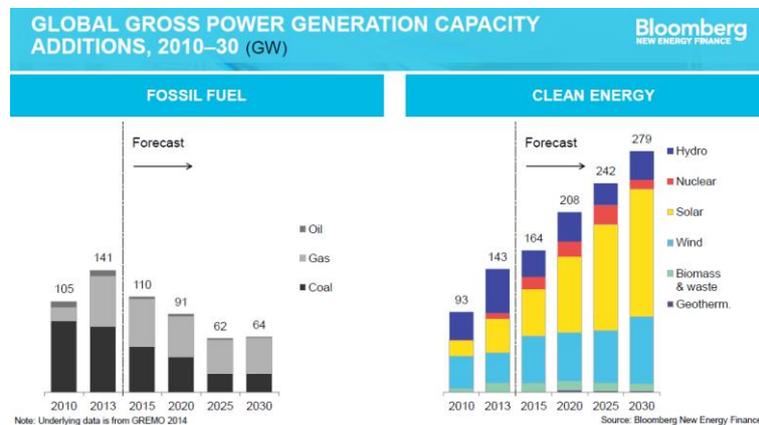
"Bude Community Power was formally established in April 2015 and has identified a potential portfolio of solar PV projects of at least

800kW capacity. Recent and proposed government policy changes make it far less likely that we will be able to establish and develop our portfolio. Our aim is develop a better energy future but the changes are undermining our efforts."

Fred Barker, Bude Energy Community

5. Jobs and stable energy bills - completing the transition to zero-subsidy

In 2013, for the first time, more renewable energy capacity was added across the world than fossil fuel. Bloomberg predict that 70 per cent of all investment in new energy globally will be in renewables between now and 2030.



A key question should be how to ensure this growth in investment generates UK jobs and delivers benefits to UK communities. Instead the proposals in the FIT Review could see this global revolution bypass the UK.

Investment in the future of our energy supplies is essential. The question is where to place that investment. That debate needs an honest assessment of the costs and benefits of different types of energy.

Regen SW urges legislators to consider how the government can most cost-effectively deliver affordable energy and a subsidy-free renewable energy sector without jeopardising the future of a flourishing industry and causing the loss of thousands of jobs.

The starting point must be adoption of the following principles. These measures will increase confidence in the renewable energy sector - leading to stability, further cost reductions, cheaper cost of capital and the ability to drive the industry towards a zero subsidy future.

a. Adjust the FIT in line with falling costs to target zero subsidy within an appropriate timescale.

The industry supports a reduction in subsidies as costs come down. Any reduction in the feed-in

tariff should reflect falling costs and maintain the transition to zero subsidy, whilst also reflecting the development timescales of different technologies

- b. Do not introduce quarterly caps on FIT expenditure** which will create an unsustainable boom and bust cycle for the renewables sector.
- c. Allow community energy groups to retain pre-accreditation under the FIT** to reflect the extra time it takes for a community organisation to raise finance for renewable projects
- d. Introduce measures to ensure communities are not adversely impacted by any proposed changes to the FIT.** Community energy has the potential to deliver significant new investment, new jobs and energy security to hundreds of local communities in the UK. The FIT review must include measures to ensure communities can continue to harness renewable resources for the benefit of the local area
- e. Ensure changes are introduced so that the industry has sufficient time to adjust,** providing stability and maintaining investor confidence