The Whitehouse Consultancy

SOLAR ENERGY UK

Policy Insight Partner to Solar Energy UK 2015

Briefing Paper – October 2015

The Whitehouse View

Many within the energy & environment sector would have sat nervously watching the election results in May, fearing that a new Conservative majority government could herald instability for the industry. Whilst the decisive nature of the outcome was widely unexpected, the speed at which the Conservatives have pursued radical reform has stunned many within the green economy.

A number of key measures have been announced, including:

- Support for onshore wind under the renewables obligation (RO) to end on 1 April 2016
- Proposed cuts to the feed-in tariff of up to 87 per cent
- Proposed changes to close the RO for solar projects under 5MW from 1 April 2016, with a reduced level of support for projects seeking eligibility up to that date
- Removal of the Climate Change levy exemption for renewable providers
- Removal of pre-accreditation for feed-in tariff from 1 October 2015
- Privatisation of the Green Investment Bank
- An end to 'grandfathering' for biomass conversions and co-firing projects
- Scrapping the 'zero carbon' 2016 target for new homes

Method in the madness?

The Government has justified the announcements on the grounds of affordability – suggesting that the severity of the cuts is warranted due to the projected overspend of the levy control framework (LCF) – in which subsidies for low-carbon electricity generation are paid for through additions to consumer bills. Analysis by the Department for Energy and Climate Change (DECC) has found that actual spending under the LCF will exceed £9.1bn by 2020-21. This represents a 20 per cent overspend, compared to the budget of £7.6bn. Analysts have suggested that the majority of the overspend can be attributed to the exponential uptake of the small-scale feed-in tariff for solar PV, which has largely met, or is likely to meet, its objectives well ahead of schedule. However rather than celebrating the success of the scheme, the Government is looking to wind the programme down in a bid to protect consumers. Energy and Climate Change Secretary Amber Rudd has consistently stated that the emphasis must be on keeping bills "as low as possible" for families and businesses.

The actual benefit to consumers from the announcements remains a moot point. Removing the subsidies is likely to result in only a £6 annual saving on the average household energy bill, but the regressive nature of the levy means that those with the lowest incomes are set to benefit the most. However, withdrawing support for solar PV and onshore wind – two of the cheapest technologies – is ironically likely to lead to higher costs to consumers in the long-run if the UK is to meet its decarbonisation objectives.

Looking ahead, Whitehouse anticipate there will be renewed pressure to allocate capacity to solar and onshore wind in future CfD rounds, provided they go ahead. The competitive nature of the auctions will give Conservative ministers firmer political footing for such a move, allowing them to advocate these technologies as the most cost-effective route to decarbonisation. This is a compelling line of argument that may prove profitable for the industry if persevered with.

Building bridges

Looking ahead, DECC will face challenges in repairing their relationship with the renewables industry and boosting investor confidence jilted by this summer's announcements. Indeed it was the manner of the announcements that has caused much of the anger across the industry. The Department faced criticism from MPs, businesses and environmental campaigners after choosing to reveal the majority of their proposals two days after the House of Commons had risen for the long summer recess – preventing significant Parliamentary scrutiny.

The Government also faces a challenge in persuading stakeholders that it considers energy policy an area of strategic importance. Policies in this area were conspicuous by their absence in the Conservative election manifesto and by appointing only two full-time Ministers the indication is that DECC may find itself relegated to the bottom tier of Government.

Despite the COP21 Climate Conference in Paris now only a few weeks away, there is also little to suggest that the low-carbon economy will receive a significant boost to coincide with the summit. One green shoot is the speculation that Rudd is preparing to announce the phase out of coal-fired power by 2023.

An uncertain future

Whitehouse anticipates that the policy tinkering seen over the summer is likely to continue. The Conservatives have placed liberalisation, privatisation and competition at the heart of their energy strategy moving forward, but are increasingly finding that they must intervene to get the type of system they want. It is a safe bet to assume that the UK will continue to strengthen its position as the global leader in offshore wind, but much else remains uncertain. Delays to the planned next round of the Contracts for Difference auction has created nervousness, as has the decision to axe energy efficiency measures without lining up a clear replacement. With news on the future of CfD auctions and the funding of the LCF expected before December, the industry will be seeking assurances as it looks to place itself at the forefront of unsubsidised renewables in Europe.

Amid the uncertainty on renewables, the future of nuclear power in the UK also remains somewhat unclear. The Government are determined to see new capacity coming online – with extraordinary efforts to push through a deal on Hinkley Point C, including soliciting the Chinese for investment after a string of European companies pulled out. With Xi Jingping due to confirm the finance during his state visit to the UK, it appears to be a done deal. Yet the enormous delays to building identical reactor designs in Finland and France suggests that the debate on the role of nuclear in our future energy mix will continue long into this Parliament.

Despite a lower-than expected clearing price in January's auction, there is scepticism about the future of the Capacity Market – with detractors suggesting it is skewed in favour of existing fossil-fuel generating capacity rather than demand-side response or other cleaner technology. The revelation that the independent gas plant planned at Trafford has not been able to secure the necessary financial backing will cast further doubt over the future of the scheme, as well as raising fresh concerns about the UK's generation portfolio if investment in new-gas fired plants fails to deliver. The inclusion of interconnections in the upcoming auction is a positive step that should drive increased competition, but Whitehouse expects significant changes for this aspect of EMR further down the track.

Opportunities ahead?

In spite of the challenging environment, there still remain a number of opportunities for the beleaguered renewables industry. The new National Infrastructure Commission, to be chaired by former Transport Secretary Lord Adonis, will make energy systems a priority, with an emphasis on accelerating large scale power storage, demand management and interconnection. Decentralised energy, particularly on commercial rooftops, also looks promising, and we expect the Government to incentivise growth through reform to business rates at a local level.

As we enter a critical period in the development of the UK renewables sector, engagement will be increasingly important as the industry looks to influence policy in a more favourable direction over the course of this Parliament.

The Whitehouse Consultancy is a leading public affairs, political communications and media relations agency with a speciality in renewable energy and environment policy.

To discuss how we might help your organisation meet its goals, please contact:

Robert Ede Consultant in Energy and the Environment:
Robert.Ede@whitehouseconsulting.co.uk
+44 (0)20 7061 6243