Briefing Note: impending changes to renewables subsidies for new UK Solar PV projects

DECC has announced consultation on proposals to bring forward the closure of the Renewables Obligation scheme ("the RO") for smaller solar schemes (5MW and under[1]) by 12 months to March 2016. Similar steps have already been taken for onshore wind. Large scale solar was closed to the RO in March 2015.

DECC is taking action to keep expenditure within budget. Expenditure limits for the Feed in Tariff ("FiT"), RO and the replacement Contract for Difference ("CfD") support mechanisms are set out within the Levy Control Framework, which was brought in by the Coalition government. DECC routinely forecasts expenditure against this budgetary limit and is modelling an estimated overspend of £1.5bn on a limit of £7.6bn to 2020/21 (in 2011/12 money). Of this, DECC estimates that £700m has arisen from updating power price forecasts which has increased the cost of CfDs.

In our experience, ground mounted solar is amongst the quickest of the renewables technologies to get deployed and the 2015 ROC subsidy for 5MW and under solar was attractive to developers. It was therefore logical that DECC would take action to bring this to a close early, as they forewarned when they introduced the early closure for large scale solar in 2014 should meeting the budget be in jeopardy.

There is no impact on operational projects. Furthermore, DECC has reiterated its commitment to protecting existing investments. DECC's actions are also protecting development projects where significant expenditure[2] commitments have been made, both here and on the previous early RO closures for onshore wind and large solar. This does not protect all developer expenditure, but there is, in our view, a clear line between such early development expenditure and the subsequent capital expenditure incurred in building plant or investment expenditure incurred in acquiring built projects.

It is also proposed that grandfathering status will not be given to new solar PV projects of 5MW and below that are not accredited under the RO unless the "significant expenditure" test has been met. This means such projects could not be sure of receiving the subsidy for the full 20 years. This will discourage a last minute rush to push more projects into planning for build out by 31 March 2016 (following similar activity for large projects leading up to 31 March 2015), as this distinct pool of projects is unattractive for investors. Crucially, projects where significant expenditure has been incurred will still be grandfathered. We note again that DECC in conversations is reiterating its commitment to the grandfathering of the RO for existing wind and solar projects and that the action it is taking is consistent with this.

UK Pipeline not materially changed. We have not been anticipating material further UK solar deal flow following the cessation of large scale solar. Smaller UK solar will continue to get developed under the grace periods over the next 12 or so months. Sub 5MW solar also qualifies for the FiT scheme, the accreditation for which is under review. So we continue to expect solar deal flow to be limited within the UK until solar is better able to compete with alternative technologies.

In onshore wind, for the same affordability reasons as well as the Government's reluctance to see onshore wind development, we do not anticipate material allocations from the second CfD round. However, we see significant deal flow arising for several years from projects already built and under construction plus those under the first CfD round. Thereafter, we predict projects able to compete on a subsidy-free basis coming to market via future rounds within the CfD mechanism, as outlined recently by the Committee on Climate Change[3] ("CCC").

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[1] For reference, as a "rule of thumb", 5MW of solar may have an enterprise value of about £5m and require 25 acres of land.
[2] Broadly defined as acceptance of grid offer, interest in land secured and planning application made.
[3] The CCC says the current low cost of onshore wind at £80/MWh shows it can be subsidy free by 2020, matching the cost of new gas.