



Department  
of Energy &  
Climate Change

# Consultation on changes to financial support for solar PV

Controlling spending on solar PV projects of 5MW  
and below within the Renewables Obligation

22 July 2015

The consultation and Impact Assessment can be found on DECC's website:

<https://www.gov.uk/government/consultations/Changes-to-financial-support-for-solar-PV>

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# General information

## **Purpose of this consultation:**

This consultation proposes action to control the costs of new solar PV projects of 5MW and below accrediting under the Renewables Obligation. We are seeking a broad range of input from industry and from consumers.

**Issued:** 22 July 2015

**Respond by:** 2 September 2015

## **Enquiries to:**

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Department of Energy & Climate Change,  
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London, SW1A 2AW  
Email: [SolarPV.Consultation@decc.gsi.gov.uk](mailto:SolarPV.Consultation@decc.gsi.gov.uk)

Consultation reference: URN 15D/363

## **Territorial extent:**

Great Britain: England, Wales and Scotland. Grandfathering policy in Scotland is a matter for the Scottish Government.

## **How to respond:**

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Responses should be emailed to: [SolarPV.Consultation@decc.gsi.gov.uk](mailto:SolarPV.Consultation@decc.gsi.gov.uk)

## **Additional copies:**

You may make copies of this document without seeking permission. An electronic version can be found at: <https://www.gov.uk/government/consultations/Changes-to-financial-support-for-solar-PV>

## **Confidentiality and data protection:**

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we

cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

**Quality assurance:**

This consultation is being carried out in accordance with the Government's consultation principles, which can be found here: <https://www.gov.uk/government/publications/consultation-principles-guidance>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator

3 Whitehall Place

London SW1A 2AW

Email: [consultation.coordinator@decc.gsi.gov.uk](mailto:consultation.coordinator@decc.gsi.gov.uk)

# Executive Summary

## Introduction

1. Solar PV is an important part of the UK's energy portfolio. The sector has seen very strong growth in recent years, due to support from the Feed-in Tariff (FIT) scheme and the Renewables Obligation (RO), as well as from costs coming down rapidly as a result of global developments. The Government is committed to meeting objectives on cutting carbon emissions and to continue to make progress towards the UK's 2020 renewable energy targets.
2. The Government's plans for meeting the renewables target include an ambition for at least 30% of electricity demand to be met by renewable sources. We are currently on track to meet this aim.
3. Expenditure on policies to support renewable and low carbon electricity generation is governed by the Levy Control Framework (LCF), covering the period up to 2020/21. The LCF allows Government to control public expenditure paid for through consumers' energy bills, and reflects the importance Government places both on keeping bills affordable and supporting renewable and low carbon electricity generation.
4. Through the LCF we have provided significant financial support to the renewable sector, helping new and innovative technologies while increasing the amount of low-carbon electricity that powers homes and businesses across the UK.
5. However, in real terms (2011/12 prices) current LCF forecasts are equivalent to an increase from £7.6bn to £9.1bn in 2020/21.<sup>1</sup> It is therefore necessary for DECC to take action to control costs. It should be noted that this represents the Department's current best assessment of future expenditure which is based on commercial intelligence of potential renewables deployment, and DECC's modelling outputs drawing on its latest projections of electricity demand and fossil fuel prices. The future is inherently uncertain and no model is able to forecast the future perfectly. This is particularly true when models seek to understand novel and/or complex areas.
6. When the closure of the RO to large-scale solar PV was confirmed DECC made clear that we would continue to monitor the deployment pipeline of solar PV projects of 5MW and below, and consider taking measures if necessary. Our monitoring indicates that solar PV deployment is likely to be significantly greater than previously anticipated. The level of deployment in response to support provided has driven down the generation costs of solar PV significantly and these are continuing to fall, making it easier in our view for the industry to succeed without support and suggesting that future projects could be overcompensated at current levels of support. This consultation document puts forwards proposals to revise the support provided through the LCF to reflect these changes.

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<sup>1</sup> <http://budgetresponsibility.org.uk/economic-fiscal-outlook-july-2015/>

7. Specifically, we are proposing the early closure of the RO across Great Britain to new solar PV projects of 5MW and below. This would apply from 1 April 2016, both to new stations and to additional capacity added to existing accredited stations up to 5MW total installed capacity. We also propose removing grandfathering for solar PV projects of 5MW and below that are not accredited under the RO as of the date of this consultation (this would apply to projects in England and Wales only). In addition, we propose launching a banding review for solar PV projects of 5MW and below (this would apply to projects in England and Wales only).

## Next steps

8. We will aim to publish our decision as soon as possible after the consultation closes on 2 September 2015, following careful consideration of consultation responses and evidence received.
9. Subject to Parliamentary approval we intend to implement any decision to close the RO early to solar PV projects of 5MW and below through legislation, to come into force from 1 April 2016.
10. Subject to this consultation we intend that the effective date for the removal of grandfathering will be 22 July 2015.
11. Subject to the present consultation, we will publish proposed bandings for new solar PV projects of 5MW and below for further consultation.

# Proposed changes to support for solar PV projects of 5MW and below within the Renewables Obligation

## Background

12. On 13 May 2014, in response to evidence that deployment of solar PV was increasing much faster than previously expected, DECC published a consultation paper setting out measures to control spending on new solar PV capacity above 5MW within the RO, and to promote the deployment of mid-scale building-mounted solar PV in the small-scale FIT scheme. On 2 October 2014, DECC published a response to that consultation, confirming the decision to close the RO to new solar PV generating stations above 5MW in scale from 1 April 2015, and to additional capacity added to existing accredited stations from that date, where the station is, or would become, above 5MW.
13. The Government response also confirmed the decision to keep the RO open to new solar PV projects at or below 5MW. However, DECC stated that ‘consistent with our responsibility for managing RO expenditure under the LCF and mindful of how quickly the solar sector has adapted to past policy changes we will continue to monitor the deployment pipeline. As indicated in our consultation document, if this monitoring indicates deployment is growing more rapidly than can be afforded we will consider taking measures to protect the LCF.’
14. Solar PV up to 5MW is also able to deploy under the FIT scheme. The FIT scheme is currently under review. The Government is consulting on a proposal to remove pre-accreditation from the scheme, and later in the summer will be consulting on further cost-control measures relating to the FIT scheme.

## Rationale for intervention

15. The LCF places a cap on how much can be spent on schemes to fund renewables and other low carbon electricity generation. The LCF was put in place so that the Government can keep track of policy costs on bills and respond to the latest forecasts.
16. The latest forecasts have shown that uptake of the Government’s renewable energy schemes is set to be higher than previously expected with the result that in real terms (2011/12 prices) current forecasts of projected costs has increased to £9.1bn compared with a cap of £7.6bn. This is due to a combination of lower than expected wholesale electricity prices, higher than expected uptake of LCF schemes and accelerated developments in technology efficiency.
17. Breaching the LCF cap would have a direct impact on consumers because it is assumed that any costs incurred by licensed electricity suppliers in complying with the requirements placed upon them by these policies are passed on to consumers in their energy bills.
18. One area in which forecasts under the LCF have increased significantly is deployment of solar PV projects of 5MW and below. Information available at the time of last year’s consultation, and updated subsequently for the Government response, suggested that



projects of 5MW and below formed a relatively small part of the expected future solar PV deployment under the RO, with the rate of deployment of these smaller solar PV projects posing a lower risk to the LCF when compared to the risk from projects above 5MW in size. The estimate from the October 2014 response suggested a deployment range for solar PV projects of 5MW and below of 300MW to 500MW in both 2015/16 and 2016/17.

19. By contrast, current estimates now suggest a significantly higher range. As part of wider action to control costs, we are therefore proposing to take action to constrain further the costs of solar PV under the RO.

## Evidence of the problem

20. Our latest analysis, using data from the Renewable Energy Planning Database (REPD), from Distribution Network Operators (DNOs) and from other industry intelligence, indicates that deployment of new solar PV projects of 5MW and below is likely to be in the range of 800MW to 2GW in both 2015/16 and 2016/17 with a central scenario of 1.25GW, in each financial year. Deployment in this range would cost between £40m to £100m per year for up to 20 years (the length of time projects are supported under the RO). This level of deployment would be significantly greater than anticipated in DECC's previous forecasting and, combined with a number of other factors set out in paragraph 16, pushes LCF forecasts into the range where cost control action is required.
21. In addition to a greatly increased deployment pipeline, there is strong evidence to suggest that the costs to developers associated with the deployment of solar PV have fallen further and faster than previously anticipated. The December 2013 Electricity Generation costs report<sup>2</sup> concluded that for solar projects commissioning in 2016 the levelised cost<sup>3</sup> would be £104/MWh, with a range from £97/MWh to £111/MWh, falling to £72-£81/MWh by 2025. The fact that the 2014 Contracts for Difference (CfDs) allocation round saw three solar projects clearing in 2016/17 at £79.23/MWh<sup>4</sup> suggests that levelised cost reductions in the solar industry have occurred at a much faster rate than DECC previously estimated when setting the support rate under the RO. This suggests that some solar PV projects are receiving more support under the RO than would be required for them to deploy. DECC is undertaking further investigation of deployment costs through an independent study, which will be published in due course.

## Proposed Policy

22. The Government therefore considers it necessary to take action to control the costs of solar PV projects of 5MW and below.

### 23. In particular we propose:

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/269888/131217\\_Electricity\\_Generation\\_costs\\_report\\_December\\_2013\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269888/131217_Electricity_Generation_costs_report_December_2013_Final.pdf)

<sup>3</sup> The levelised cost is the ratio of the discounted total costs of a plant to the discounted total amount of electricity expected to be generated over the plant's lifetime.

<sup>4</sup> <https://www.gov.uk/government/statistics/cfd-auction-allocation-round-one-a-breakdown-of-the-outcome-by-technology-year-and-clearing-price> There were also two projects that cleared in 2015/16 at £50, though neither of these projects signed their CfD contracts. It is important to note that there is a difference between the strike price for CfDs and the levelised cost.

- **The early closure of the RO across Great Britain<sup>5</sup> to new solar PV projects of 5MW and below, and additional capacity added to an accredited solar PV station up to 5MW total installed capacity from 1 April 2016;**
- **In addition, in order to avoid potential overcompensation of further solar PV deployment before the early closure, we propose to remove grandfathering for solar PV projects that are not accredited under the RO as of the date of this consultation (this would apply to projects in England and Wales only); and**
- **Subject to the present consultation, we intend to publish proposed bandings for new solar PV projects of 5MW and below for further consultation (this would apply to projects in England and Wales only)<sup>6</sup>.**

#### Grace periods to the closure of the Renewables Obligation to solar PV

24. We propose to offer grace periods equivalent to those offered when the RO was closed to new solar PV capacity above 5MW.

25. Accordingly, new solar PV projects of 5MW and below will continue to be eligible to enter the RO after 31 March 2016 (until the full closure of the RO on 31 March 2017) if one of the following criteria is met:

- a) Preliminary accreditation under the RO has been obtained for the station on or before 22 July 2015. Evidence of preliminary accreditation should be provided to Ofgem with the application for accreditation, which must be on or before 31 March 2017
- b) The following evidence is provided to Ofgem demonstrating that significant financial commitments have been made on or before 22 July 2015 in respect of the project. The evidence should be provided to Ofgem with the application for accreditation, which must be on or before 31 March 2017:
  - A grid connection offer and acceptance of that offer, both dated no later than 22 July 2015;
  - A Director's Certificate confirming ownership of the land, lease of the land, an option to lease or purchase the land, an agreement to lease the land or that the developer or a connected person<sup>7</sup> is party to an exclusivity agreement in relation to the land as of and no later than 22 July 2015 by the developer or proposed operator of the station;
  - Confirmation that a planning application had been received by the relevant planning authority in respect of the project no later than 22 July 2015 or a declaration that planning permission is not required.
- c) The following evidence is provided to Ofgem of delays in the planned grid connection to the electricity grid due to factors outside developers' control: The

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<sup>5</sup> The UK Government has the power to close the RO in England and Wales, and in Scotland.

<sup>6</sup> Decisions on grandfathering policy and RO banding reviews in relation to projects in Scotland are a matter for Scottish Ministers.

<sup>7</sup> Within the meaning of section 1122 of the Corporation Tax Act 2010.

evidence should be provided to Ofgem with the application for accreditation, which must be on or before 31 March 2017:

- A grid connection agreement consisting of: a grid connection offer; acceptance of that offer; and a document from the network operator which estimated or set a date no later than 31 March 2016 for delivery of the connection.
- A written declaration by the generator that to the best of their knowledge, the generating station would have been commissioned on or before 31 March 2016 if the connection had been made on or before the estimated grid connection date.
- A letter or email from the network operator confirming that the grid connection was made after the estimated grid connection date; and that in the network operator's opinion, the failure to make the grid connection on or before the estimated grid connection date was not due to any breach of the grid connection agreement by the generator/developer.

26. These evidence requirements draw on our experience of, and responses to the consultations on RO grace periods associated with closure of the RO in 2017 and the consultations on the closure of the RO to new solar PV capacity above 5MW.

27. We also propose that these grace periods will be available for additional capacity added to an accredited solar PV station, up to 5MW total installed capacity, from 1 April 2016. This would mean that a station could not add additional capacity under the RO after 31 March 2016 unless it qualified for a grace period in respect of the additional capacity.

28. If the required evidence that a new station (or additional capacity added to an already accredited station) meets the criteria for a grace period is provided with the application for accreditation, ROCs may still be issued in relation to electricity generated by that station (or the additional capacity) if it is accredited on or before 31 March 2017. It is proposed that such stations will not then be able to further benefit from the additional grid delay grace period set out in the RO Closure Order.

29. Before the 1 April 2016 closure date, new solar PV projects of 5MW and below can continue to be accredited under the RO if they have commissioned and submitted an accreditation application before 1 April 2016 and meet all the other usual RO eligibility requirements. This also applies to additional capacity added to existing accredited solar stations (i.e. stations accredited before the date this consultation begins) before 1 April 2016 up to 5MW total installed capacity.

### Removal of grandfathering

30. Grandfathering is a statement of policy intent that once a generating station is accredited and receiving RO support at a certain level (or band), the level it receives (in Renewables Obligation Certificates per MWh) would not change for the lifetime of its support under that scheme. As noted above, there is strong evidence to suggest that the costs to developers associated with the deployment of solar PV have fallen further and faster than previously anticipated in the last few years. DECC is undertaking further investigation of this through an independent study, which will be published in due course.

31. In light of this evidence of reduced costs, we are proposing to exclude new solar PV projects of 5MW and below, and additional capacity added to an accredited solar PV station up to 5MW total installed capacity, from our grandfathering policy in order to avoid locking

in possible overcompensation for new solar PV projects accrediting under the RO before it closes.

32. We propose that this change to the grandfathering policy should take effect from the date of publication of this consultation, subject to the following exception.
33. We propose that grandfathering policy will continue to apply to developers of new solar PV projects of 5MW and below (and additional capacity up to 5MW total installed capacity) that satisfy the criteria for the significant financial commitment grace period for closure set out in paragraph 25(b) above. The evidence should be provided to Ofgem with the application for accreditation, which must be no later than 31 March 2017. This means that new solar projects of 5MW and below, and additional capacity added to an accredited solar PV station up to 5MW total installed capacity, that qualify for this exception will receive the level of support that applies at the date of their accreditation for the lifetime of their support under the scheme.

### Banding review

34. The Secretary of State has powers under the Electricity Act 1989 and the Renewables Obligation Order 2009 to carry out a banding review of RO support in England and Wales for any technology if satisfied that one or more of the conditions set out in Article 33(3) of the Order are met. Under Article 33(3)(e) the condition is that the Secretary of State is satisfied that:
- “the costs of generating electricity in any of the ways listed in the first column of Part 2 or Part 2A of Schedule 2 are significantly different from the costs of generating electricity in that way to which the Secretary of State had regard when making the banding provisions”
35. As part of this consultation we are proposing to test the evidence set out in paragraph 21, that the costs to developers associated with the deployment of solar PV have fallen further and faster than previously anticipated.
36. Subject to this consultation, along with the further investigation of deployment costs presently being undertaken through an independent study we will publish proposed bandings for new solar PV projects of 5MW and below for further consultation.

### Other non-closure options considered but not preferred

37. We have considered two other options for intervention with respect to solar PV projects of 5MW and below as alternatives to the proposed option of early closure and the removal of grandfathered support from 22 July 2015 for new solar PV projects of 5MW and below, and additional capacity added to an accredited solar PV station up to 5MW total installed capacity. They are:
- a) A capacity cap on new solar PV projects of 5MW and below entering the RO from a particular date; and
  - b) A supplier cap on new solar PV projects of 5MW and below entering the RO from a specified date.
38. A capacity cap would set out the maximum level of new solar PV capacity that DECC considered affordable within the context of the LCF. Once the cap was reached, no more solar PV capacity of 5MW and below would be eligible to come forward under the RO.
39. A supplier cap (also known as a compliance cap) would operate by limiting the proportion of their annual renewables obligation that electricity suppliers can meet using ROCs issued for

a specific technology. If it were to be introduced, it would apply to new solar PV projects of 5MW and below, entering the RO from 1 April 2016, as well as applying to any additional capacity added to an accredited solar PV station from 1 April 2016.

40. The Government has decided not to propose introducing a capacity or supplier cap. The concept of a capacity cap is based on bringing forward a specified amount of capacity beyond what is already in the pipeline. However, we believe the amount of solar PV already in the pipeline creates significant affordability concerns and would make the idea of an additional cap superfluous.
41. The level of a supplier cap must be fixed in advance in legislation. Given the amount of solar PV already in the pipeline, and the speed at which developers are able to deploy solar PV stations, we believe that the limits of affordability would have been reached before any further capacity could be accredited under a supplier cap.

## Next steps

42. We will aim to publish our decision as soon as possible after the consultation closes on 2 September 2015, following careful consideration of consultation responses and evidence received.
43. Subject to Parliamentary approval we intend to implement any decision to close the RO early to solar PV projects of 5MW and below through legislation, to come into force before 1 April 2016.
44. Subject to this consultation we intend that the effective date for the removal of grandfathering will be 22 July 2015.
45. Subject to the present consultation, we will publish proposed bandings for new solar PV projects of 5MW and below for further consultation.

## Catalogue of consultation questions

<b>Consultation Questions</b>	
1.	Do you agree with our projections for the amount of new solar PV capacity likely to deploy under the RO in 2015/16 and 2016/17? Please give reasons and provide evidence to support your answer.
2.	Do you agree with the proposal to control the costs of the LCF by early closure of the RO to new solar PV projects of 5MW and below from 1 April 2016? Please give reasons and provide evidence to support your answer.
3.	Do you agree that deployment costs for solar PV projects of 5MW and below have reduced significantly since the last banding review? Please give reasons and provide evidence to support your answer.
4.	Do you agree with the proposal to control the costs of the LCF by the removal of grandfathering for solar PV projects of 5MW and below that are not accredited as of the date of this consultation? Please give reasons and provide evidence to support your answer.
5.	Do you agree with the proposed grace periods for early closure, including the date from which eligibility would apply and their duration of one year? Please give reasons and provide evidence to support your answer.
6.	Do you agree with the proposed exception from the removal of grandfathering, including the date from which eligibility would apply? Please give reasons and provide evidence to support your answer.
7.	Do you agree with the proposed forms of evidence to demonstrate eligibility for the grace periods? Please give reasons and provide evidence to support your answer, specifying the form(s) of evidence to which each comment relates.
8.	Do you agree with the proposed forms of evidence to demonstrate eligibility for the exception from the removal of grandfathering? Please give reasons and provide evidence to support your answer, specifying the form(s) of evidence to which each comment relates.

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