

Solar subsidies slashed and CfD allocations announced

By David Kilduff and Christian Hellmund (14 May 2014)

DECC has published four consultations which mean good news for midscale building-mounted solar PV, but bad news for stand-alone solar schemes. Plus there's more news on how the CfD allocations will work.

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On 13 May, the Department of Energy and Climate Change (**DECC**) published four documents giving more detail of how the financial support that the Government gives to renewable energy schemes will work going forward.

Consultation on changes to financial support for solar PV

The most controversial proposal relates to cutting the subsidies for stand-alone solar PV (also known as 'solar farms'). Larger-scale renewable energy generation is supported by the Renewables Obligation (**RO**) and smaller schemes receive the Feed-in Tariff (**FITs**). The cost of these is paid through consumers' energy bills. The Levy Control Framework sets annual limits on the cost of these schemes, so that consumers' energy bills do not increase too much.

Large-scale solar PV is deploying much faster than the Government expected, so is putting pressure on the Levy Control Framework. The Government is therefore proposing action to control the cost of large-scale solar PV by **closing the RO across Great Britain to new solar PV capacity above 5MW from 1 April 2015** (with a **one-year grace period** for stations that have received preliminary accreditation on or before 13 May 2014 or can demonstrate to Ofgem that they have made "significant financial commitments" in respect of the project on or before 13 May 2014).

In its recent Solar Strategy, the Government said that it wished to maximise the potential of building mounted and building integrated solar PV panels on commercial and industrial rooftops, as they can have major advantages over ground-mounted solar in terms of the ability to use the power generated on-site, minimising energy losses and reducing pressure on the national grid and (perhaps the key point for a Conservative government wanting to get re-elected next year) "potentially lower impacts on landscape and visual amenity". The proportion of 'stand-alone' to 'other than stand-alone' (definitions used in the FITs Order 2012 and Conditions 33 and 34 of the Electricity Supply Licence Standard Conditions) solar PV is becoming skewed towards stand-alone. The Government proposes to **split the current FIT depression deployment triggers, with 75% capacity going to other than stand-alone and 25% to stand-alone** as follows:

Levels of quarterly deployment (MW) necessary to trigger depression for current depression band	Proposed levels of quarterly deployment (MW) necessary to trigger depression for new depression bands		Degression triggered
	Stand-Alone	Other than stand-alone, above 50kW	
>50kW and all Stand-alone	Stand-Alone	Other than stand-alone, above 50kW	
≤50MW	≤12.5MW	≤37.5MW	0%
>50MW but ≤100MW	>12.5MW but ≤25MW	>37.5MW but ≤75MW	3.5%
>100MW but ≤150MW	>25MW but ≤37.5MW	>75MW but ≤112.5MW	7%
>150MW but ≤200MW	>37.5MW but ≤50MW	>112.5MW but ≤150MW	14%
>200MW	>50MW	>150MW	28%

The aim is to have the new depression band and triggers apply from January 2015, but if there is higher than expected stand-alone deployment over the next few months, leading to successive non-automatic depressions being triggered, the new depression band may be implemented in October 2014.

Energy Market Reform: allocation of contracts for difference

The Government also published its response to the January consultation on proposals to manage the first round of allocation of contracts for difference (CfD), and a further consultation on allocation. In summary, the CfD budget will be split into two groups, so that newer (and more expensive) technologies are not competing with established technologies.

Group 1 technologies

The following 'established' technologies will be subject to an auction process from the start of the CfD regime:

- Onshore wind (>5MW) - but see below for Scottish island onshore wind
- Solar PV (>5MW)
- Energy from Waste with CHP
- Hydro (>5MW and <50 MW)
- Landfill gas
- Sewage gas

Group 2 technologies

These 'less established' technologies will not automatically move to competition. If all the projects seeking support within Group 2 can be accommodated within the allocated budget, they will receive support at the administrative strike price:

- Offshore wind
- Wave (100MW minimum threshold)
- Tidal stream (100MW minimum threshold)
- Advanced conversion technologies
- Anaerobic digestion
- Dedicated biomass with CHP
- Geothermal

A further consultation proposes that biomass conversion plants should be considered as an 'established' technology and subject to competition if budget is available, but in a separate grouping (Group 3) to ensure competition is maximised in Group 1. Also, Scottish island onshore wind projects should be considered as a 'less established' technology either in Group 2 or a separate Group 4.

Community energy consultation

Finally, DECC is consulting on using its power under section 146 of the Energy Act 2013 to allow community schemes up to 10MW (at present the limit is 5MW) to receive FITs rather than have to apply for the (lower level of) RO support. This will depend on state aid approval. It is also proposing to expand the definition of "reasonable additional costs" that can be grant-aided without affecting the receipt of FITs, but this will only be implemented if it is affordable.

Timetable of next steps

These reforms are all scheduled to come in at different times so this is a summary of what is likely to happen when:

10 June 2014 - CfD technology groupings consultation closes

10 June 2014 - Final CfD Allocation Framework to be published

7 July 2014 - Community energy consultation closes

7 July 2014 - Solar PV consultation closes

July 2014 - Indicative CfD budget available to National Grid for allocation (with indicative sizing for each technology group) to be published

End September 2014 - CfD budget allocations confirmed

October 2014 - CfD applications can be submitted

1 October 2014 - New solar PV FIT degression band may begin

1 January 2015 - New solar PV FIT degression band will begin (if not brought forward to October 2014)

1 April 2015 - RO closes to new solar PV above 5MW

All this is subject to state aid approval. The European Commission has recently revised its guidelines on energy and environmental state aid, which take effect from 1 July 2014. Whilst DECC has been working with the Commission on state aid issues, it is by no means clear cut as to whether, and when, state aid approval for these proposals will be granted. For more information on the new guidelines see [this article](#).