

Report of the Director of Environment & Neighbourhoods

Report to Executive Board

Date: 14th December 2011

Subject: Solar PV Initiative

Are specific electoral Wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, name(s) of Ward(s): Armley, Beeston and Holbeck, Bramley and Stanningley, , Burmantofts and Richmond Hill, Chapel Allerton, City and Hunslet, Farnley and Wortley, Garforth and Swillington, Guiseley and Rawdon, Harewood, Killingbeck and Seacroft, Kippax & Methley, Kirkstall, Middleton Park, Moortown, Morley North, Morley South, Otley and Yeadon, Pudsey, Rothwell, Roundhay, Weetwood, Wetherby		
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, Access to Information Procedure Rule number:		
Appendix number:		

Summary of main issues

1. The government have recently announced proposals to reduce the Feed-In Tariff for domestic size solar PV installations by at least 50%, with a further 20% reduction for 'aggregated' schemes (which would apply to the Council's proposals).
2. The proposed changes affect all installations registered on or after the 12 December 2011.
3. As a result both the scheme to install solar PV systems to Council houses and the developing private sector PV scheme are no longer economically viable and are on hold indefinitely.
4. It is anticipated that government will issue further proposals for 'genuine community schemes' in the new year. This may offer an opportunity for the Council to develop cost-neutral council house schemes, subject to further details being announced.

Recommendations

1. It is recommended that Executive Board note the contents of this report and the reasons for putting both PV schemes on hold.
2. It is also recommended that Executive Board approve the attached formal response to the DECC consultation (Appendix 1).
3. It is further recommended that Executive Board request that officers continue to investigate the development of cost-neutral renewable schemes for council housing and the private sector (including PV), funded via FITs and the Renewable Heat Incentive, once further details of FITs for community schemes are announced.

1 Purpose of this report

- 1.1 To advise Executive Board of the government's proposed changes to the Feed-In Tariff (FIT) for Solar PV.
- 1.2 To advise of the effect these proposals have had on the Council's plans to install solar PV systems on a minimum of 1,000 council houses and operate a private sector solar PV scheme.
- 1.3 To seek approval of a response to the government's consultation on the proposed changes.
- 1.4 To seek approval from Executive Board to undertake further work on cost-neutral renewable schemes for council housing and the private sector (including PV), funded via FITs and the Renewable Heat Incentive, once further details of FITs for community schemes are announced.

2 Background information

- 2.1 In December 2010 the Executive Board approved a proposal to establish a partnership with Community Energy Solutions (CES) 'to install at least 1,000 PV systems to Council homes before March 2012'¹. The main reasons cited for the formation of a partnership were that:
 - there would be no capital cost to LCC;
 - given the time-pressure to install systems, and relative inexperience with PV within LCC, the partnership approach offered the highest value short-term; and
 - the partnership could be used to build skills within LCC, with a view to operating an in-house scheme in the future.
- 2.2 Following this decision work began on developing a full business case and on negotiating Heads of Terms with CES and their funding partners, Empower Community Management (ECM). A full business case, recommending 5,000 installations, was approved by the Project Board in mid-February 2011 and reported to Executive Board in March 2011².
- 2.3 Heads of Terms were also signed in mid-February 2011. These committed all partners to work together 'to define and agree the necessary contractual terms to be included within a Roof Access Agreement to undertake the installation of PV panels on roofs of eligible buildings within the Local Authority estate, and/or aggregated by the Local Authority'³.

¹ LCC Executive Board Minutes, 15/12/10, minute 125a.

² LCC Executive Board Report on Solar PV, 30/3/11, s2.13.

³ CES/Empower Community PV for Leeds City Council – Heads of Terms, 10/2/11, s4.

- 2.4 Regular project development meetings with partners and ALMO representatives began in March 2011. These focused on the identification of suitable properties and communications with tenants.
- 2.5 An initial analysis of council housing across the city identified 43 letting areas, incorporating c11,000 properties, as having the best potential for PV installations. This was based on the proportion of roofs which were aligned within +/- 45° of due south; the proportion of roofs which were non-hipped (i.e. large enough for the PV panels); and the proportion of roofs which were free from obstruction (e.g. dormer windows, large chimneys etc).
- 2.6 These properties were then subjected to a more detailed desk-top analysis by ECS, which assessed the exact orientation, estimated roof dimensions and likely maximum PV installation size possible on each. It also assessed whether there were shading or obstruction issues that might prevent successful PV installation. This exercise reduced the 11,000 properties down to c7,300 which, allowing for a further 30% drop-out rate due to technical unsuitability at detailed survey stage, tenant refusals etc, would result in c5,000 installations.
- 2.7 The process of making formal 'G83' applications for these properties began in early April 2011. These require assessment and approval from the Distribution Network Operator (DNO – operators of the electricity 'grid'⁴). This is to ensure there is capacity within the grid infrastructure (electric mains cables, sub-stations etc) to take the potential additional loads generated by PV installations when electricity is exported back to the grid from individual properties.
- 2.8 Negotiations were also ongoing with ECM over the precise terms of the Roof Access Agreement (RAA). The RAA would have been the primary legal agreement between the Council and the Special Purpose Vehicle set up to deliver the PV scheme.
- 2.9 The RAA is a complex document, designed to satisfy the potentially conflicting requirements of the Council, as landlords, the scheme managers (ECM) and the investors (with their investment repaid through FIT income). Alongside the more standard legal, financial and technical contractual arrangements it had to consider, and cover-off, the potential impacts of all possible scenarios over the 25 year term of the contract, including changes to the ownership of the properties, changes in applicable laws etc. It was also reliant on technical and price agreement with ECM's preferred contractor.
- 2.10 A suite of consultation materials were also developed with ALMO colleagues. These included letters for issuing at various stages of the programme, a tenant information booklet, newsletter articles etc. On 27 July, the Project Board approved sending initial letters to Leeds tenants ahead of formally signing the RAA. This was to reduce the lead time from RAA signature to first installation. Letters have been sent to c2,900 tenants (in properties with formal G83 approvals) informing them of the scheme and inviting them to a series of tenant information events (which have now been held).
- 2.11 We had agreed a final date for RAA signature with ECM of the 17 October 2011.

⁴ DNO's name changed from CE Electric to Northern Powergrid on 1/11/11.

2.12 A private sector scheme was also in development. Negotiations were ongoing with Leeds City Credit Union to provide loans to individual householders to pay the installation costs. The loans would have been repaid via the FIT.

3 Main issues

3.1 In February 2011 the Department for Energy and Climate Change (DECC) announced a review of FITs that would be split between a 'fast track' and 'comprehensive' review. Consultation on the fast track review started soon after, with the outcome published in June 2011. The consultation proposals were essentially implemented unchanged, despite significant opposition to the proposals from consultation respondees⁵.

3.2 With regards to the comprehensive review, up until the 31 October 2011, the DECC website stated the 'We will consult on the comprehensive review later this year. The review will be completed by around the end of 2011, with tariffs remaining unchanged until April 2012 (unless the review indicates the need for greater urgency)⁶.

3.3 On Wednesday 12th October we were informed by ECM that they had credible information that DECC were planning to announce a much larger reduction in new FIT rates (c20% to 40%+ rather than 8.5% anticipated) much sooner than planned (possibly January 2012, rather than April 2012). As a result ECM asked to put the solar PV scheme on hold, pending clarification from government.

3.4 On the 31 October 2011 DECC published Phase 1 of the comprehensive review of FITs for consultation, focussed entirely on PV. The main proposals are:

- to reduce the FIT for retro-fit installations of up to 4kW by 50% to 21p/kWh (from 43.3p/kWh);
- that the new tariff applies to all PV installations with an 'eligibility date'⁷ on or after 12 December 2011 (such installations would receive the current rate for the rest of the financial year before moving to the lower tariff on 1 April 2012); and
- the introduction of a lower multi-site tariff of 16.8p/kWh for 'aggregated' schemes where 'a single individual or organisation receives FIT payments from more than one PV installation on different sites'⁸.

3.5 The main points of the argument for the reductions are:

- the rapid increase in PV installations and the effect on the FIT budget;
- the falling cost of PV systems; and
- the high rates of return received by investors in PV.

⁵ E.g. Q2 asked if respondents agreed with the proposed new FIT tariffs - 81% of respondents said that they didn't agree but the changes were implemented as planned. Q3 asked if the respondents agreed with the timing of the changes - 73% of respondents disagreed but they were implemented as planned.

⁶ See

http://webarchive.nationalarchives.gov.uk/20111013142435/http://www.decc.gov.uk/en/content/cms/meeting_energy/renewable_ener/fe edin_tariff/fits_review/fits_review.aspx

⁷ Eligibility date is the date that the installation is registered for FIT payments i.e the system must have been installed and then registered with a FIT licensee.

⁸ Likely to be applicable to LCC council house scheme proposals.

- 3.6 The FIT reductions are an attempt to rebalance the returns derived from PV installations to 'around 5% for well located installations' (4.5% for domestic size installations under 4kW). This is in line with the original intentions of the scheme and reflects the current 'investment climate'.
- 3.7 The lower rate for multi-site installations is designed to reflect 'the economies of scale associated with aggregated projects'.
- 3.8 The proposals also include:
- reduced rates for other sizes of PV installations, including further reductions for installations over 50kW, which were originally reduced as part of the fast track review; and
 - a linking of FITs to energy efficiency from 1 April 2012, whereby the new rates can only be claimed for buildings with an Energy Performance Certificate rating of C or higher. Properties without this rating would only be eligible for a FIT rate of 9p/kWh.
- 3.9 Consultation on the Phase 1 proposals closes on the 23 December 2011.
- 3.10 The proposals mention that a second phase of the consultation will consider 'whether more could be done to enable genuine community projects to be able to fully benefit from FITs and whether, for example, a definition of community scheme is required and, if so, how this should be defined'. The Phase 2 consultation will also examine tariffs for non-PV technologies, new cost control mechanisms and administrative aspects of the scheme. Consultation on this phase is due to 'be announced before the end of the year, with changes expected to be implemented in the first half of 2012'.

Effects of Proposals on LCC Council Housing Scheme

- 3.11 DECC's proposals have been discussed with ECM & ECS. They had previously indicated that they might be able to accommodate a FIT reduction of up to 20% but the current proposals make the scheme financially unviable. They have asked to keep the scheme on hold pending further clarification on community schemes.
- 3.12 Recent financial modelling indicated that a self-financed scheme could break-even if FITs were reduced no lower than c31p/kWh (c28% reduction). Indicative analysis suggests that a self-financed 5,000 property scheme at a FIT rate of 16.8p/kWh would make a loss of c£35m over the 25 year life of the FIT payments (average loss of c£280 per property p.a.).
- 3.13 As a result the solar PV scheme for council houses is now on hold indefinitely.
- 3.14 Some sort of workable PV proposal might be able to be developed in the future, but this would be dependant on the outcome of the second phase of consultation and the final definition of, and FIT rates for, a community PV scheme.

Effects of Proposals on Private Sector Scheme

3.15 The private sector scheme is similarly affected and will not be economically viable if the proposals are implemented as set out.

Proposed Response to DECC Consultation

3.16 A formal response to the consultation has been drafted and is attached at Appendix 1.

3.17 In summary the response states that the Council:

- disagree with the proposed level of new FIT tariffs (including the multi-site tariff) and the timing of their implementation;
- agree with the proposal to make FIT eligibility contingent on meeting minimum energy efficiency requirements for all buildings;
- favour using the measures identified as being financeable under the Green Deal as a suitable proxy for the minimum energy efficiency requirements, and disagree on the proposed use of EPC rating of C or above for this;
- agree with the use of a 12 month grace period following PV installation to carry out any works required to meet these minimum energy efficiency requirements; and
- disagree that this grace period should only apply during a transitional period for installations with an eligibility date on or before 31 March 2013 and consider that this should instead be an ongoing part of the FIT regime.

4 Corporate Considerations

4.1 Consultation and Engagement

4.2 As noted above, letters have been sent to c2,900 tenants (in properties with formal G83 approvals) informing them of the scheme and inviting them to a series of tenant information events (which have now been held).

4.2.1 ECM's proposed contractors have handled over 700 telephone enquiries from interested tenants.

4.2.2 A letter was sent to all affected tenants on the 7 November 2011, informing them of the proposals and that the scheme has been put on hold.

4.2.3 No consultation had taken place on the private sector scheme as it was not sufficiently advanced.

4.3 Equality and Diversity / Cohesion and Integration

4.3.1 An EDCI was carried out in August 2011. This concluded that a full impact assessment was not required as inclusion/exclusion is based entirely on property characteristics rather than any personal or group characteristics.

4.4 Council Policies and City Priorities

- 4.4.1 Putting the scheme on hold will have a direct impact on the Regeneration City Priority Plan, specifically the priority to 'Improve housing conditions and energy efficiency' and the headline indicator to 'Increase the number of properties improved with energy efficiency measures'.

4.5 Resources and Value for Money

- 4.5.1 The Council's have incurred some financial costs in developing these schemes, over and above staff costs. This primarily relates to the legal input into negotiating the RAA but also includes design, printing and postal charges for tenant communications, venue hire for tenant information events and some IT charges for bespoke reports. The total expenditure, excluding staff costs, is c£20k.
- 4.5.2 This will not now be recouped from the income that the schemes would have generated.

4.6 Legal Implications, Access to Information and Call In

- 4.6.1 There are no legal implications arising.
- 4.6.2 There is no confidential information within this report.
- 4.6.3 The decision is open to call-in.

4.7 Risk Management

- 4.7.1 A formal risk register was drawn up for the council housing scheme and approved by the Project Board. This identified the possibility of the FIT system changing and classified it as a high risk.
- 4.7.2 One suggested mitigating action was to lobby government about any proposed changes that had a negative impact on our proposals.

5 Conclusions

- 5.1 Based on the experience of the comprehensive FIT review it seems reasonable to assume that the government's proposals will be implemented as set out. If they are, then both schemes discussed in this report are economically unviable. Neither the Council or ECM are in a position to proceed. The announcement of the proposals, even though they are still open for consultation, effectively stopped our plans on the 31 October.
- 5.2 Responding to the consultation would be one way of lobbying government about the proposals. Members may also want to make representation to government via other routes open to them.
- 5.3 It is estimated that 27% of private sector households in Leeds were in fuel poverty in 2010. The problem is subtly different between social housing and the private sector. Social tenants typically live in more energy efficiency housing, but have a lower

income, and vice-versa in the private sector. Therefore we assume that the relative proportion of fuel poverty is similar between the two sectors.

- 5.4 Assuming that 27% of council houses receiving PV systems were in fuel poverty, 1,350 of the properties assisted would have been in fuel poverty. Our analysis shows that for every 1% increase in fuel bills, 0.4% of our population becomes fuel poor. Running this calculation in reverse, reducing electricity bills by £120 a year (approximately a 10% decrease) would have lifted 200 of the homes assisted out of fuel poverty.
- 5.5 The scheme would also have reduced CO₂ emissions by c5,000 tonnes pa, making a small contribution to the Council's target to reduce emissions by 40% by 2020.
- 5.6 Alongside the jobs created in manufacturing the panels, inverters, meters and switch-gear it is also estimated that the scheme would have directly created over 200 short-term jobs carrying out the installations. A smaller number of longer-term jobs would also have been created in monitoring and maintenance roles.
- 5.7 It can therefore be seen that any renewables schemes that can be implemented at scale not only have the direct benefits of reducing fuel poverty and carbon emissions but more indirect benefits in terms of job creation. As such, it may be prudent to consider the benefits of any future proposals for renewables schemes in the widest possible sense.

6 Recommendations

- 6.1 It is recommended that Executive Board note the contents of this report and the reasons for putting both PV schemes on hold.
- 6.2 It is also recommended that Executive Board approve the attached formal response to the DECC consultation (Appendix 1).
- 6.3 It is further recommended that Executive Board request that officers continue to investigate the development of cost-neutral renewable schemes for council housing and the private sector (including PV), funded via FITs and the Renewable Heat Incentive, once further details of FITs for community schemes are announced.

7 Background documents

- 7.1 Solar PV Executive Board Report – 15 December 2010
- 7.2 Solar PV Executive Board Report – 30 March 2011
- 7.3 Feed-In Tariffs Scheme: Consultation on Comprehensive Review Phase 1 – Tariffs for Solar PV (available from http://www.decc.gov.uk/en/content/cms/consultations/fits_comp_rev1/fits_comp_rev1.aspx)
- 7.4 Proposed formal LCC response to DECC consultation (see Appendix).