Government reductions to Feed-In tariff rates for solar PV are a bad choice: Bad for the solar energy sector and bad for the UK economy.

Leading renewable energy technology provider Photon Energy has criticised the Government's decision to proceed with steep reductions to feed-in tariff (FIT) rates for solar electricity, saying it will do nothing to deliver cost reductions for the national Budget and damage one of the few growth industries in the UK's stagnant economy.

The FIT scheme is funded through a levy on electricity bills, rather than directly from government finances, and was introduced on 1 April 2010 as a means of encouraging investment in smaller and medium sized renewable electricity systems by guaranteeing payments for the energy they produce.

According to the Department of Energy and Climate Change (DECC), over 40,000 FIT installations were made between April 2010 and 3 June 2011, the vast majority for domestic solar PV systems. The social housing sector in particular benefited greatly from the scheme, since it allows housing associations to reduce the energy bills of their tenants whilst keeping the tariff revenues for themselves – providing future income for other investments. The agricultural sector was also a big beneficiary of the scheme, with farm buildings being an ideal location for solar PV due to the roof space available on cold stores, livestock and milking sheds.

But with tariff rates set to be slashed from 1 August 2011, the success of the scheme is in jeopardy and with it, the solar PV industry and the tens of thousands of jobs it supports.

DECC claims to be adjusting the scheme to protect smaller solar installations and reduce the proportion of allocated funds being taken up by installers of larger systems, such as big businesses and solar farms. However, according to Photon Energy director Jonathan Bates, the DECC's approach is flawed and perhaps worse, misleading.

“The FIT scheme began under the previous Labour government had no funding cap but rather a projected spending outlay. However this projection was never intended to be anything other than a guide to the likely costs of the scheme. More importantly, the projection was wrong,” Jonathan said. “As the DECC now openly admits, the original estimates contained serious errors and only included projections for the private domestic market – it did not include projections for social housing schemes or larger scale projects. What began as a flawed estimate of the likely cost of the FIT scheme has now been turned into a cap on the scheme's budget and this is already having dire consequences.”

He believes the introduction of the cap on the FIT scheme is already creating a boom and bust scenario rather than achieving the desired outcome of a sustainable take-up in renewable energy technologies. The government's plan may back-fire by creating a panic as customers seek to lock in to the higher tariff rates, causing the cap to be reached far sooner than projected. This means that in order to keep within the spending cap, the FIT payments for smaller systems will need to be drastically reduced in April 2012 as they will be for the larger systems this coming August.

“Solar farms are, in my view, not the best use of FIT money under a capped scheme as they would take away a large proportion of the funds. However companies need to install larger solar systems so they have the volumes to allow them to buy direct from the factories, which allows them to reduce their costs and to pass these savings on to smaller and domestic customers.

“The tariff reductions take an axe to the solar industry at a time when costs have started to fall dramatically. On current estimates, it will only be around five years before we have parity between the costs of solar energy and the price domestic customer pay for their electricity from the major energy suppliers. We need a healthy solar industry to be able to cope with the increased demand when that tipping point arrives."

Jonathan points to the German model as a prime example of supporting renewable energy, where feed-in tariffs have existed since the late 1990s and each year, as the cost of solar technologies decreases, tariffs are reduced in a transparent way, more frequently and in smaller amounts. This gives the industry the opportunity to plan for the future, instead of being at the mercy of random, politically motivated decisions.

"What the industry needs is certainty – not the stop-start of spending reviews and political interference," Jonathan said. "Rather than protect the integrity of the industry, this government's arbitrary hacking at the scheme does exactly the opposite for everyone involved. For years now, DECC and its frontrunner, the DTI, has consistently under-estimated the demand for solar PV. Every scheme they have ever devised over the last 10 years, from the small-scale grants schemes to the FIT, has been hugely popular, massively over-subscribed and capped in one way or another. This is what causes boom-bust scenarios and not the stability the industry is crying out for. But further to that, it begs the question: why is the "greenest government ever" attacking one of the few growth sectors of the beleaguered UK economy, especially when it will make no difference to the budget's bottom line?"