Adapting to change

21 April 2016

MartinHoyle discusses opportunities in the renewable energy sector in the light ofsignificant changes to government subsidies

---

InJuly 2015, the Department of Energy and Climate Change made theshock announcement that subsidies for UK renewable energy projects would bewithdrawn without notice, in favour of investment in gas and nucleartechnologies to secure future UK energy supply. While the removal of subsidieswas inevitable, the speed at which it has happened, coupled with the confusedgovernment energy policy, has led to considerable uncertainty in the sector.

Inaddition, there is also a potential 15% VAT hike on the horizon for solarphotovoltaics (PV) on residential properties. Currently, householders pay VATat 5% on domestic solar installations, a level which theEuropean Court of Justice has ruled breaches its VAT Directive . As aconsequence, HMRCis currently consulting on the rules , with any changes set to come intoforce in August 2016. These could add ?900 to a typical 4kW installation,potentially extending the payback period by 12 to 18 months. The impact of aVAT increase could be a significant reduction in the installation of PV onresidential properties, and consequently less work for installers.

Asa building surveyor active in the renewables sector, I have experienced firsthand the impact the most recent changes have had. Some investors have decidedto leave the market, some are already focusing on other investments, and activedevelopers have either left the sector or are seeking opportunities in otherparts of the world. As an example, I am now reviewing or hearing aboutrenewable developments in Turkey, India, Jamaica and Africa, so perhaps ourskills will naturally be redeployed around the world in coming months.

Butis this the end of renewable energy investment in the UK?

Thecountry has to attract investment for new energy infrastructure in order tokeep the lights on, as it only has a 1.5% capacity margin at present. Thegovernment has stated that such investment will not happen without itsintervention, but while it is looking to subsidise new gas plants, it seemsillogical that it is cancelling support for renewables at the same time.

Subsidies

Myexperience is that the sector is very experienced in dealing with change and adapting to new environments: where else would you find the technology, creativity, skills and capability to drive investment in renewable technology but the UK?

The sector is very experienced in dealing with change and adapting to new environments

However,the near abolition of subsidies and the decision by the European Commissionlast December to launch an inquiry into theuse of minimum import pricing (MIP) for solar PV modules from China willonly further the uncertainty in the sector, as it could take up to 15 months toreach a finding on whether to keep or remove MIP.

Toenable the development of renewable energy plant, the costs need to be reducedto bring them in line with more traditional technologies such as gas andnuclear. If you consider that the global average price for solar modules iscurrently around ?0.40/W but that with the MIP Chinese panels must be importedat ?0.56/W, costs could be reduced by 30% if the MIP were removed.

Withthe wholesale market at around ?45/MWh, gas needs between ?65 and ?72/MWh tobuild new generation, whereas technologies such as solar have only proved to becompetitive at ?79/MWh in the Contracts for Difference auctions.

Therefore,if the MIP?s removal were combined with sector-wide technology advancements andassociated cost reductions, then perhaps the industry would once again thrivewithout subsidy.

Adaptation

Thesector should be able to adapt to the latest policy changes, although it will lookdifferent as a result, taking longer to redirect its efforts and re-establishitself. Advances in technology such as battery storage will also play a part,as will the cost reductions and creativity necessary to make potential schemesviable.

Thismay require alterations to planning consents, making underground gridconnections overland instead, a possible increase in the size of plant, and areduction in anticipated returns for investors and profits for developers.

Finally,there are also emerging opportunities for building surveyors in the UK energysector with short-term operating reserve and peak power generation, neither ofwhich are clean technologies but will help to keep the lights on.

Adaptationmay be the name of the game ? always a vital skill for any building surveyor.

Martin Hoyle is adirector at PMBC

Further information

- Related competencies include Sustainability
- This feature is taken from the RICS *Building surveying journal*(March/April 2016)