

Adapting to change

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Martin Hoyle discusses opportunities in the renewable energy sector in the light of significant changes to government subsidies

In July 2015, the Department of Energy and Climate Change made [the shock announcement](#) that subsidies for UK renewable energy projects would be withdrawn without notice, in favour of investment in gas and nuclear technologies to secure future UK energy supply. While the removal of subsidies was inevitable, the speed at which it has happened, coupled with the confused government energy policy, has led to considerable uncertainty in the sector.

In addition, there is also a potential 15% VAT hike on the horizon for solar photovoltaics (PV) on residential properties. Currently, householders pay VAT at 5% on domestic solar installations, a level which [the European Court of Justice has ruled breaches its VAT Directive](#). As a consequence, [HMRC is currently consulting on the rules](#), with any changes set to come into force 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 a VAT increase could be a significant reduction in the installation of PV on residential properties, and consequently less work for installers.

As a building surveyor active in the renewables sector, I have experienced first-hand the impact the most recent changes have had. Some investors have decided to leave the market, some are already focusing on other investments, and active developers have either left the sector or are seeking opportunities in other parts of the world. As an example, I am now reviewing or hearing about renewable developments in Turkey, India, Jamaica and Africa, so perhaps our skills will naturally be redeployed around the world in coming months.

But is this the end of renewable energy investment in the UK?

The country has to attract investment for new energy infrastructure in order to keep the lights on, as it only has a 1.5% capacity margin at present. The government has stated that such investment will not happen without its intervention, but while it is looking to subsidise new gas plants, it seems illogical that it is cancelling support for renewables at the same time.

Subsidies

My experience 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?

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However, the near abolition of subsidies and the decision by the European Commission last December to launch an inquiry into [the use of minimum import pricing \(MIP\) for solar PV modules from China](#) will only further the uncertainty in the sector, as it could take up to 15 months to reach a finding on whether to keep or remove MIP.

To enable the development of renewable energy plant, the costs need to be reduced to bring them in line with more traditional technologies such as gas and nuclear. If you consider that the global average price for solar modules is currently around £0.40/W but that with the MIP Chinese panels must be imported at £0.56/W, costs could be reduced by 30% if the MIP were removed.

With the wholesale market at around £45/MWh, gas needs between £65 and £72/MWh to build new generation, whereas technologies such as solar have only proved to be competitive at £79/MWh in the Contracts for Difference auctions.

Therefore, if the MIP's removal were combined with sector-wide technology advancements and associated cost reductions, then perhaps the industry would once again thrive without subsidy.

Adaptation

This sector should be able to adapt to the latest policy changes, although it will look different as a result, taking longer to redirect its efforts and re-establish itself. Advances in technology such as battery storage will also play a part, as will the cost reductions and creativity necessary to make potential schemes viable.

This may require alterations to planning consents, making underground grid connections overland instead, a possible increase in the size of plant, and a reduction in anticipated returns for investors and profits for developers.

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

Adaptation may be the name of the game – always a vital skill for any building surveyor.

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Further information

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