

REPORT TO: SPECIAL POLICY & RESOURCES COMMITTEE - 1
19 DECEMBER 2011

REPORT ON: POSITION STATEMENT ON THE PHOTOVOLTAIC TENDER AND
THE DEPARTMENT OF CLIMATE CHANGE FEED-IN TARIFF

REPORT BY: DIRECTOR OF CITY DEVELOPMENT

REPORT NO: 558-2011

1 PURPOSE OF REPORT

- 1.1 This report notes the current position with regard to the proposed photovoltaic project for council buildings tender enquiry process and submissions and analysis (PV Project).
- 1.2 The report also reflects the current status of the Department of Climate Change Feed-In Tariffs Scheme: Consultation on Comprehensive Review Phase 1 - tariffs for solar PV (DECC Review) and seeks the Committee's approval of the City Council's response to the review.

2 RECOMMENDATION

The Policy & Resources Committee are asked to agree the following:-

- 2.1 Note that the three tender submissions received relative to the photovoltaic project have now been withdrawn, as a direct result of the DECC Review of the feed-in-tariff
- 2.2 Note the introduction and potential impact of the DECC Review of the feed-In-tariff and instruct the City Architect to submit the attached document as the City Council's response to the review.

3 FINANCIAL IMPLICATIONS

- 3.1 Presently there are no financial implications with regard to Capital Expenditure. Committee are asked to note the loss of revenue savings to the Council and the loss of economic benefits to the City as a consequence of the potential abandonment of the PV Project.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications at this time.

5 BACKGROUND

- 5.1 Report No 398-2011 by the Director of City Development details the strategy approach to PV System installation and the approved tender process. This report was approved at Policy and Resources Committee on 22 August 2011.
- 5.2 Tender enquiry documents were lodged on the Public Contract Scotland Portal in early September 2011 and returned in early October 2011. The scheme was divided into two Lots - 1 Council Housing Stock and 2 Commercial and Operational Council Buildings.

- 5.3 There were ten enquiries recorded on the Portal but only seven organisations requested the formal tender return labels. Only three submissions were lodged by the due date. All three companies submitted bids for each lot.
- 5.4 On 30 October 2011 the Westminster Government announced through the Department of Climate Change (DECC) that there was to be a Comprehensive Review of the Feed-In Tariff Scheme.
- 5.5 The principal proposals within the Review are:
- The Feed-In Tariff maximum scale will be revised down from 43 pence/KwH to 21 pence/KwH.
 - The revised rate will apply to all system arrays installed after 12 December 2011.
 - A further rate review may be considered for installations after 31 March 2012.
 - The revised rate will not be applied retrospectively to installations pre-12 December 2011.
 - Limitations will be placed on installations over 4KwH peak for domestic and 50KwH peak to commercial installations.
- 5.6 As a consequence the PV Scheme cannot now proceed.

6 IMPACT ON THE PV SCHEME

- 6.1 The introduction of the DECC Review has the potential for significant and detrimental impact for both the Council and the City.
- 6.2 In terms of impact upon the Council, Committee are asked to note the following areas that could be affected:
- 6.3 **Operational and Commercial Buildings** - up to 80 locations had been identified within the Scheme but with the potential to expand this to include other appropriate stock.
- a The PV Scheme had anticipated an opportunity to reduce revenue costs associated with purchase of electricity from Utilities companies. The level of revenue saving, across the three tenders for the 80 identified operational locations is in the order of £275-300,000 per annum.

In addition each of the tender submissions indicated a roof access payment allowance in the order of £80-100,000 per annum across the identified locations.

- b Within the PV tender submissions there was an indication that tenants within the identified housing stock could expect a direct electrical bill cost reduction, across all of the properties, in the order of £100,000 per annum.
- c This saving is calculated on the direct saving of not having to purchase from the National Grid and the economically advantageous offer from all tender submissions for the free issue of any electricity generated at each individual location.
- d The Committee are asked to further note that the indicative revenue saving is calculated on anticipated National Grid costs over the next 5 years rather than on the life of PV Scheme Initiative.
- e It is anticipated that any future potential for benefit to utilise any electricity generated at individual locations will now be charged and not free issue.
- f Potential reinstatement of the Scheme, following any conclusion of the DECC Review, will necessitate a complete re-drafting, re-tender and re-assessment of the Scheme and all associated processes to date.

6.4 **Council Housing Stock** - the scheme had identified an initial tranche of up to 1,000 Council houses for incorporation within the Scheme but with the opportunity to expand out on this volume.

- a The opportunity to assist families directly affected by fuel poverty has been lost. Up to 1,000 of the City's most affected families could have had direct benefit from reduced energy bills and free issue of electricity generation.
- b The PV Scheme would have provided a contribution, directly or indirectly, to the HRA to enable further self funding opportunities to investigate and invest in other energy initiatives across other housing stock.

6.5 **City-wide Renewables Strategy** - The successful award and implementation of the PV Scheme would have given further demonstration of the Council's strategy for and commitment to establishing Dundee as a Centre of Excellence for Renewables Technologies.

- a Whereas the PV Scheme is not wholly pivotal to this strategy it is nevertheless considered to have an enormous and significant value in harvesting solar energy and aligns with the Council's earlier Solar Panel hot water initiative implemented across both housing and operational building stock.
- b As Scotland's "Sunniest City" the Council's participation in and support for Solar Cities Scotland, has provided the city with world wide recognition for solar energy capture and use.
- c The PV Scheme had recognised the potential for community benefit and all three tendering organisations recognised the advantage of both employment and training opportunities.
- d The scale, nature and intent of the PV Scheme could provide for the provision of sub contract and supply chain opportunities for local businesses.

- e The potential through the Dundee Partnership to establish the city as a manufacturing centre allied to other areas of renewable technologies.
- f The PV Scheme documentation included the opportunities for other Dundee Partnership Stakeholders to participate in an extension of the Scheme to the benefit of their organisations to establish a truly city-wide project.

7 CURRENT POSITION

- 7.1 The review remains open until 23 December 2011 inviting comment and observation as to the recommendations laid down in the review proposals. A draft response to the pro-forma document is attached in Appendix 1.
- 7.2 Enquiries were made to each of the tendering companies as to the likely impact of the DECC Review on their submissions. All companies advised that they were withdrawing their tenders until the full scope and outcome of the Review was determined.
- 7.3 It is extremely unusual for a regulatory scheme, such as the PV Scheme, to be amended prior to the conclusion of a consultation and consideration of the issues raised. As indicated the consultation period is not due to end until 23rd December. The legality of making changes to the PV Scheme in this manner is being challenged in the High Court which has now agreed to hear applications by Friends of the Earth and two solar companies (Solarcentury and HomeSun) for permission to challenge the changes. Essentially the case is that the proposed actions are unlawful because:
 - it will unfairly cause the abandonment of numerous planned solar schemes that would have been completed between 12 December and April 2012; and
 - the wording used in the documentation indicates there is no real prospect that Ministers will keep an open mind about representations made while the consultation period is ongoing, which Friends of the Earth consider they are legally obliged to do.

It is not yet clear what the outcome of this legal action might be. If successful it is possible that the consultation period might be extended and/or the previous tariffs re-introduced at least for a temporary period. Council Officers are monitoring the situation and further report will be prepared once the position is made known.

8 CONSULTATION

- 8.1 The Chief Executive, Depute Chief Executive and the Directors of Finance and Housing have been consulted in the preparation of this report.

9 BACKGROUND PAPERS

None.

Mike Galloway
Director of City Development

Rob Pedersen
City Architect

RP/ET

16 December 2011

Dundee City Council
Dundee House
Dundee

APPENDIX 1

Comprehensive Review Phase 1: Consultation on Feed-in Tariffs for Solar PV

Please use the table below as a template to respond to the consultation. It will help us to record and take account of your views.

Also, please provide evidence for your answers and comments where possible.

| PERSONAL DETAILS | |
|---|--|
| Respondent Name: | Rob Pedersen |
| Email Address: | rob.pedersen@dundeecity.gov.uk |
| Contact Address: | Dundee House, 50 North Lindsay Street, Dundee DD1 1LS |
| Contact Telephone: | 01382 433640 |
| Organisation Name: | Dundee City Council |
| Would you like this response to remain confidential? Yes/No (Delete as appropriate) If yes, please state your reasons: | |

CHAPTER 2: PROPOSED TARIFF CHANGES FOR SOLAR PHOTOVOLTAICS

Q1: Do you agree or disagree with the proposed new tariffs for solar PV? Give reasons to support your answer.

Agree/Disagree

Comments:

Dundee City Council does not agree with the proposal to reduce the tariff value.

Dundee City Council along with other local authorities in Scotland welcomed the Westminster Government's announcement of the introduction of the FIT incentive. This scheme offered communities, individuals and organisations including local government the opportunity to address issues of carbon capture, energy conservation and long term sustainability within the increasingly challenged natural environment. These principal objectives are a corner stone in our commitment to CO₂ reduction targets.

As an urban local authority within Scotland we have exceptionally high level of families living within the fuel poverty definition. Through our anticipated PV installation programme we had an opportunity to address a significant number of these families directly through the installation of systems in their own homes and to thereafter utilise the revenue benefit of the FIT tariff in bringing forward further opportunity to reduce fuel poverty for our remaining citizens. The proposal to reduce the tariff now seriously threatens this opportunity. This is a regressive step.

Whilst we recognise that the development and manufacturing costs associated with the PV hardware has been reducing, it must nevertheless be recognised that many of the organisations who have been able to progress as a consequence of the initiative have set their budgetary requirements and financing on current levels.

It has always been recognised that the current initiative would continue until 31 March 2012 and this date being now imminent, it would seem appropriate to maintain the current FIT level.

We note that under the original FIT Initiative that the cost of the scheme was to be met by placing financial obligation onto energy companies which would then be passed onto the consumer. Whilst we recognise that the scheme has to be self financing, we would equally expect that with rebalancing or adjustment of FIT levels that any cost to be passed onto the consumer would be reflective of this. For the proposed reduction levels of over 50% we would expect guarantee from the energy companies that they are applying fair and equitable reduction in costs.

Q2: Do you agree or disagree with the proposal of applying the new tariffs to all new solar PV installations with an eligibility date that is on or after a reference date that comes before the legal implementation of those tariffs? Give reasons to support your answer.

Agree/Disagree

Comments:

For the reasons outlined above we would reiterate that much of the financing of PV schemes has been informed by current FIT levels. It must be recognised within the review that especially larger organisations have invested significant resource and time in negotiating and agreeing levels of finance such that this work would effectively become abortive and necessitate additional expenditure levels in order to re-negotiate.

In the case of Dundee City Council we had obtained and were on the verge of contract award, however, as a consequence of the publishing of the consultation all tenderers withdrew. We now consider that the opportunity to participate in and benefit from the principal objectives in Question 1 above has been lost.

We would also request clarification as to why consultation proposals would suggest an eligibility date ahead of legal implementation.

Q3: Do you agree or disagree with the proposed reference date of 12 December 2011? Give reasons to support your answer.

Agree/Disagree

Comments:

As in the response to question 2 above we would query the reasoning behind the proposal for an eligibility date ahead of the response closure date of 23 December 2011 as the eventual conclusion and legal implementation of the outcomes of the review remains so much at large.

As noted in previous responses above, many of the imminent installation programmes have now been either significantly delayed or completely abandoned as a consequence of what would seem the selection of an arbitrary date. We are aware that many small and medium scale businesses have been established both locally and elsewhere to help deliver on the original initiative. Much of the finance required for these business set ups has already been established and the real concern is that with the proposed extreme reduction in tariff that has now seen the market collapse will threaten and most likely extinguish many of these small and medium scale businesses and that the current economic market will further exacerbate the situation.

Q4: Do you agree or disagree with the proposal to introduce new multi-installation tariff rates for all new solar PV installations that meet the definition set out above and have an eligibility date of on or after 1 April 2012? Give reasons to support your answer.

Agree/Disagree

Comments:

In considering the Council's position with regard to this suggested proposal, we have considered both our tenanted housing stock as well as our operational and commercial premises.

Social Housing:

With regard to our social housing stock we would not support a reduction in the current level of FIT for installations up to 4 Kw. In considering to implement the initiative, the Council had recognised that the FIT tariff, whilst directly improving issues of fuel poverty through system installation, the generated FIT tariff would provide a self-funding opportunity in bringing forward proposals to address remaining areas of fuel poverty. We would consider that social landlord housing should be given greater consideration and assistance through the scheme in addressing the wider issue of fuel poverty rather than what seems the simple desire to reduce cost and profit return.

Commercial & Operational Buildings:

With regard to this building type and cognizance of the progressive steps in development and manufacture of PV hardware, we can appreciate the argument for the reduction in the level of FIT generation. We would, however, suggest that multi installation applications should be considered on the strength and merit of their individual business case requirement rather than subject to a uniform blanket level. It must be recognised that whilst development costs are reducing, energy costs are predicted to continue to rise to levels not yet determinable. We therefore suggest that there is strong merit in considering the introduction of regular reviews to assess and determine FIT generation against energy costs increases.

Q5: Do you agree or disagree with the proposed multi-installation tariff rates? Give reasons to support your answer.

Agree/Disagree

Comments:

As Question 4 above.

CHAPTER 2: PROPOSAL TO STRENGTHEN THE LINK BETWEEN ENERGY EFFICIENCY AND FITS

Q6. Do you agree or disagree with the proposal that for solar PV attached to a building, eligibility for the standard tariffs proposed in chapter 2 should be contingent on a minimum energy efficiency requirement being met? Do you have views on whether such a requirement should apply in relation to all buildings or just to dwellings or non-domestic buildings? Give reasons to support your answer.

Agree/Disagree

Comments:

In considering this proposal we have looked at the Energy Performance Certificates (EPC) associated with both our housing and non housing stock.

It must be recognised that over 70% of our property portfolio is of considerable age with a high degree of variety in both building type, construction and energy usage and performance. We recognise that the original FIT Initiative provided organisations such as ourselves with the opportunity to address one aspect of energy inefficiencies within such aged stock. However, in assessing the implications of EPC's on individual buildings, we have determined that there is no single initiative that can ensure that an individual building can move significantly within a EPC banding let alone move across bandings without significant and often prohibitive expenditure levels.

Whilst attaching a minimum energy efficiency requirement before PVs can be installed could be a means of encouraging householders to carry out basic measures, this could seriously disadvantage social tenants (and others). In Scotland, the current SHQS only demands an NHER of 5 which means that many properties would fail the requirement to have an EPC Band C and so would not be eligible for Application under the Feed-In Tariff Initiative. Again, this is considered unfair given that these tenants are paying the same fuel bill levies as those better off. The consequence would be that poor social tenants (and, indeed, other poorer residents of less energy-efficient housing) are subsidising those whose properties are already of a higher energy-efficiency standard.

Q7: Which of our two lead options for the energy efficiency requirement – requiring a building to achieve a specified EPC rating , or requiring the installation of all measures that are identified on an EPC as potentially financeable under the Green Deal - do you prefer for (1) dwellings, and (2) non-domestic buildings? Give reasons to support your answer.

Comments:

1 - Dwellings: We note the review identifies levels of cost associated with elements of energy efficiency. Whilst we appreciate the requirement for a level of cost estimated to gauge cost outlay and return, we consider that the geographical and economic regional variations within the United Kingdom should be applied when establishing likely benchmark costs. We also have reservation under paragraph 70 that financial support may be available for such a short period. We have made reference that the levels of finance required for other energy efficient improvements are both varying in degree of actual physical intervention as well as the timescales involved in addressing the overall levels of our stock.

2 - Non Domestic Buildings: The comments in paragraph 1 above also refer to non domestic buildings. Again we would note that under the Green Deal the review recognises that there is most likely insufficient funding available in terms of addressing alternative energy saving options. We are also aware that the Green Deal carries a significant award criteria that has the likely impact of making any energy efficient proposal, including FIT, prohibitive.

Q8: Under the first option for the energy efficiency requirement, do you agree or disagree with the proposal that the EPC rating required to be achieved should be level C or above? Give reasons to support your answer.

Agree/Disagree

Comments:

As noted in the response to Question 6 above both the building type, age and condition greatly inform the EPC banding. In the situation of Dundee City Council, the average banding of our housing stock is D/E in approximately equal amounts. We would suggest that where EPC ratings are to be considered that the realistic financially achievable energy efficient improvements of that property band should be one of the determining factors in considering the FIT application.

Q9. Do you agree or disagree with the proposal that, for a transitional period only, all solar PV installations attached to a building should initially qualify for the standard tariff, and their continued eligibility for that tariff should be conditional on the building to which the PV installation is attached achieving the energy efficiency requirement within a specified period? Give reasons to support your answer.

Agree/Disagree

Comments:

We do not agree for the reasons noted in Question 8 above. In addition it should be noted that the FIT tariff must be reflective of anticipated increasing energy costs which in themselves have an impact on any EPC review process over the life of the FIT Initiative. It would be unreasonable and unfair to set such stringent conditions without any recourse for the introduction of regular reviews over the remaining period of the FIT scheme.

Q10. Do you agree or disagree that this transitional arrangement should apply to installations with an eligibility date on or before 31 March 2013, and that the specified period should be 12 months from the installation's eligibility date? Give reasons to support your answer.

Agree/Disagree

Comments: As noted in responses above energy efficiency improvement that could be considered within individual properties will carry onerous financing requirements that in the vast majority of cases cannot be properly addressed within a 12 month period. The Review has to recognise that local authority organisations such as ourselves require to manage our overall property portfolio within our asset management plan that by necessity identifies priority expenditure.

Q11. Can you identify any other issues, besides those discussed in this chapter, in relation to the implementation of an energy efficiency requirement for (1) dwellings, and (2) non-domestic buildings?

Comments: The FIT Initiative is the first of the renewable incentives that heralded a significant opportunity for local authorities, communities and the private sector to move forward in seeking to address and improve the balance of carbon reduction, energy conservation and sustainability.

Dundee City Council has also embarked with proposed projects under the Renewable Heat Initiative which we see as a further stepping stone in our CO₂ reduction target. It is disappointing to note that this latest Initiative is now also the subject of a review in terms of funding availability.

