

Slimming FITs and Stealth Taxes

**THE CARBON
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GROUP**

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The Comprehensive Spending Review has been and gone. The upshot was to unsettle renewables funders and developers alike and, without consultation, to introduce a new energy tax.

The change with the most immediate consequences is the restriction of the Feed-in Tariff (the FIT). While the restrictions are not yet been in effect, we have a pretty clear picture of what will happen. We know that:

- ⇒ the FIT will be reduced by 10% in a review of the scheme in 2013
- ⇒ any "higher than expected" deployment of FIT-supported technology before that review will trigger an earlier review (HMG will "shortly" say what the trigger is to be)
- ⇒ the rules on field arrays will change: government has declared that field arrays should "not be allowed to distort the market" - which implies that we should expect change soon
- ⇒ government intends to encourage the FIT to roll out across the country

Despite all that we know about government intentions for the FIT, we don't know two key things.

First: we don't know if other forms of PV will be left alone until the 2013 review. This particular uncertainty should be dealt with by government urgently.

Second: we don't know whether the 2013 review and its envisaged 10% efficiency savings can be met by removing field arrays from subsidy at an earlier stage. If they can't, it would be helpful to know if all forms of installation are under threat.

Market reactions to this uncertainty are wholly predictable. Investment for some projects has dried up and that for others is available only in a rapidly-closing window. Development of FIT-supported schemes will stall altogether unless the government takes prompt steps to remove the uncertainties.

The other main Spending Review announcement affecting the energy market was that the much vaunted en-

ergy emissions trading scheme, the Carbon Reduction Commitment (CRC) Scheme, had been brought to an end to be replaced by a tax with the same name.

It's hard to know what to think about this extraordinary, last-minute *volte face*. Large numbers of organisations have spent months and not insignificant resources gearing up for a trading scheme. This was to be a trading scheme in which companies bought allowances, made efficiency improvements and traded on the market.

CRC companies were also to be ranked into a league table. Those achieving positions at the top end would recoup all the income government obtained from selling allowances.

It won't now happen. There won't be tradeable benefits or profits to be derived from having a better profile than the next company. The government has said that it will keep all the proceeds of allowances sales. It hasn't yet got round to correctly describing this as an energy tax.

The justification for this is that the CRC scheme is too complex.

Read that again: the reason for doing this is that the CRC scheme is too complex. So government officials and ministers have assiduously repeated.

Despite this justification for changing the rules of the CRC so expensively and so late and despite the insistence that the scheme must be made much simpler, the proposed reform will keep those very features that made it so complex: the league table, the different matrices, the calculations of a league-table position against the matrices.

The absurdity of this contradiction (absurd because so very blatant) exposes that the reasons given for changing the incentives of the CRC scheme are not the reasons for doing so at all. It also exposes that the changes were made and the explanation given at a time when no-one had time to come up with anything better.