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Rewriting the rules: how UK policy change could derail Clean Power 2030

The view from a solar investment manager

Summary

The UK Government is considering retrospective changes to the Renewables Obligation ("RO") and Feed-in Tariff ("FiT") schemes, which support solar and wind projects accredited between 2002 and 2019. The proposals would alter how inflation is applied to the revenues these generators receive for producing clean electricity.

Impact

The implications for both consumers and investors would be significant.

The Government estimates the proposed change could reduce average annual household energy bills by around £5, a welcome saving during a cost-of-living crisis. However, this short-term benefit overlooks the long-term damage such a move would cause.

Under its Clean Power 2030 (CP30) plan, the Government aims to enhance energy security and lower power prices on a sustained basis through large-scale investment in new clean generation and storage. Delivering this ambition requires tens of billions of pounds of private capital, attracted by a stable and predictable policy framework. Retrospectively changing the inflation linkage for existing RO and FiT projects would undermine that stability, damaging investor confidence and increasing the perceived political risk of investing in UK infrastructure.

Although the proposed changes apply only to closed schemes, their impact would be system-wide. Investors active in or considering new projects will question whether the UK remains a safe and reliable destination for long-term capital. The result will be a higher cost of capital and reduced investment appetite. That means less new generation capacity, and what is built will cost more – leading ultimately to higher energy prices for households, not lower.

Why cost of capital matters

The cost of capital determines the Levelised Cost of Energy (in other words the all in price per MWh delivered). Put simply the cheaper the financing, the cheaper the electricity costs and the less the consumer pays.

UK Government's Department for Energy Security and Net Zero (DESNZ) analysis stresses that LCOE is highly sensitive to discount rates and our distillation of various sensitivities from academic institutions gives sensitivity analysis showing that a c.1% increase in discount rate (a proxy for the Weighted Average Cost of Capital) increases the Levelised Cost of Energy by c.6-9%. We estimate that a 5% increase in LCOE from new renewable projects translates roughly to a 2–3% increase in household electricity bills, or about £25–£35/year per household, depending on renewable share and policy frameworks.

The above analysis is our initial internal analysis. We are engaging third party advisers to update and validate the analysis for our consultation response, which will be submitted to DESNZ and released to the public.

Renewable technologies such as solar PV are currently the fastest and cheapest forms of new power generation. Undermining confidence in this sector cannot be offset by investment in other technologies, which are slower and more expensive to deploy. In every realistic scenario, the proposed policy would leave GB consumers worse off overall.

The consequences of this proposal for consumers and investors are severe and therefore these proposals should not be progressed.

NextEnergy Capital and NextEnergy Solar Fund

NextEnergy Capital (“NEC”) the Investment Adviser to NextEnergy Solar Fund ("NESF") has one of the strongest track records in UK renewables of raising and deploying capital into the GB energy system. We strongly believe in the UK’s energy transition and intend to commit in excess of £1bn to the market over the coming years. This will help deliver a secure and affordable electricity system for industrial and domestic consumers, and in support of this we have already attracted and invested more than £1.5 billion in UK solar and storage since 2014. This includes assets supported by the RO and FiT schemes in our listed fund, NESF.

NESF published an update to the London Stock Exchange, the update includes more information on the potential impacts for NESF, and NESF will publish further updates at Campaigns - NextEnergy Solar Fund.

At NEC we welcome constructive debate on renewable energy investment policy. We are seeking to engage with the Government to offer practical solutions that achieve the same goal without undermining investor confidence or jeopardising CP30. We will also publish our detailed response to the current consultation in due course.