MAYOR OF LONDON

IS SOLAR PV ON A COMEBACK?

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Opportunity and interest in solar PV for social housing are growing again. Several funded offers are available on the market and there is growing confidence in reducing install costs for big schemes. **RE:NEW** is working with housing organisations to assess funded offers against self-financed schemes.

Context

Substantial cuts to Feed-in Tariffs (FITs) in 2016 meant that many organisations put their solar investment plans on hold. 2017 is a good time to reassess this decision, with an outlook of relative stability and several moves in the market likely over the next 18 months, notwithstanding a BEIS review in December 2017. The industry needs to move quickly to take advantage before FITs end in 2019.

With current FIT levels, solar PV, though not highly profitable, can still be a very cost effective means for social landlords to increase SAP ratings, reduce tenant energy bills, address fuel poverty and reduce CO_2 emissions.

Funded solar offers the potential to improve SAP ratings and reduce tenant energy bills with no capital cost. In their current form funded schemes will usually include some form of tenant contribution to the installation, either through fixed monthly payments using a Green Deal mechanism, or through an energy supply contract.

Mortgage approval issues have largely been overcome since 2012, with most lenders recognising rooftop leases that comply with guidance from the Council of Mortgage Lenders.

What are the returns?

Under the current FIT regime, a social landlord investing in solar at scale might expect to recoup in the region of 60-80% of the capital investment over the lifetime of the 20 year FIT subsidy. While this remains a cost, it means solar can be a very cost effective measure for increasing SAP points and reducing energy bills. Add in the potential for cheap loan finance, for example through the upcoming Mayor's Energy Efficiency Fund (MEEF), and this could be an attractive investment.

Funded solar removes the need for finance all together. While these offers were thin on the ground in 2016, in today's market they have re-emerged, usually going beyond simply a PV installation. Combined solar and energy supply offers may provide a modest payment to the landlord, either through profit share, fixed rental payments or an agreed lump sum. The size, cash flow and risk sharing of such payments are subject to some variation between providers and will be negotiated depending on the business model, the type and size of scheme, the degree of solar potential across a stock and the landlord's own needs.

Third party payments are likely to be substantially lower than under previous iterations of the FIT regime. With FIT subsidies reducing further and ending in 2019, these payments are unlikely to increase.

What can tenants save?

The major difference for tenants between third party and self-financed schemes is likely to be the billing arrangements. Under self-financed schemes tenants are likely to have free access to solar generation, whereas funded schemes usually include an energy supply offer to the tenant (though there are exceptions to this in both cases).

Funded solar and supply offers come in a variety of forms, from a fixed monthly payment to a supply contract with an energy provider attached to the offer. Depending on rates, it is possible that tenant savings could be comparable under either scenario given that funded solar may provide lower costs at peak times (though savings may also be compared with simply switching energy providers).

Procurement

Whether self-financed or third party funded, specialist procurement advice should be sought and a clear evaluation and appointment process should be followed in accordance with regulatory requirements.

Concession Contracts Regulations 2016 require concessions with a total contractual value above £4.1m to be advertised via OJEU. This would likely catch all funded solar offers as the valuation includes all revenue driven by the concession including FITs for 20 years, as well as potentially a supply contract with the tenants.

Please contact Jamie for more information on RE:NEW's services.
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Lender consent

Many landlords are averse to funded schemes because of perceived opposition from lenders. In most cases this issue should now have been resolved.

The Council of Mortgage Lenders has standardised requirements for solar rooftop leases. These are available for download on the CML website. Most mortgage lenders should now accept a compliant lease and experienced solar developers should be able to provide compliant wording.

The process of gaining lender consent may still be lengthy and expensive. Third party providers will be well versed in this process and may be willing to support landlords and pay their costs.

Landlords should approach their lenders at an early stage for further guidance on their review process and any particular conditions they may have.

Contractual negotiations

The principle of third party solar should present a fairly attractive proposition – increased SAP ratings, reduced tenant bills, and cash income for a landlord. But beyond the headline proposition landlords need to consider the delivery experience and financial standing of third party operators. Financial modelling will need to be scrutinised and arrangements put in place to account for cyclical housing maintenance programmes, access, and liability insurance.

Risk and reward

With funded schemes key issues include right to buy, potential damage to roofs, repair bills, installation management, and penalties for times when roofs need to be replaced, homes redeveloped or electricity disconnected.

A self-funded scheme is less complex contractually, reducing legal costs and allowing a social landlord more control over assets. However, landlords do need to be aware of the administrative risks and burdens of maintaining solar performance across a large solar portfolio.

Technical considerations

The final solar solution will vary depending on the business model which may impact on the number of homes that are able to benefit from solar.

A good knowledge of the solar potential of a housing stock can be helpful in understanding how solar options compare. A desktop study using satellite imagery should be undertaken in the first instance to give an estimate of solar potential. This would then need to be confirmed through more detailed on-site surveys by the appointed contractor to identify any further technical considerations such as access points, detailed shading calculations and structural strength of roofs.

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