

PHOTON: change to solar electricity payments ensures long-term market growth in Germany

Jan. 20, 2010: Anne Kreutzmann, Editor-in-Chief of German solar electricity magazine PHOTON, responds to the German Environment Ministry's proposal to adjust payment levels for solar electricity:

"Federal Environment Minister Röttgen has cleared the path for the installation of many more solar electric systems in Germany. Germany's Renewable Energy Law (EEG) can only function effectively if feed-in tariffs are set according to production costs. That's exactly what the Ministry's planned changes to tariff levels will achieve. The EEG allows for the generation of the largest possible quantity of solar electricity at the best possible price. This ensures that solar electricity will play an important role in Germany's energy mix in the immediate future."

PHOTON responds to each of the Ministry's suggested changes:

Reduction of payments by 15 percent for rooftop systems, and 15 to 25 percent for ground-mounted systems: An unscheduled reduction in payments became necessary, because world production of solar modules has grown much faster than foreseen in the initial EEG. Production costs have decreased faster than the EEG's solar electricity payment levels. According to PHOTON's research, payments – also known as feed-in tariffs – should be reduced by 20 percent. The industry can easily cope with a 15 percent cut. These new tariff levels won't slow growth for the foreseeable future. While systems on agricultural land will receive 25-percent lower tariffs, this will serve to separate the wheat from the chaff. This market will be left to manufacturers with the most efficient production, who will demonstrate just how inexpensively solar electricity can be generated.

Starting Jan. 1, 2011, any growth beyond 3,500 MW will result in an additional tariff reduction of 2.5 percent. Every 1,000 MW beyond that level will further reduce tariffs by 2.5 percent, up to a maximum of 10 percent. If growth is only 2,500 MW, then tariff cuts will decrease by 2.5 percentage points less than scheduled. Tariff cuts will continue to decrease by 2.5 percentage points for each additional 500 MW under 2,500 MW: Tying tariffs to market growth is not a good idea. A reduction in costs is tied to the development of production worldwide, not growth in a single market. But in this proposal tariff levels don't follow cost curves; they are tied to market development. In addition, planning reliability for business owners suffers, and this in turn adds unnecessary cost to solar electricity. On the other hand, the originally planned reduction of tariffs on Jan. 1, 2011, by 10 percent reflects estimated cost reductions, and therefore is not problematic for further growth.

More support for own consumption: With a larger share of solar and wind electricity feeding into the grid, consumption must be adapted to production. There are a number of possibilities, for instance, load management using smart grids and storage systems. The most logical solution would be to optimize "Germany's entire electricity grid." Minister Röttgen's suggested strategy of optimizing production and consumption at the household level, on the other hand, heads in the wrong direction. For example, potential system operators could build systems that are sized optimally to fit only their own needs, even if the actual available roof space would allow for much larger installations. Furthermore, it remains to be seen whether this subsidization method is even constitutional.

No cap on growth: By refusing to put a cap on market growth, Germany's Environment Minister Röttgen has established optimal preconditions for ensuring that solar electricity will quickly become an inexpensive source of energy internationally. Despite these changes in tariff levels, PHOTON still estimates that PV power will grow by between 5 and 10 GW in 2010. This is a major victory for climate protection.

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