

Financial Incentives to complement a STO

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Description:	A STO can be a vital tool to speed-up the market penetration of solar thermal solutions. But without flanking measures, even a STO will fail to have a significant impact, because it only addresses a part of the potential use cases of solar thermal. This paper gives an overview of Financial Incentives Schemes which can be used as a complementary measure for a STO.
Link/Download:	http://www.estif.org/fileadmin/estif/content/policies/downloads/Financial_Incentive-solar_thermal.pdf s

Introduction

In many places, Solar Thermal is still a niche market. It therefore meets specific challenges for growth, such as low awareness amongst decision-makers, unavailability of trained and motivated professionals (architects, planners, installers) etc. Some of these can be overcome by making solar thermal a general requirement in buildings. However, a STO typically covers only a part of the overall solar thermal market, e.g. only buildings and only when they are newly built or when major changes to the buildings or the energy technology are taking place. Flanking measures are necessary to help develop also the “voluntary” market segments, e.g. larger solar fractions, other applications like solar cooling, solar industrial process heat.

Financial incentive schemes (FIS) have been – and continue to be – a vital component in the development of solar thermal markets. The Austrian and the Greek solar thermal market, which in terms of per-capita installed capacities, are the second and third biggest in Europe, were developed with financial support from the government. In Greece, the financial incentives for the installation of solar thermal in private houses have long since ended, but support is partly available for large or innovative applications. In Austria, most federal states have supported solar thermal for decades – through awareness raising campaigns, the training of installers, research and development programmes, and through direct financial incentives to those who install solar thermal systems in their buildings. The different measures complement each other and thus address a wide range of challenges currently met by solar thermal. Once solar thermal has reached a critical mass, financial support can be reduced and finally be phased-out.

Types of Financial Incentives Schemes

Grants (direct support to investment)

A grant is a direct support to investment provided by a public authority to those who either purchase or install a ST system, thus reducing their investment costs. So far, this has been the most common FIS for ST in Europe. It is, or has been, provided in a number of European countries by local, regional and national governments.

Experience with direct support to investment for ST is heterogeneous: In numerical terms, the German “Marktanreizprogramm” (Market Stimulation Programme) is the most successful programme ever. And there are many excellent examples of solar thermal grant schemes at regional or local level. However, there are also a number of bad examples where the concrete design or implementation of the scheme has led to market disruptions and sometimes did more harm than good (see below for an overview of success criteria of a good FIS).

Loans at reduced rates

The investment on a ST system can be supported by loans offered at a lower-than-market interest rate. And in principle, a privileged loan is a very appropriate answer to one of the main barriers to growth for ST, i.e. the higher upfront investment cost compared to a conventional heating system. The loan leads to spreading of the investment costs so that the energy cost savings of the solar thermal system can be used to pay off the loan.

Low- or no-interest loans have been successful in cases where they complemented other support policies. As a complement to a STO, such a favourable loan can be an important incentive to invest into a larger than required solar thermal system, which saves more conventional energy than the one required by the STO.

Especially for commercial buildings, such as hotels and office buildings, with their commercial building owners, a low- or no-interest loan can make the difference between fulfilling just the bare minimum required and investing into a more capable solar thermal system, covering a larger share of the heat demand.

Key success criteria for any Financial Incentive Scheme

Many criteria contribute to the success of a FIS. The document “Financial Incentives for Solar Thermal. Guidelines on best practice and avoidable problems” (see link at the beginning of this document) analyses them in detail. The most important ones are:

- Continuity of the FIS
- Coherence of the parameters
- Simplicity of the application and payment procedures
- Public relations for the available FIS

Continuity

FIS can help to provide a positive investment climate not only on the demand side but also on the supply side (installers, planners, manufacturers etc.). But if the market participants have the impression that they cannot count on the FIS, they will be overly cautious and the result of the FIS will be lower than expected.

Worse, a FIS which changes frequently can create a stop-and-go dynamic in the market, by quickly influencing demand: when the incentive programme is announced, no one buys because consumers and decision makers wait for the financial incentives to become available. Then, when the financial incentives are available, the market grows quickly. When the end of the FIS is announced consumers rush to quickly get the support as long as it is

available. But shortly afterwards the market contracts considerably. In such a stop-and-go market companies are reluctant to invest e.g. in the solar thermal specific training of employees.

Only continuity over time will ensure that a FIS has a longer-term positive effect on the development of solar thermal in a municipality.

Coherence of the parameters

The requirements in a FIS must be tailored to the targeted technology/application/target group. For example, if the FIS targets individual households the technical requirements should be set so that they fit with the rather small solar thermal system needed. Requirements for incentives given to builders/owners of office buildings should take into account the typically larger systems and the different decision maker.

Where the requirements do not fit with the relative target, they quickly hamper the success of the FIS.

Simplicity of the application and payment procedures

Obviously, the easier it is for a consumer to apply and receive financial incentives, the more attractive the FIS will be to him or her and the more likely the consumer will install a solar thermal system which exceeds the requirements of the STO or install a solar thermal system in a situation which is not even covered by the STO (e.g. a minor renovation of his existing building).

Public relations for the available FIS

Obviously a FIS can only be successful if the consumer or decision- maker knows about it. Therefore, any FIS should always be accompanied by some sort of awareness-raising (public relations, campaign...). Otherwise a great FIS can fail very quickly.

Conclusion

A FIS can greatly support the uptake of solar thermal in the building sector. By getting consumers and decision-makers to over-fulfil the STO or by getting them to install a solar thermal system in situations, where he or she is not even required, the FIS can complement a STO. Many factors determine the success of a FIS and should be taken into account when designing and implementing a financial incentive scheme supporting a STO.

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