

Exclusive content taken from *Solar Power, Second Edition*

# Legal, regulatory and industry frameworks

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## Introduction

Solar power is a technology which can provide utility-scale clean power at an affordable price in places which get a good amount of sunlight. The plunge in solar technology costs, among other factors, has catalysed significant deployment of solar projects across the globe. Investors are keen to take advantage of the efficiencies offered by these developments while seeking a sufficient measure of stability to enable the necessary financial decisions to be made. Part of that stability is afforded by the legal and regulatory framework within which projects progress. However, this framework may also aim to achieve a number of other objectives, such as:

- progressing and implementing social, policy and environmental objectives;
- ensuring the proper integration of solar projects within the wider industry matrix of legislation, codes, contracts, permits and guidance documents;
- providing routes to market for the power produced from projects; and
- where subsidies exist, ensuring that the project is, and remains, eligible for such subsidies.

The dynamic nature of the solar industry has sometimes made governments and regulators feel, in responding to demands from investors for certainty and clarity, that they are seeking to establish enduring, stable and reliable policies on ever-shifting sands. Nevertheless, left to themselves, price signals from liberalised electricity markets generally tend to favour the safest investments. This disadvantages projects with high upfront capital expenditure (compared to operating costs), such as solar projects. Therefore, despite the difficulties, supportive national policies – in particular, specific renewables targets, arrangements for stable revenue streams and formal procurement programmes for solar projects – have been crucial to the success and growth of the solar sector. With the advent of subsidy-free solar, even in northern climes, the key to continued future growth will be for these policies to provide a sufficiently stable landscape for supply chains to be established and bed down, and for the economic benefits of greater scale to be fully realised.

This chapter provides an overview of the main considerations for solar projects in respect of the overarching legal, regulatory and industry frameworks, with specific details drawn from the regime in the United Kingdom and selected other jurisdictions to illustrate the approaches taken. It shows that the solar industry is in a period of major transition. The industry has long looked to legal, regulatory and industry frameworks to:

- help to give solar projects preferential access to the system;
- provide a policy backbone of decarbonisation; and
- in most cases, provide subsidies to help solar projects achieve financial returns that justify investment.

The solar industry is now having to adjust to a new reality – one in which, particularly in Europe, projects must proceed without the benefit of a highly supportive policy blanket. In this more Darwinian world, revenue streams are potentially fixed at below market prices or left entirely for projects to agree with offtakers. While formal procurement programmes for new solar projects remain in many countries, many



of those governments and regulators that have invested in solar programmes in the past are now looking for the sector to become less reliant on government policy and to proceed on a merchant or corporate power purchase agreement (PPA) basis. Legal frameworks can both support and actively destroy value in the sector – as was demonstrated by the examples of retroactive changes to subsidy arrangements for renewables a few years ago. However, as solar projects become increasingly self-sufficient, their exposure to such intervention is diminishing.

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