

Japan solar: sunset on greenfield

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Generous feed-in-tariffs (FIT) drove the growth of Japan's solar market. But with the government cooling on solar, industry players expect new greenfield developments to dry up.

In a bid to jump start solar installations, in part with an eye to help Japanese solar panel manufacturers, Japan's Ministry of Economy, Trade and Industry (METI) set a generous FIT of ¥40 (\$0.36) per kWh in the year ending March 2012.

The solar FIT has been cut every year since but has remained high:

- 2013 – ¥36 per kWh
- 2014 – ¥32 per kWh
- 2015 – ¥28 per kWh
- 2016 – ¥24 per kWh
- 2017 – ¥21 per kWh

The tariffs triggered a stampede to acquire the FIT licenses. By the end of June 2016, some 640,000 solar FIT licenses with a combined capacity of 5.1GW had been granted.

To clamp down on what it saw as speculative and sometimes frivolous licence holders, the Japanese government announced in May 2016 that it would nullify legacy FIT licences if the developers had not signed grid connection agreements with an electricity distributor by 1 April 2017.

Following the passing of the deadline, METI estimated [nearly 2.8GW](#) worth of licences would be cancelled.

However, the strategy has been successful overall. The FIT regime doubled installed solar capacity to 1.4GW in 2012 and the market has continued to grow – by the end of 2017, Japan had nearly 5GW of installed capacity was the world's fourth largest solar market, according to International Energy Agency data.

Victim of its own success

The government's policy, set in 2015, was to increase the proportion of renewable energy to 22-24% of total electricity generation by 2030, with solar representing 7% of the total.

That 7% target has now been met well ahead of schedule, prompting the government to attempt to cool the market.

"Political pressure about high electricity prices has been rising and the government now thinks Japan has enough solar," Linklaters Tokyo partner Hirofumi Taba told *IJGlobal* in an interview. Linklaters was the legal adviser for Sonnedix on its 42MW Sano solar plant that reached financial close in [July \(2018\)](#).

The effort to cool the market has not worked out too well. In mid-2017, METI floated the idea of cutting the solar FIT to ¥18 per kWh in the fiscal year starting April 2018.

The government instead opted for reverse auctions.

The first reverse auction was held in November 2017 and attracted just [141MW of bids for 500MW](#) of capacity despite a tariff ceiling of ¥21 per kWh – and was eventually cancelled altogether after almost all the bidders dropped out.

The second auction was held in August (2018) with a tariff ceiling at ¥15.50 per kWh. The auction failed to attract the full 200MW of bids – and with the lowest bid coming in at ¥16.47 per kWh, was [promptly cancelled](#) in early September.

METI is apparently now resigned to finally setting a FIT for the fiscal year ending March 2019, of ¥18 per kWh. Undeterred by the high cost of

development in mountainous Japan, METI is hoping to cut the FIT to ¥8 per kWh by 2022, according to local media reports.

That new ¥8 per kWh FIT target is unlikely to be met, one Japanese renewables developer who participated in the first but not the second auction told *IJGlobal*. The FIT “will probably stay at ¥18 per kWh for at least a couple of years,” he predicted.

Winding up

The boom in greenfield solar development appears to have come to an end and with the lower FIT is likely to slow if not end any new activity, the Japanese renewables developer said.

For renewables bankers in Tokyo, their immediate pipelines remain dominated by solar. But, “we are wrapping up the financing on the FIT certified projects we have over the next two years and don’t really expect to see much after we finish them up,” one of them told *IJGlobal*.

The pool of new projects to be funded has dried up to the point that Japanese banks, which had shied away from funding international developers, have begun financing them and have “effectively priced out the internationals”, according to Linklaters’ Taba.

The spread on the 19-year term loan on the project financing package of a typical medium sized 35MW solar farm in Japan is now hovering at just over 110bp over Tokyo Libor, *IJGlobal* understands.

Looking ahead, the next trend for solar is likely to be brownfield M&A, by bundling Japan’s typically smaller solar farms into portfolios, according to Taba.

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