Partnerships for Renewables

Response to the EMR Consultation Questions

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1. Partnerships for Renewables (PfR)

PfR was founded in 2006 to originate, develop, construct and operate 500MW of renewable energy projects on publicly owned land. In comparison to the growing number of projects developed on land in private ownership, the company identified that there had hardly been any commercial scale development on land owned by public bodies (other than on parts of the Forestry Commission estate). PfR is owned by HSBC Environmental, Carbon Trust Enterprises and the Canadian pension fund OP Trust.

After five years in operation, PfR has signed up nearly all the projects required for its 500MW portfolio and is taking the sites through development. The projects range from single turbine sites to large >50MW schemes and are located on land owned by the Ministry of Justice, British Waterways, the Forestry Commission, the Environment Agency, Oxford City Council, Reading University and a number of other public sector bodies across the country.

Please note that the views expressed in this response are those of PfR only and not of any of its shareholders or connected bodies.

2. PfR's key concerns

The three key issues which concern PfR in relation to EMR are:

a) Maintaining support for small scale (up to 10MW) on-shore wind

Please note that this section of PfR's response particularly addresses question 9 in the consultation on the effect of the FIT with CfD model on different types of generators.

PfR is concerned that small scale on-shore wind (up to 10MW) could be detrimentally bracketed in the new EMR regime with larger scale on-shore wind categories or even with other competing technologies. PfR proposes that small scale on-shore wind (up to 10MW) sites should be separately banded for support within the new EMR arrangements.

The economics of small scale wind are substantially different to those of larger schemes. This is documented in the evidence provided by Ernst & Young to the banding reviews for the RO and in the Energy Review. The fixed costs involved in the development of a wind farm are broadly the same for all sizes of schemes.

Sites up to 5MW are catered for by the existing FIT arrangements. However, just above this level, in the band up to 10MW, they are bracketed with the whole onshore wind sector. At the moment, smaller sites are often more politically acceptable from a landscape and visual point of view and as a large and relatively unexploited sector, they are capable of making a substantial contribution to DECC's renewable capacity targets.

Please note that PfR is willing under separate cover and in confidence to share commercial details with DECC about its portfolio make-up of <10MW sites so as to justify this suggested cut-off figure for small scale on-shore wind.

b) Avoiding auctions for setting FIT with CfD model prices

Please note that this section of PfR's response particularly addresses question 31 in the consultation in relation to auctions.

The NFFO regime in the 1990s (the last time the UK government sought to promote large scale wind with a Feed in Tariff system) ultimately failed because the companies that won the latter NFFO contracts (particularly NFFO 4 and 5) low-balled the auction and were then not able to deliver their renewable volumes at the prices they bid. The key lesson from this period is that it is, in practice, very difficult for governments to manage this sort of low-balling behaviour (NFFO tried and failed with its "will secure" tests) in a competitive auction environment.

PfR strongly supports price-setting under the FIT with CfD model using administratively determined processes, rather than through an auction or tender.

c) Avoiding a hiatus

Please note that this section of PfR's response particularly addresses question 35 in the consultation on strategies to avoid a hiatus.

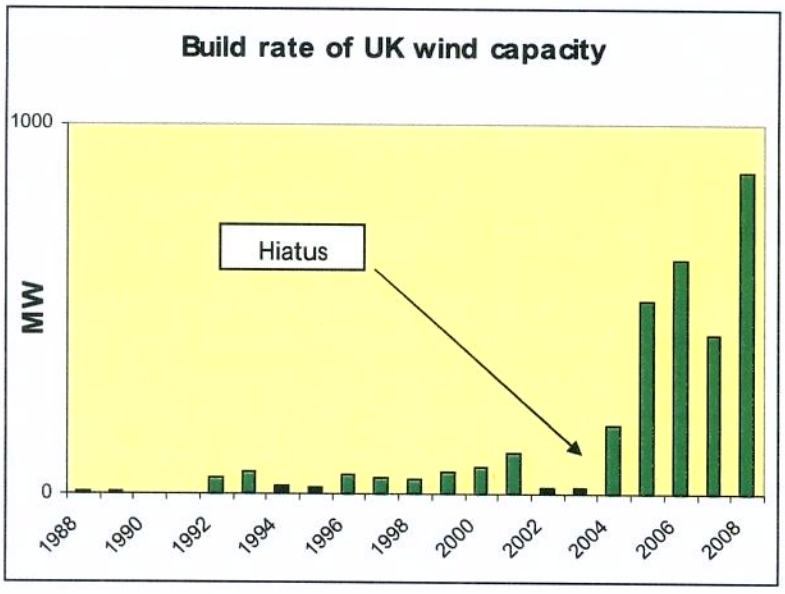
When the Electricity Pool and NFFO were superseded by NETA and the RO between April 2001 and April 2002, there was a hiatus of approximately two years (2002 and 2003) in the build rate of UK wind capacity (see table below).

As strategies to avoid a hiatus following the introduction of the FIT with CfD model, PfR proposes:

The new regime should be financially more attractive than the current RO system, so that generators and stakeholders have an incentive to take up this contracting structure from its introduction in April 2013. If the new FIT with CfD model is only on a par with or less attractive than the RO, developers will stick to the RO regime until the cliff-edge of April 2017 and there will be a hiatus for a few years thereafter whilst stakeholders come to terms with the new regime (as in 2002/3) Under this proposal for the FIT with CfD to be at a premium to the RO regime, there would be four years for the new regime to bed down, helping to reduce the hiatus.

DECC should create a floor price for the "export" tariff under the new FIT with CfD model, in much the same say as schemes operating under the <5MW FIT currently have the option of selling their output at a floor price (£30/MWh) or potentially achieving more by trading in the embedded generation market. The provision of a floor price, set at a level just below the market price achievable (currently around £45/MWh) would encourage generators to sell their output in the market above the floor price, encouraging liquidity and promoting system integrity. However, from a project finance point of view, lending banks would be comforted by the floor price. Developers would avoid the time-consuming and potentially hopeless task of having to get financial backers comfortable with the mechanics of the new market before it settles down.

Table: Build rate of UK wind capacity



3. Additional points on FIT with CfD versus the RO

Although the three issues mentioned above are PfR's key concerns under EMR, PfR is taking the opportunity to make two further points on the FIT with CfD model which it broadly welcomes as part of the EMR package.

a) Risk allocation under the FIT with CfD model

Please note that this section of PfR's response particularly addresses question 5 in the consultation on risk allocation under the FIT with CfD model.

PfR believes that the large vertically integrated licensed suppliers are profiting substantially but perhaps unnecessarily from the RO. Either as a reward for the risks that are taken or, arguably, by exploiting their market power, licensed suppliers offering long term PPAs capture between 10% and 20% of the customer receipts raised in support of renewable generation under the RO.

ROCs can only be purchased for redemption by licensed suppliers. Only licensed suppliers have the obligation to discharge.

PfR proposes that the CfD is contracted through a more credit-worthy quasi-governmental body such as the Non-Fossil Purchasing Agency, allowing generators and customers to win at the expense of the supply companies.

In turn, generators under the new FIT regime could then enjoy better gearing for their project finance. There would also be opportunities, as under NFFO, for the contract forms to coalesce around a standard format, reducing financing transaction costs and allowing greater transparency and competition.

b) Price signals to intermittent generation

Please note that this section of PfR's response particularly addresses question 6 on price and market signals.

Some commentators have highlighted the difficulty of intermittent generators managing their exposure to a market reference price in the FIT/CfD regime proposal. This is the exposure to the difference in each half hour trading period between, on the one hand, the wholesale reference price for the calculation of the CfD and, on the other, the actual amount received by the generator from the sale of its embedded generation to a licensed supplier.

Although these imbalance risks undoubtedly will materialise under the new FIT, they are not different in substance to the risks that generators currently bare under the NETA/BETTA arrangements.

Under these current arrangements, it is worth noting that imbalance exposure has not proven to be as disadvantageous to smaller intermittent players as was first imagined (and feared) at the advent of NETA/BETTA. In the context of a realised value of say £90/MWh for ROCs and power, short term wind imbalance exposure costs perhaps 1% or 2% (e.g £0.90-£1.80/MWh) of the value compared to a charge of perhaps 0.5% for a very reliable form of embedded generation[1].

The cost of this imbalance exposure is an order of magnitude less than the benefit to be gained, as described above, from removing suppliers from their position as risk-takers within the ROC redemption supply chain (charging c.£15/MWh for "risk taking" under long term PPAs). The costs are on a par with certain embedded benefits.

Wind generation from a sub-100MW wind farm is no more unpredictable than supply to certain industrial processes. If EMR or associated market reforms improves liquidity, the discounts suffered by wind generators should narrow under the new market. Under its separate Ofgem review, DECC should aim to encourage liquidity and aggregators in this market.

Some commentators have also argued that suppliers will not have an incentive to buy power under the FIT with CfD model. In support of the government's proposals, it is worth remembering that suppliers do not have an obligation to buy power under the RO, but they still do. This is partly because there are substantial margins to be made by large suppliers from their strong position aggregating customer loads and embedded generation. It remains an entirely commercial decision how imbalance costs are charged to component members of a supplier's portfolio, be they large customers, small customers or embedded generators.

[redacted]

[1] These cost estimates can be evidenced by comparing the results of NFFO auctions by the Non-Fossil Purchasing Agency (NFPA) for wind output against prevailing power and ROC markets at the time of the auctions.