



Ensuring Route to Market

**- developing a package of measures
for independent renewable developers**

Phil Hicken, DECC

Overall objectives – role of independent renewables



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- The Government's energy and climate change goals are to deliver secure energy on the way to a sustainable, affordable, low-carbon energy future and drive ambitious action on climate change at home and abroad.
- To meet these challenges an estimated £110 billion of investment in electricity generation and transmission is needed in this decade alone. Our analysis shows that around £75 billion could be needed in new electricity generation capacity.
- In the renewable sector independent developers have played an important role in delivering new capacity and we expect them to continue to make a material contribution to delivering investment and meeting our targets.
- E.g. based on data from the renewables pipeline, independent developers (i.e. those not connected with a major utility), are responsible for over 70% of all capacity in planning in onshore wind, and around 4.5GW of offshore capacity.

We need to ensure that independent renewable developers have a viable route to market to enable them to play their part in contributing to our overall objectives. This is fundamental to the success of our EMR programme.

- Some developers are concerned that the CfD is too complicated for community/smaller scale projects. The CfD will provide earlier certainty, but there may be challenges for smaller developers in engaging with the new system e.g. as intermediary services develop.
- Some developers are concerned that there will not be enough competition in the long-term PPA market.
- That the long-term PPA market might be constrained because of uncertainty of imbalance risk.
- As a consequence independent developers may not have suitable routes to market that satisfy their lenders.

Lenders need to be satisfied that risks are covered. Unlocking the short-term PPA market and/or lender confidence in a wider range of counter-parties are the key challenges.

A strong package can support independent developers



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- CfD removes significant risks and should thereby lead to simpler, more transparent and potentially cheaper PPAs
- AND**
- Consider the significance of imbalance and approaches to reduce exposure to imbalance risks/costs (e.g. GPAM; indexed strike price) in ways that retain important incentives.
- AND**
- Action on market liquidity – *led by Ofgem*
- AND**
- Ease the transition to the CfD: standard contracts; code of practice; and work with investors to raise understanding.
- AND**
- Energy Bill has provision to introduce supplier obligation if that is necessary

DECC has established a Steering Board to help us strike the right balance for this package

Previous workshop discussed possible approaches to addressing issue



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- Previous workshop discussed possible approaches to addressing issue – although no clear consensus what the underlying problem is.

Lack of competition in the market / investor confidence?

Difficulty pricing imbalance risk appropriately over long term?

Inappropriate allocation of imbalance risk?

- Ultimate balance of required package will be determined by the nature of the problem to be addressed.

We commissioned analysis from Baringa, Mott MacDonald and Cornwall Energy to help identify the nature of the problem.

The PPA market under the CfD

- Drivers for recent changes in the PPA market
- Outlook for PPAs under CfDs

Analysis of imbalance risk

- Impact of imbalance on project economics
- Outlook for imbalance risk in the long-term

Strategies to mitigate imbalance risk

- Commercial mitigation options
- Technical mitigation options

Small-scale FIT threshold

- Would guarantee route to market and remove imbalance risk from all qualifying projects
- Government is considering whether the small scale FIT threshold should be raised from 5MW
- Would only address issue for smaller end of sector

GPAM

- Short-term PPA auction used to set site-specific CfD reference prices
- Guarantees route to market and protects generator from all imbalance risk
- Similar to a Fixed FiT from generators' perspective
- Would require back-stop provision to reassure financiers e.g. in event of auction not clearing

Strike price indexation

- Indexes the CfD compensation for imbalance to a proxy for imbalance costs
- addresses the long-term uncertainty over imbalance costs
- maintains incentives for generators to manage short-term imbalance risks
- question of how to construct the index – could have very different impacts
- Would require alignment with terms of PPA to ensure the right level of compensation



- Do proposals address the problem?
 - do they improve the availability and terms of bankable PPAs
- What are the costs and risks to the consumer?
- Are they robust to the changing generation mix?
- Are they compatible with the EU Target Model and State Aid rules?
- Are they compatible with moves to competition for CfDs?

Legislative timetable for any amendment



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- End April/early May 2013 – Advice to Ministers
- May 2013 – Ministerial decision to legislate
- July 2013 (TBC) – Government amendment introduced in House of Lords
- Mid-2013 to End 2013 – policy development
- Early 2014 – 12 week consultation
- Summer 2014 – regulations come into force (subject to will of Parliament)



Ensuring Route to Market

- Steering Board and Working Groups

Matt Coyne, DECC

Steering Board to help DECC ensure a balanced approach



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Expert review of
evidence and analysis

Discussion of
regulatory approaches

Development of
voluntary approaches
to smooth transition to
CfD

Objectives

- To ensure that the work programmes to prepare for the introduction of the CfD are appropriate considering the timetable for the introduction of the CfD, and that appropriate resources from stakeholders are made available.
- To provide guidance on how DECC might best coordinate and deliver progress, commenting on what practical actions the market can take to prepare for the introduction of the CfD, and to stimulate market function in the PPA market under CfDs.
- To assist DECC in the development of a coherent package that will support independent renewable generators ability to continue to play a part in the UK's decarbonisation objectives.
 - Oversight of the development of voluntary market approaches to facilitate a smooth transition to the CfD and a reduction in costs and complexity for the first mover projects.
 - Peer review of the evidence base on the levels of competition in the market; the significance of imbalance risk and approaches to mitigation of imbalance risk.
 - Expert input to the consideration of options to address the issues reported in the PPA market.

Easing the transition to the CfD – “Good housekeeping”



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Sample PPAs

- **Sample PPA contracts which are compatible with the CfD and would provide the basis for commercial negotiations.**
- To enable market participants to understand the likely commercial arrangements for the sale of electricity through Power Purchase Agreements compatible with the CfD.
- To reduce barriers to participation at the outset of the scheme; reduce costs for the first movers; and improve investor confidence in the PPA market under CfD.

Voluntary code of practice

- **Voluntary code of best practice setting out how market participants should engage in the process of negotiating and agreeing Power Purchase Agreements.**
- To provide market participants with a greater understanding of the approach that will be taken by different market participants in the PPA market under the CfD.
- To improve transparency and understanding of the drivers of commercial decisions, and to improve investor confidence in the PPA market.

Steering Board and Working Groups timeline



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	Sample Contracts	Code of practice	Steering Board
April	Consider current structure of PPA, and resources required	Identify potential elements of code of practice, consider resources required	Discuss objectives for WGs, workplans and balance of package
May			Discuss resource requirements for WGs. Review o/p of analytical work and policy responses.
June	Develop structure of CfD-PPA (based on CfD Heads of Terms)	Initial drafting	
July			Consider interim progress reports from WGs
Aug	Draft Heads of Terms for PPA options	Legal consideration	
Sept		Drafting	Consider Draft Heads of Terms and draft CoP
Oct	Legal drafting	Roadtesting with Stakeholders	
Nov		Final code of practice	Consider final code of practice
Dec	Final sample contracts to Steering Board	First signatories?	Consider final sample contracts and next steps