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Statoil response to DECC consultation on Electricity Market Reform.

Statoil (UK) Ltd. welcomes the opportunity to respond to the DECC Consultation on the Electricity Market Reform (EMR).

As the largest importer of natural gas to the UK, Statoil takes a direct interest in the UK electricity market. Our interest is further reinforced by our recent investments in the Sheringham Shoal offshore wind farm, as well as our role as a development partner for the Dogger Bank offshore wind zone. In addition, Statoil has an ambition to become a CO₂ storage provider for third parties. This has been highlighted by our participation in three UK projects that recently applied for EU support.

We welcome the discussion on the EMR and support the Government's ambition to reduce CO₂ emissions from the power sector. To meet these ambitions, the measures – once introduced – should be stable for a long period in order to underpin the nature of the required investments.

Statoil are however concerned by what appear to be contradictory signals in UK policy: When discussing security of supply the UK government recognises the role of natural gas while the proposed measures in the EMR may counter that. There appears to be little recognition of the competitive pressure natural gas producers are under internationally. The link between those pressures, the impact on the UK gas market, and its attractiveness as a delivery point do not appear to have been made.

Statoil believe that the UK will still need to rely on natural gas if it is to achieve its targets in a cost effective manner. Natural gas is the backbone of the electricity mix, providing it with much needed flexibility that no other source, conventional or renewable, can provide at an affordable price with limited CO₂ output. Statoil believes natural gas offers an attractive and optimised pathway to achieving the 80% CO₂ emissions reduction by 2050, a transition in which new technologies are increasingly applied as and when they have matured and are commercially available.

We do not see a contradiction between this pathway and the Government's intention to take immediate and bold actions towards its environmental goals. However, the combined effect of the EMR package may over correct the balance of incentives and lead to limited investments in new gas fired power stations, and therefore an uncertain future for gas demand in the UK. Such uncertainty could undermine long term supply security as significant investments will have to be made by the industry outside of the UK in order to ensure access to long term security of gas supply. Hence, the important role of natural gas should be better taken into account when establishing new policy. In that respect it is positive that the revised 2050 Pathway analysis now also includes a scenario based on achieving the target based on strong emphasis on gas generation.

While we agree with the need to make adjustments to the current market arrangements to accelerate new investments especially in a situation with global competition for capital, we are not convinced that the measures proposed in the EMR Package will achieve the policy goals.

- **Carbon floor price:** We have in our response to the Treasury's consultation on a carbon floor price voiced our concern on the introduction of such a unilateral UK measure and the potential negative consequences on the EU ETS, which we believe should be the main mechanism.
- **Capacity Payments:** The introduction of capacity payments would in principle be beneficial to stimulate sources of flexibility in the electricity mix, however there are design issues which need to be considered to ensure that such a proposal does not negatively affect the electricity market. We also see an issue that a system in which gas is maintained for flexibility purposes only would almost inevitably face problems of fuel availability in the long term.
- **EPS:** We are not convinced that Emissions Performance Standards are appropriate as long as CCS technology is as immature as it is.
 - We believe that the proposals to introduce a carbon floor price and EPS both represent disincentives to invest in fossil fuel power plants rather than an incentive to invest in CCS. The Government needs to specify in detail how it will encourage and finance CCS demonstration plants in the short term and incentivise for investment in commercial CCS projects in the longer term.
- **Low carbon generation support mechanism:** The Renewables Obligation is a successful and flexible support mechanism that is well suited to continue to support large scale development of renewable generation. Hence we do not see the need to replace the Renewables Obligation, and believe that it can be adapted to include other low carbon generation if necessary.
 - Should the Government choose to change the support mechanism, we would recommend changing to a Premium Feed-in Tariff. This is the system that would mean least change compared to the current system, would offer the right balance between risk and reward to investors and would be easiest to implement. We see several implementation issues with a Contract for Difference, which will take time to solve as it is a complex mechanism.
 - We are concerned about the uncertainty related to the introduction of an alternative support mechanism and the necessary time it will take to establish such system, which could lead to a hiatus in investments especially as related to Round Three projects. In that respect we are worried about the lack of detail in the consultation document as this makes it difficult to assess the implication of the proposals. It is therefore necessary that Government present detailed proposals as soon as possible together with a well defined implementation plan. This is in especially important for transitional issues which need to be clarified urgently to avoid negative effects on investments.
 - Improved market liquidity will be a prerequisite for any CfD, Premium FIT or indeed continuation of the current system. As such, we would strongly recommend that the ongoing Ofgem investigation on market liquidity is integrated with the EMR process. Furthermore a review of imbalance charges is necessary. The current mechanism is not suitable for intermittent production and is favouring companies with a large portfolio of assets. It is also important that Government ensures that the grid development is aligned with the development of projects and with a charging structure fit for purpose.
 - We would strongly advise against the proposal of setting future support levels through auctions or tender processes as this will introduce a greater level of uncertainty in

investment decisions for offshore wind and CCS projects. We do not find it compatible with the framework for offshore wind in the UK nor suited for technologies at the maturity level of offshore wind. An auction or tendering system will not give the long term visibility that investors need, and may in effect lead to a *delay* in deployment of capacity instead of promoting it.

Please find our detailed response to the specific questions in the appendix. We remain available for any further clarification.

Sincerely,



Appendix : Detailed response to questions in consultation document

Current Market Arrangements

1. Do you agree with the Government's assessment of the ability of the current market to support the investment in low-carbon generation needed to meet environmental targets?

Statoil agree with the Government's assessment that the market has performed well over the period since privatisation and liberalisation, in particular delivering the almost 30GW of gas generation currently in operation, sending correct signals that allowed the existence of an adequate capacity margin, supporting the increase in the deployment of renewable capacity to 8GW in 2009, and effectively bringing the UK to being one of the few countries that will meet its Kyoto emissions targets. It should be highlighted that a continued pathway building on these achievements can be delivered without substantive changes to the support mechanisms and enable the UK to achieve significant CO₂ emission reductions.

However, we further agree that new measures are necessary to promote new investments and reach environmental targets especially in a situation with strong international competition for capital. We furthermore share the assessment of the future generation situation, the only exception being that we see natural gas play a base load role as well, beyond the strategic flexibility role described in the consultation text.

2. Do you agree with the Government's assessment of the future risks to the UK's security of electricity supplies?

The Government's concern when it comes to security of supply is correctly oriented towards the problem of intermittency and inflexibility. The proposed solution to this problem, mainly identified in capacity payments for flexible generation, is lacking precision in two important aspects: how payments for flexible capacity would be complemented by the promotion of new thermal build for base load capacity; and how the Government intends to secure the flexible availability of the significant amount of fuel needed to fire the spare capacity. Indeed, depending on the amount of intermittent load, the back-up capacity needed could be extensive.

The view that any import dependency is equally insecure is fundamentally biased; and we would like to point out that import dependency for gas needs to be put in context: the world has enormous gas reserves, and the UK has access to diversified gas supplies, which produces inherent security.

Feed-in Tariffs

3. Do you agree with the Government's assessment of the pros and cons of each of the models of feed-in tariff (FIT)?

We agree with the assessment that a Fixed FIT will have a negative effect with respect to the liquidity of the power market and that support systems that expose generators to the market is preferable.

However, to handle such market exposure, a liquid market and a balancing market more adapted to intermittent generation will be a prerequisite.

A Premium FIT is by far the system that would mean least change compared to the current system and would be easiest to implement. We see several implementation issues with a Contract for Difference, which will take time to solve due to the complexities of this mechanism. One of the main issues with CfD is the index that the strike price would be measured against. Given that offshore wind as described in our response to question 5 will have to be linked to a short term price index, a CfD will not contribute to provide the price signals incentives that would be necessary, with a negative influence on market.

A major issue that is not included in the assessment is the effect on incentives on suppliers resulting from changing from a support system based on an obligation to FIT systems. Suppliers will no longer have the same incentives to offer long term PPAs to independent generators, which will be essential under CfD and Premium FIT to ensure finance for these players. Furthermore, it may imply less incentive for suppliers to invest in renewable projects.

4. Do you agree with the Government's preferred policy of introducing a contract for difference based feed-in tariff (FIT with CfD)?

No. Our preferred position is to retain the Renewables Obligation which in our opinion is a successful and flexible support mechanism that is well suited to continue to support large scale development in offshore wind. Should the Government choose to change the support mechanism, we would recommend changing to a Premium Feed-in Tariff. As mentioned above this is the system that would mean least change compared to the current system and would be easiest to implement. We see several implementation issues with a Contract for Difference, which will take time to solve due to the complexities of this mechanism.

We believe that the CfD could have unintended negative consequences for investment in fossil fired plants with CCS as this would introduce a disconnect between the strike price offered to the investor and the fuel cost. In such a situation, it is necessary to evaluate whether the CfD could be applied only to the capital element and not the operations element.

5. What do you see as the advantages and disadvantages of transferring different risks from the generator or the supplier to the Government? In particular, what are the implications of removing the (long-term) electricity price risk from generators under the CfD model?

Whether electricity price risk is transferred from generators under the CfD model depends on which price index the strike price will be compared to. For offshore wind, the price index can not be an average price, but will have to be linked to a short term index such as a within-day or day ahead price index. With increased wind generation on the system it is expected that the power prices will be reduced in periods with extensive wind generation, hence the value a wind generator can expect will be lower than an average power price. Hence, using an average price index would increase risk for investors.

An important risk that should be addressed in the EMR going forward is imbalance risk. The current imbalance charging regime penalizes intermittent generation and favours companies with large portfolios of generating assets. It is important that this risk is addressed and set at an appropriate level. The inherent intermittent nature of the technology implies that it is not possible to an intermittent generator to fully remove this risk. The Government's wait-and-see proposal is therefore not satisfactory on this important issue.

We would expect, however, that the CfD could appeal more to potential financial investors and could thus facilitate refinancing of offshore winds projects after production start.

6. What are the efficient operational decisions that the price signal incentivises? How important are these for the market to function properly? How would they be affected by the proposed policy?

We agree with Government's view that the future low carbon support systems should be based on generators being exposed to market signals. We would recommend against Fixed FIT which will mean that a substantial part of generation will not be exposed to market signals. However, the same effect will also apply to CfD as a result of the index for offshore wind will have to be linked to a short term index, as described in our response to question 5. Even though the generator will participate in the market, the CfD will compensate for any negative results. As a result, we do not agree with the assessment that a CfD necessarily will give generators the necessary price signals.

Hence, the only model proposed that retains a true exposure towards price signals is the Premium FIT, which is the proposed model that we would recommend.

7. Do you agree with the Government's assessment of the impact of the different models of FITs on the cost of capital for low-carbon generators?

No, we believe that the effect on cost of capital for CfD is probably overstated with respect to offshore wind development projects as the perceived risk picture (and thus cost of capital) is dominated by other factors associated with development and technology risk. CfD, however, may lower cost of capital for "refinancing" offshore wind projects that have come into production as it may attract other financial investors otherwise unwilling to accept electricity market risk, provided that the correct market index is chosen. However, as we don't know how the CfD would be structured or how the balancing market for power would react, there could be substantial residual market risk in any case.

8. What impact do you think the different models of FITs will have on the availability of finance for low-carbon electricity generation investments from both new investors and the existing investor base?

See our response to question 7.

9. What impact do you think the different models of FITs will have on different types of generators (e.g. vertically integrated utilities, existing independent gas, wind or biomass generators and new entrant generators)? How would the different models impact on contract negotiations/relationships with electricity suppliers?

One of the main issues when moving away from an obligation based support mechanism such as the Renewables Obligation to a FIT is that it as a result will change incentives for the major suppliers. Suppliers would have fewer incentives to enter into long term contracts with independent generators and investors, which will be necessary to ensure financing of projects. Furthermore, it may imply less incentive for suppliers to invest in renewable projects.

See also our response to question 7.

10. How important do you think greater liquidity in the wholesale market is to the effective operation of the FIT with CfD model? What reference price or index should be used?

Improvement of the liquidity in the power market is key to the operation of the FIT with CfD - and also for a Premium FIT. We would strongly recommend that Government takes an active role in defining the policy and that Ofgem's work on improving market liquidity is included in the EMR going forward.

As described in our response to question 5 the price index under a CfD for offshore wind can not be an average price, but will have to be linked to a short term index such as a within-day or day-ahead price index.

11. Should the FIT be paid on availability or output?

A FIT or any other support mechanism should in our view be based on output.

If it for various reasons may be necessary to restrict low carbon generation, there need to be a compensation based on assumed lost production. We would expect that this could be compensated through separate mechanisms including the Balancing Mechanism.

Emissions Performance Standards

12. Do you agree with the Government's assessment of the impact of an emission performance standard on the decarbonisation of the electricity sector and on security of supply risk?

We agree with the Government's assessment that having coal-fired power stations in the electricity mix helps to increase diversity and prevents an over-reliance on a single technology. However, coal is not suited as a flexible response source, as cycling coal-fired stations has been proven to be even

less emissions-friendly than having power stations run all the time. To accommodate a large share of intermittent generation such as wind, gas is necessary¹.

Furthermore, Statoil remains to be convinced that the EPS is the best method for enabling CCS and other low carbon generation technology to develop. Mandating standards before technology is ready could have detrimental effects on the energy mix of the UK and may not lead to the most efficient outcome. Statoil is concerned that, rather than providing a stronger signal on the need for decarbonisation, EPS will negatively affect the commercialisation of CCS technology, as industry could be exposed to the full cost and risk of CCS before the technology is commercially available. It is reasonable to expect EPS to have large detrimental effects on investments in new fossil fired power production, as few investors will be able to take on projects faced with the risks of employing technologies that are not technological and commercially mature. This could hamper the longer term viability of CCS as an efficient tool in emission reductions.

13. Which option do you consider most appropriate for the level of the EPS? What considerations should the Government take into account in designing derogations for projects forming part of the UK or EU demonstration programme?

If it is the intent of the UK Government to introduce a EPS for new coal plants, we suggest to set it at 450 gCO₂/kWh.

Projects forming part of UK or EU demonstration programme should in our opinion be exempt from EPS.

14. Do you agree that the EPS should be aimed at new plant, and 'grandfathered' at the point of consent? How should the Government determine the economic life of a power station for the purposes of grandfathering?

We agree that a EPS should be aimed at new plants and grandfathered at the point of consent.

Options for Market Efficiency and Security of Supply

19. Do you agree with our assessment of the pros and cons of introducing a capacity mechanism?

An adequate capacity margin is necessary to achieve the appropriate level of security of supply. Introducing a capacity mechanism to ensure this may be necessary, if the investment signals in the ordinary power market are not sufficient to secure such investments in capacity. The pro of a capacity mechanism is therefore that it increases the certainty of having enough capacity available on the system.

¹ Cfr. the study "How Less Became More", Bentek Energy 2010, on the adverse effects of high wind power penetration in the electricity system of Colorado, whose main flexibility tool is the cycling of coal-fired plant, compared to the positive effects that similar penetration rates have in Texas, whose main source of flexibility is gas

The major challenge of introducing any kind of capacity mechanisms is to do this without disturbing the power market. Great care must therefore be made to secure that capacity mechanisms result in capacity in addition to the capacity provided for by the market and not replacing such capacity. Additional conditions on the operation of this new capacity must also be worked out to secure against any competition advantages to these generators.

By careful design of the capacity mechanism it should be possible to, in addition to solving the capacity issue, also increase the level of flexible generation which in the future will be necessary to balance larger volume of intermittent generation. We are concerned about the very limited discussion in the EMR of the need for new flexible generation. Our view is that it is not possible to decouple the future need for capacity and flexibility.

It is our opinion that the major part of the extra capacity resulting from the capacity mechanisms will be fuelled by gas. We are concerned that the lack of clear signals from the UK government on the future of gas in the generation mix, may severely reduce the possibility of gas providers to respond to this need in the future. When deciding on a capacity mechanism, the government therefore should also take notice that spare capacity should not only refer to plant but also to infrastructure, storage, and perhaps most importantly, to the availability of that commodity in the UK market.

20. Do you agree with the Government's preferred policy of introducing a capacity mechanism in addition to the improvements to the current market?

In principle, a capacity payment could be beneficial to an electricity market with a high penetration of intermittent generation. We support the Government's preferred policy of introducing a capacity mechanism, provided that considerations it made to the issues mentioned in our response to question 19.

However, as a main part of such capacity will be fuelled by natural gas, it is also necessary to provide necessary certainty on the role of gas in UK's energy mix to suppliers of natural gas.

21. What do you think the impacts of introducing a targeted capacity mechanism will be on prices in the wholesale electricity market?

Careful design is needed to ensure that a targeted capacity mechanism would have limited impact on average prices in the wholesale electricity market.

22. Do you agree with Government's preference for the design of a capacity mechanism:

- ***a central body holding the responsibility;***
- ***volume based, not price based; and***
- ***a targeted mechanism, rather than market-wide.***

Statoil agree with these design priorities.

23. What do you think the impact of introducing a capacity mechanism would be on incentives to invest in demand-side response, storage, interconnection and energy efficiency? Will the preferred package of options allow these technologies to play more of a role?

The consultation document does not provide a sufficient level of information to give a precise answer to this. Generally we would argue that the capacity mechanism should be designed so that technologies listed in the question should be able to participate.

25. Do you think there should be a locational element to capacity pricing?

No. If National Grid due to congestions in the grid should prefer extra capacity in some regions, this should be targeted through a separate auction to make visible the cost of such congestions.

Analysis of Packages

26. Do you agree with the Government's preferred package of options (carbon price support, feed-in tariff (CfD or premium), emission performance standard, peak capacity tender)? Why?

We are sceptical to the combined package as described below:

- The Renewables Obligation is in our opinion a successful and flexible support mechanism that is well suited to continue to support large scale development of renewable generation. As a result Statoil do not see the need to change the Renewables Obligation as the main support mechanism for renewable generation, and believe that it can be adapted to also include other low carbon generation if necessary. However, should the Government choose to change the support mechanism, we would recommend to change to a Premium Feed-in Tariff. This is the system that would mean least change compared to the current system, would be most likely to attract major investors and would be easiest to implement. We see several implementation issues with a Contract for Difference, which will take time to solve.
- We have in our response to the Treasury on the Carbon Floor Price been recommending against introducing this measure. Statoil is supportive of a high, global CO₂ price. In general, Statoil see the EU ETS as the preferred instrument for cost efficient reduction of GHG emissions. The EU ETS provides a predictable framework for industry in the long term, rewarding the most carbon efficient solutions, and achieving targeted emissions reductions in a cost effective manner. As the most liquid carbon market in the world, it is serving as a blueprint for emerging cap and trade schemes globally. Harmonisation between these schemes could lead to a global CO₂ price. It is Statoil's view that concerted EU action to lower the emissions cap will bring about a more robust CO₂ price, as well as lower the emissions. We are concerned that introduction of new unilateral measures will undermine the EU ETS as the major measure to reduce emissions, without obtaining the intended effects. This should be further assessed and interactions with the other EMR measures and environmental taxes have to be better understood.

- We are sceptical to the introduction of EPS before the CCS technology is sufficiently mature.
- The introduction of capacity payments would in principle be beneficial to keep sources of flexibility into the electricity mix, however there are design issues which needs to be considered to ensure that such system does not negatively affect the electricity market. We also see an issue that a system in which gas is maintained for flexibility purposes only would almost inevitably face problems of fuel availability in the long term.

27. What are your views on the alternative package that Government has described?

See our response to question 26.

28. Will the proposed package of options have wider impacts on the electricity system that have not been identified in this document, for example on electricity networks?

An increased deployment of renewables such as offshore wind will mean that the onshore and offshore electricity network needs to be further developed. This includes the typical North-South bottleneck. The system operator should be incentivised to make anticipatory investments to ensure that development of the onshore grid matches the development of the projects. It is also important that the charging structure is fit for purpose.

29. How do you see the different elements of the preferred package interacting? Are these interactions different for other packages?

See our response to question 26.

Implementation Issues

30. What do you think are the main implementation risks for the Government's preferred package? Are these risks different for the other packages being considered?

We have in particular been concerned about the uncertainty related to the introduction of an alternative support mechanism to the Renewables Obligation and the necessary time it will take to establish such system, which could lead to a hiatus in investments. In that respect we are worried about the lack of detail in the consultation document, which makes it difficult to assess the implication of the proposals. It is therefore necessary that Government as soon as possible present detailed proposals, at latest in relation to the Energy White Paper, together with a well defined implementation plan. This is in particular important with respect to the transitional issues, which needs to be sorted out urgently if there should be no delays to investments.

There is no doubt that the Premium FIT would be the support mechanism that would be easiest to implement. We would expect that there is a number of issues related to CfD which will take time to implement.

31. Do you have views on the role that auctions or tenders can play in setting the price for a feed-in tariff, compared to administratively determined support levels?

- **Can auctions or tenders deliver competitive market prices that appropriately reflect the risks and uncertainties of new or emerging technologies?**
- **Should auctions, tenders or the administrative approach to setting levels be technology neutral or technology specific?**
- **How should the different costs of each technology be reflected? Should there be a single contract for difference on the electricity price for all low-carbon and a series of technology different premiums on top?**
- **Are there other models government should consider?**
- **Should prices be set for individual projects or for technologies**
- **Do you think there is sufficient competition amongst potential developers/sites to run effective auctions?**
- **Could an auction contribute to preventing the feed-in tariff policy from incentivising an unsustainable level of deployment of any one particular technology? Are there other ways to mitigate against this risk?**

We would strongly recommend against using auctions or tenders for setting the price for a feed-in tariff for offshore wind. We do not find it compatible with the framework for offshore wind in the UK. For Round 3 offshore wind projects, developers have signed zone development agreements with The Crown Estate committing the developers to maturing the projects within defined timelines and approved budgets. Developers have entered into these contracts and committed to these substantial development costs based on the assumption that there is a long term, stable regulatory framework in the UK and that any commercial project that is developed can be constructed. An auction or tendering system will not give the long term visibility that investors need, and would mean increased risk for investors.

In addition there are experiences from other countries that there is a certain element of "winners curse", where successful bidders do not build either because they have overestimated their ability to deliver or because they have been prevented because the necessary approvals or grid is not in place. Hence, there are a substantial risk that an auction or tender process in effect will lead to a *delay* in deployment of capacity instead of promoting it.

CCS is currently too immature to be considered for an auction or tender process.

We would not argue that there will never be a place for auctions, but such process presupposes a mature industry and a level playing field.

As a result, we will recommend that support levels should be set by Government through a similar process as used for the Renewables Obligation.

Support levels needs to be technology specific, as they are under the present Renewables Obligation. Support levels should in principle be for broader technology "bands", however, there may be arguments for more differentiated "bands" given that projects may have very different characteristics to ensure that all needed capacity is promoted and to avoid overcompensation.

32. What changes do you think would be necessary to the institutional arrangements in the electricity sector to support these market reforms?

It is not clear from the consultation which entity that would be the contractual party under any of the FIT proposals. This needs to be detailed out as well as how this entity will be funded and cover its obligation. We are assuming that the cost ultimately will be borne by the consumers; however it is necessary as soon as possible to detail out the necessary arrangements.

33. Do you have view on how market distortion and any other unintended consequences of a FIT or a targeted capacity mechanism can be minimised?

To minimise negative consequences of a FIT or a targeted capacity mechanism, it is necessary with a close dialogue with industry going forward, This is in particular important as the proposed measures in the EMR lack sufficient detail to comment in great detail on the measures and their interaction.

34. Do you agree with the Government's assessment of the risks of delays to planned investments while the preferred package is implemented?

We are concerned about the lack of detail in the consultation document. To avoid the risk of delays to planned investments, it is necessary that the Government gives a detailed description of the proposals in connection with the Energy White Paper. On the transitional issues, clarity is needed urgently.

35. Do you agree with the principles underpinning the transition of the Renewables Obligation into the new arrangements? Are there other strategies which you think could be used to avoid delays to planned investments?

We support that the Renewables Obligation would remain open for projects currently under development and which will make their investment decision before any new system is implemented. There are some issues that need to be clarified urgently to avoid projects being delayed:

- How the RO will be calculated going forward, and how the ROCs will be grandfathered.
- If moving to a fixed ROC price, when will that happen, what will be the ROC price and which entity will have the obligation to purchase ROCs
- Whether investors have the option to choose between systems. Please see our response to question 36
- How the 20 year support period under the RO will be dealt with. As proposed in ROO 2011, offshore wind projects under the RO will be able to register up to 5 phases over a 5 year period and receive a 20 year support period for each of the phases. It is necessary that the 20 year support period for each phase is maintained. This will in reality mean that the RO will have to extend beyond 31.3.2037 for these projects. In that respect we are also concerned whether the cut-off date of 31.3.2017 could be too tight and would suggest more flexibility for projects to register under the RO for example with the possibility to pre-accredit.

36. We propose that accreditation under the RO would remain open until 31 March 2017. The Government's ambition to introduce the new feed-in tariff for low carbon in 2013/14 (subject to Parliamentary time). Which of these options do you favour:

- **All new renewable electricity capacity accrediting before 1 April 2017 accredits under the RO;**
- **All new renewable electricity capacity accrediting after the introduction of the low-carbon support mechanism but before 1 April 2017 should have a choice between accrediting under the RO or the new mechanism.**

In our opinion it is necessary that investors can choose between the RO and any new system being introduced to avoid investment hiatus while investors are assessing attractiveness of any new systems.

See also our response to question 35.

38. Which option for calculating the Obligation post 2017 do you favour?

- **Continue using both target and headroom**
- **Use Calculation B (Headroom) only from 2017**
- **Fix the price of a ROC for existing and new generation**

We can see the merit in fixing the price of a ROC for existing and new generation, provided that this at least give the same reward as could be expected if the RO continued based on the Headroom mechanism. However, we also understand the broader industry view against fixing the ROC as it is can have negative consequences on existing PPAs.