

**A CALL FOR EVIDENCE ON BARRIERS TO SECURING LONG-TERM CONTRACTS
FOR INDEPENDENT RENEWABLE GENERATION INVESTMENT**

RESPONSE FROM THE BANKS GROUP AND BANKS RENEWABLES

1. The Banks Group is a family owned business experienced in developments (property, coal and renewable) for over 35 years. We have invested significant development risk capital into onshore wind projects for a number of years, on the basis that onshore wind is the lowest cost form of renewable energy and should therefore play a crucial role for any UK government in the decarbonisation of the UK's power sector.
2. We welcome the call for evidence by DECC, and support the government's aims to deliver climate change goals whilst ensuring security of supply and minimising costs to consumers, through the deployment of a reliable diverse low-carbon technology mix. Government has identified onshore wind energy as an important technology in delivering its emission reduction goals.
3. The EMR is a recognition that (i) carbon abatement in the UK is not occurring quickly enough to deliver legally binding emission reduction targets (ii) the UK needs a framework that can compete in a global market to attract capital (iii) the vertically integrated utilities – the 'big 6' do not have the capital resources to deliver the government's renewable targets to the timetable required.
4. New independent developments by independent power producers "IPP" are therefore critical in achieving government's stated goals (especially onshore wind). However, the big six vertically integrated power companies have a crucial role to play in such independent development in providing a route to market for the energy and managing intermittency risk.¹ The EMR framework needs to work for independents whilst ensuring the big six VIs are incentivised to contract long term with independents for their power in a financeable manner. This can be directly or through a supplier of last resort.
5. The EMR needs to ensure there is a sustainable framework for each renewable technology the government chooses to deploy, whereby the full costs are passed onto the consumer as efficiently and effectively as possible. Wind intermittency is a key consideration.
6. As wind capacity increases towards the government's targets, the amount of intermittency on the system potentially creates significant uncertainty regarding the future costs of balancing. It is not efficient for IPPs to manage this balancing risk, and IPPs will fail to secure funding if they are expected to fund this risk. The risks and costs of intermittency can ultimately only be managed effectively by the VIs and is partly a product of the Government's targets for the energy mix. Ultimately the cost is passed to the consumer, so the EMR must ensure the VIs take responsibility for this in a cost effective manner. If IPP's are forced to absorb the cost / risk then if they are to continue to survive, the 'strike price' would need to increase to compensate.

¹ The Big 6 supply 98% of the UK market. As such they will inevitably buy the power from IPPs either directly through PPAs or indirectly through trading intermediaries.

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7. With the withdrawal of the obligation on vertically integrated utilities to source a proportion of electricity from renewables there will no longer be an incentive to offer a viable PPA to independent generators under the EMR. Without viable PPAs being available, investment onshore wind generation by independent renewable energy generators faces an absolute “cliff-edge” in early 2015. After 2015 it becomes too late to engage an 18-24 month construction cycle in time to remain eligible for ROCs
 8. The drop off in onshore wind development could begin as early as 2013 as a consequence of the three-year plus period for design, planning permission and condition consents. To avoid obvious consequences for the UK’s supply chain and jobs, it is vital that the uncertainty created by EMR is addressed and a viable route to market secured for independent renewable generators.
 9. The Banks Group conclusions are that
 - a. For the EMR objectives to work there must be IPP’s.
 - b. For IPP’s to be able to operate there must be viable PPA provided by the Big 6 / VI’s or a buyer of last resort.
 - c. For wind viable PPA’s require the offtaker to take the intermittency risk and balancing risk. The big 6 are best placed to manage this risk.
 - d. There has been a significant deterioration in the PPA market with the big 6 being almost invisible.
 - e. With no RO to act as an incentive to offer viable PPA’s we conclude that there needs to be a regulatory solution based around a purchaser of last resort.
 10. The PPA solution needs to be a regulatory one that would involve a buyer of last resort. This principle needs to be built upon, with a framework that allows market forces to dictate power price, with the IPP securing the Strike Price under the CfD.

SECTION 2

11. All of our PPA have strict confidentiality and non disclosure agreements associated with them and we are therefore unable to disclose detailed information, however we would like to continue the dialogue with DECC post submission of the evidence to explain more about the current issues and solutions relating to PPA’s.
12. Our general overview of the PPA issue is as follows.
13. We have seen a continued decline in the number of viable PPA bids being received in the last two years compared to previous tender exercise, and we have not entered into a PPA with a big 6 player since 2007. In 2011 the number of unviable bids and non responses has increased, whilst the only bid from one of the ‘Big 6’ was commercially unfavourable.
14. Since 2007/8 the banking fraternity have needed, (owing to Basel III) to rely upon floor prices within PPA’s. The VI utilities over the 2010/11 period are struggling to provide floor prices in PPA’s owing to the contingent balance sheet liabilities and the pricing of derivatives.
15. Our detailed evidence to the questions in the call for evidence is incorporated into the IREGG evidence submitted separately by that group.

16th August 2012