NFPA

Matt Coyne
Department of Energy and Climate Change
4th Floor Area C
3 Whitehall Place
London
SW1A 2AW

15 August 2012

Dear Matt,

Call for evidence on barriers to securing long-term contracts for independent renewable generation investment

As promised in our meeting last week please find attached NFPA's response to DECC's call for evidence on PPA availability. If you would to discuss any of the ideas therein further, please do not hesitate to contact us.

Yours sincerely

[redacted]

Managing Director

ePOWER

NFPA is a trading name of -
Non-Fossil Purchasing Agency Limited
Registered in England No 02365900. VAT registration No 555833126
and NFPA Scotland Ltd
Registered in England No 05519455. VAT registration No 870973586

tel: (0191) 245 7330
fax: (0191) 245 7331
e-mail: info@nfpa.co.uk
www.nfpa.co.uk

Registered Office
4th Floor Higham House
New Bridge Street West
Newcastle upon Tyne
NE1 8AN

NFPA

Call for evidence on barriers to securing long-term contracts for independent renewable generation investment

Concerns have been raised by independent developer/generators about the difficulty of obtaining suitable PPAs in the current and, especially, in the post EMR world and this has prompted the Call for Evidence.

This short note describes two schemes which have the potential to go some way to meeting these concerns.

PPA Liquidity/Route to Market Problem 'Non-Institutional' Solution

The generator developer obtains his FiT CfD by means of whatever system of contract allocation is employed under EMR (currently proposed to be 'institutionally awarded' initially and tender auctions later on). The Reference Price against which the CfD is struck is defined as a 'market price' (for renewables, probably the day ahead price but the point at issue is that it is the 'market price' for the type of electricity being produced, however that is defined). In the face of a highly illiquid PPA market dominated by large vertically integrated players, he will need to be able to obtain finance for his project on the basis of this CfD FiT.

The issue he then needs to manage is that of obtaining that market price in the market circumstances. This would mean that attempting to obtain a PPA in the usual manner would not readily suit: because of the structure of the market, he would be in a poor negotiating position and would have available only poor terms which would leave him short of the market price he needs to meet the revenue aims of his CfD. An auction of short term PPAs (similar to that operated currently by NFPAS) meets this need. A standard set of terms is used which can ensure that these both suit the needs of the generator and are sufficiently attractive to the suppliers for them to bid for the power. It would be necessary to ensure that there was sufficient scale of contracts to attract the suppliers, but this system is also efficient from their point of view as they can obtain reasonable quantities of power from several smallish producers without the costly and time consuming business of dealing with many individual organisations bilaterally.

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PPA Liquidity/Route to Market Problem 'Institutional' Solution

Generators opting for a CfD FiT would be offered the option of a contract in which they sold their output to a body institutionalised under the EMR arrangements. At its simplest, this would be the contract Counterparty, although it need not be (for simplicity, the description below makes the assumption that it is).

Under this arrangement, the generator would sell his output to the Counterparty, who, in turn would sell that power on to electricity suppliers. The generator's CfD would be struck against a reference price defined as the on-sale price. The Counterparty would, of course, have access to the funding mechanism used for the CfD FiTs (for example, a supplier levy) and would be able to finance any loss on its portfolio, or retain any surplus within the financing regime.

This structure would enable the generator/developer to finance his plant without being exposed to the vagaries of the PPA market dominated by vertically integrated players.

It would also ensure that the power from these FiT CfD plants remained available to the wider market in a transparent manner.

Non-Fossil Purchasing Agency Ltd.

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