Response to the call for evidence on barriers to securing long-term contracts for independent renewable generation investment

Identifying the problem		
1.	Please could you provide a summary of your experiences with the PPA market over the past three years? Specific areas for which detailed information would be particularly helpful are set out in the Annex.	• We have been active in the UK wind sector since 2010. Following the acquisition of three wind projects in 2011 we started the PPA arrangement process mid-2011. • We initially engaged with more than 10 different PPA providers from different industry sectors, including utilities, energy traders as well as direct consumers from non-energy industries such as large retailers. . • We issued a tender for the offtake from our three projects (approx. 45 MW of installed capacity) to these PPA providers and received offers from most of them. The other providers declined to offer a PPA for different reasons such as change of strategic focus etc. We received quotes from the "big six" utilities as well, but their commercial proposals were not considered to be particularly attractive. • It turned out, however, that both utilities and energy traders intends to link their pricing structure to market prices using Day-Ahead-Indices like those published by LEBA and APX. Energy traders also had difficulties in offering a floor price to hedge the bank´s risk of decreasing market prices. We found that utilities with large balance sheets and various own-generation assets are in a much better credit position and therefore able and willing to offer a floor price. • As direct consumers are mainly interested in securing their medium to long term energy price exposure, we found that they were prepared to offer a fixed price PPA (for power only) in combination with the usual sharing approach for associated benefits like ROCs and LECs etc. • On our short list of bidders, we identified one utility, one energy trader and one direct consumer. • Early 2012, we - together with the financing bank - decided to select the direct consumer (one of the oldest and biggest food retailers in the UK) as our preferred bidder. The length of PPAs offered ranged from 5 to 15 years in the offers and is 15 in our negotiated PPA

		• The discount factors offered were 82% - 94% for power and 90% - 94% for ROCs and 80% - 90% for LECs in the offers. In our negotiated PPA we have a 10-year fixed price plus additional 5 years of market price linkage for power and we will receive 94% of the ROC Buy-Out and 90% of LEC value. • Floor price levels offered were 20 GBP/MWh – 33 GBP/MWh (both 2011 prices and indexed linked) in the offers and 33 GBP/MWh in our negotiated PPA • Imbalance risks will be borne by the offtaker. • Only events of change in law that significantly affect the PPA will trigger a renegotiation right in favour of the affected party. The fixed price and the floor price shall not be revised as a result of any change in law. • Our financiers are a German Landesbank and they have appeared to be quite risk averse in relation to future market price development. They felt more comfortable with the fixed price solution and they required a minimum 15 year PPA term (to match the tenure of funding).
2.	Have you seen significant changes to the PPA market over the past three years, and if so, what do you think has driven this? If you have asked PPA providers for explanations of why changes have occurred, what reasons have been provided?	Given we have only participated in one PPA tender process we do not feel we can respond to this question
3.	How does the GB market for PPAs compare to other international markets? If you operate in other markets, how do PPA structures and terms differ? If terms differ what are the drivers behind the differences?	We operate in Germany, France, Italy, Spain and Poland. The PPA structures and terms offered in other markets are significantly different. For example: • Germany – no PPA required as there is a fixed FIT offered for all power exported to the grid. • Spain – direct marketing at spot markets (supported by specialised brokers) instead of long term PPA. • Italy – PPA recommended, although in our most recent projects, the sale of energy and green certificates is based on spot market transactions • Poland - comparably to the UK market, long-term PPA required for power and green certificates

4.	What are the factors preventing or encouraging participation in the GB market? How (and why) do you expect these to change over time?	• Uncertainties over future level of ROC banding between 2014 and 2017 is probably the biggest uncertainty that is preventing our growth in the GB market over that time period • Further uncertainties remain over the specifics of the EMR and CFD and these are having an impact also on our view of growth beyond 2017 • The lack of available capital and the reluctance on the part of UK banks to offer competitive terms for project financing are also a key concern, although our relationship with German banks is giving us additional support compared to other players in the GB market • Regulatory risk (i.e. change in law once regulatory support has been awarded) is perceived to be much lower in the UK than some other European countries, so the recent ROC rebanding to 0.9 ROCs until April 2014 gives comfort in relation to our projects that are due to be commissioned before then. • Lack of standard terms PPAs is a major concern to us, as every project brings great uncertainty in terms of the ability to arrange and finance a project based on a long-term PPA
5.	Do you expect the EMR package to change the PPA terms that you might offer/receive and if so how do you believe they will change? What do you think is the primary driver for these changes?	We expect the EMR package to change the PPA terms that we might receive but currently we do not have sufficient information to know what the new terms will be. This is a major area of concern for us and is having an impact on our ability to commit to future investment in the GB market.
6.	What has been the determining factor in selecting a preferred PPA and PPA provider?	• Counterparty credit rating • Tenure of the PPA (needs to be linked to the tenure of project financing) • Pricing structure and level (market price or fixed price acceptable, although our financier preferred a fixed price approach)
7.	Have you seen a change in investment returns as a result of the changing nature of PPA terms and can you provide an example, including how this has been calculated? Do you expect the EMR package to change investment returns, and if so what is the driver for this?	We do not expect that the EMR package will reduce the cost of capital for developers, at least in the short to midterm, as there is still so much uncertainty about how it will work.

8.	What are your views (costs, benefits and risks) on the potential options discussed in this call for evidence that may be necessary to achieve the Government's objectives?	• Competition measures: if banks require long-term PPAs that match the tenure of the loan facility then we are not sure whether this will make a difference • Market led: sound like good ideas but we are not sure that they will be implemented in time • Regulatory: these sound sensible and, given the uncertainty and timelines established by government as part of the EMR, these measures should perhaps be expected to run in parallel to provide sufficient clarity in the meantime as the details are worked out and the market develops.
9.	What are your views of the potential for market distortions and possible impact on the wider market?	Given we have only participated in one PPA tender process we do not feel we can respond to this question
10.	Can you identify and explain any other viable options (voluntary, competition based, regulatory or otherwise) that should be considered?	• A pooled obligation on the electricity suppliers to provide bankable PPAs where no better PPA is available – essentially the "off-taker of last resort" is a vehicle that is funded by the suppliers, where the costs of PPAs and the benefits are shared. The incentive would then be on the suppliers to improve upon these terms in order to capture the full benefit individually. • Standardised PPA – similar to the FIDIC and other standardised construction contracts, whereby a pool of banks and all major utility suppliers confirm they can and will offer to finance or offtake on that basis (subject to negotiation on certain commercial specifics)