Statkraft

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

ADDRESS
Statkraft UK Ltd
4th Floor, 41 Moorgate
London EC2R 6PP

SWITCHBOARD
+44 (0) 207448 8200
FAX
+44 (0) 20 7448 8241

WEB
www.statkraft.com

PLACE AND DATE
London, 16 August 2012

CONSULTATION - BARRIERS TO ENTRY FOR RENEWABLE PPAS

Statkraft is a committed investor in the UK renewable energy sector, and a significant new entrant into the wholesale electricity market and the PPA market. Statkraft supports the Government's goal of removing barriers to entry to the PPA market. We welcome the opportunity to comment on how this activity will be impacted by the Government's plans for electricity market reform.

By way of some background, Statkraft has been operating in the UK market since 2003. When we entered the market, Statkraft had to develop a trading platform to sell the power and renewable products from our own assets. The provision of this trading platform as an "energy service" to 3rd party independent generators was a natural market entry for our trading and origination business.

Our strategic ambitions for expanding our investments and market activities in the UK are built on the following requirements:

- A stable, transparent policy regime and low levels of political risk exposure
- An investment framework for renewables that delivers manageable risks and a balanced risk-reward picture
- Effectively functioning wholesale markets which enable us to manage our commercial risks

We fully and actively support the UK Government objectives of cost effective growth in renewables, decarbonisation and security of supply. However, Statkraft is not yet convinced that the current electricity market reform proposals will deliver the Government's stated objective of vastly increasing investment in low carbon energy generation at least cost to the consumer.

Our experience of the UK market to date suggests that the primary factor in the negative development of the PPA is explained by increased political and regulatory uncertainty – perceived or real – in combination with limited market liquidity and entry barriers. The overall contraction in the global financial market has also had a significant impact.

To increase competition, barriers to market entry need to be reduced. However, we do **not** believe that moving to a CfD mechanism from the ROC based PPA will increase competition for providers of the route to market required for the CfD. The CfD implies a significant risk related to differences between reference market price and achieved price for the relevant generation. Long term price development risk is reduced by a shift from the RO to a CfD, but this is a risk utilities are generally well positioned to handle.

Instead, what is needed is a well functioning, liquid wholesale market. Compared to the RO, the CfD will, to a lesser extent, support trading along the curve and contribute to power market liquidity. Despite recent measures taken by incumbents, liquidity and transparency issues remain in the UK wholesale markets. A liquid power market will attract more UK power traders and hence a wide choice of strong credits as offtake parties which the banks will require to fund these independent projects.

The UK also needs to ensure that it has a stable and evidence-based policy environment in order to limit political risk and thereby keep costs down. We would like to note that the Renewable Obligation Banding Review which was brought forward by 12 months in order to give the industry a clear direction for travel was ultimately subject to delays and a high level of uncertainty. Similarly, delays to Project TransmiT, EMR plans, and sudden changes to micro-generation FIT levels have all contributed to significant levels of uncertainly about UK energy policy stability. It is vital that the Government works to rectify this situation if it wants to improve attractiveness and competition within the PPA market.

Finally, there is a need for improved transitional arrangements for renewables support when introducing EMR – the logical solution is to prolong the RO to 2020 in parallel with introducing the CfD. The RO is successful, well understood and bankable, has attracted Statkraft and other major utilities to invest in renewables in the UK and has supported significant growth in renewables generation. Challenges related to the introduction of CfD for renewables may be solved, but improved transitional arrangements are urgently needed to avoid an investment hiatus.

If the ROC regime is indeed extended to 2020 it would be useful to decrease entry barriers to providing PPAs by making ROCs and LECs more fungible products. Currently ROCs and LECs can only be finally used by suppliers.

Please find Statkraft's answers to your specific consultation questions attached.

Kind regards

Managing Director Statkraft UK Ltd.