Eneco

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

Dear Matt,

Re: A call for evidence on barriers to securing long-term contracts for independent renewable generation investment

Eneco welcomes the opportunity to respond to the Department of Energy and Climate Change (DECC) concerning this important issue.

Eneco is a relatively new entrant into the UK market and since 2008 has invested over £120m in the onshore wind sector, building 111MW of generation and developing the 1.2GW offshore scheme Navitus Bay in a joint venture with EDF Energy. Alongside this Eneco has established a base in Warwick and has created 20 highly skilled jobs. Eneco is looking to bring its balance sheet into the UK market over the next few years and will establish a trading and supply business that embodies the principle of sustainable generation, putting the customer at the centre of the business.

Eneco is an independent generator in the UK and therefore requires a healthy and competitive PPA market to retain shareholder confidence that revenue streams are secure. Eneco intends to broaden its presence in the UK to allow it to trade and supply electricity but cannot do this without first securing a production base. The Electricity Market Reform (EMR) as presented at this time provides insufficient protection for independent generators to participate beyond the existing Renewable Obligation. The main reasons Eneco feels strongly about this are set out below:

1. PPAs are a fundamental requirement for securing the revenues of any project without an internal supply base.
2. The absence of an "obligation on suppliers" will dilute/negate the Big 6 appetite for PPAs and this will inevitably lead to a reduced market for independent generators.
3. PPAs help to allocate the management of power price and balancing risks. Depending on the structure and fees, an off-taker will charge a premium for managing these risks. The two major issues associated with this are:

    a. Off-takers (Big 6 are dominant) are increasing the PPA discount to sellers due to their reduced appetite for independent power (they service their own generation fleets first), and

    b. CfDs do not assist with balancing discount, rather they provides some long-term power price certainty (not Day Ahead certainty or any help to solve intermittency).

4. The argument that the "heavy lifting" is done by the CfD FiT mechanism through long term certainty of the awarded contract price does not protect the independent generator from volatility in the Day Ahead market and subsequent balancing risk. At a time where supply margins are expected to tighten and volatility increase, this risk could become unacceptable. The dominant market players are fully integrated, have large portfolios, and can self-insure themselves against volatility. This insurance product is only available to independent generators at significant price and can be used as a barrier for entry.

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5. Although liquidity appears to be increasing voluntarily by the dominant players on the exchanges, it is only for limited short-term products and not for a range of products and terms required by independents.

Independent generators have played a significant role in supporting the growth of renewable energy in the UK over the last 15 years, their role in the market is a critical one. Eneco hold the opinion that healthy competition in power production is the driving force ensuring that markets become more competitive, harness new cleaner power sources and trade more effectively. Presently just under half of UK onshore wind capacity is sponsored through independent balance sheets and as such this source of investment is one that should not be turned off but encouraged.

Eneco wishes to work with the government, bringing experience of similar subsidy mechanisms in the Netherlands, to ensure that there is a viable and balanced market available in which independent generators can thrive and build business to benefit the UK.

This is a crucial time for Eneco in the UK with a considerable amount of regulatory changes to contend with and report to our shareholders. Fundamentally Eneco requires a reliable revenue stream for its projects with a manageable risk profile. It is clear that the market is already diluting PPA terms and this problem is compounded by the EMR.

Eneco's primary requirement is that DECC, OFGEM and the Treasury work together to create a framework under the EMR where there is liquidity, both in the short-term exchanges and in the long-term PPA markets. This is considered vital for the long-term viability of our investments.

Eneco looks forward to working with DECC to ensure that the EMR framework is fit for purpose and enables our Board to continue to invest in the United Kingdom.

Yours sincerely

Director
Eneco UK

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