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Matt Coyne
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Dear Matt

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

Preamble

West Coast Energy Ltd welcomes the opportunity to respond to the call for evidence on 'Barriers to securing long term contracts for independent renewable generation investment'. West Coast Energy have acted as developers and consultants to a number of major windfarm projects throughout Great Britain and have obtained consent for over 670MW of projects with a further 300MW either going through planning or with a planning application being prepared. We estimate that all the projects we have been or are involved with will reduce the CO2 emissions of the United Kingdom by over a million tonnes per year. We have also been active participants in various electricity industry fora including the Transmission Arrangements for Distributed Generation (TADG), Transmission Access Standing Group (TASG) and in the Active Networks project team of the Distribution Working Group (DWG). We were also involved in the preparation of the new ENA connections guide for distributed generation. West Coast Energy will focus the majority of its comments on the impact of the proposed reforms on small scale distributed generation and in particular onshore windfarms in the range 1-100MW.

Background

The widespread uncertainty in almost all aspects of the Electricity Supply Industry is acting as a major inhibitor to investment in renewable energy and the difficulties in obtaining Power Purchase Agreements are just one manifestation of this. While there is some certainty about UK government /EU 2020 targets concerning renewable energy, energy efficiency and CO2 emissions, even this has been somewhat threatened by the recent disagreement between DECC and the Treasury over the RO Banding Review. There is a general agreement that there is insufficient liquidity in the electricity market and this has been the subject of OFGEM review and threatened intervention now for many years but still there is no realistic end in sight with the 'Big 6' vertically integrated utilities having over 94% of the electricity supply market. In addition there is a Significant Code Review on electricity market cash out arrangements which is very important to variable generation sources such as wind. Over the next decade over 25% of the existing GB electricity generation plant will need to be replaced as old nuclear plant and smaller polluting coal fired generators are brought offline as the result of environmental legislation and the end of their technical lifetimes. The market for electricity is the subject of the proposed Energy Bill/Electricity Market Reform (EMR) which has enormous implications for small windfarm developers such as ourselves and we will return to this later. The

charging arrangements for transmission connected generation have been the subject of Project TransmiT which although initiated in 2010 has still not been through the CUSC amendment processes. For distribution connected generators there is now the uncertainty associated with the next distribution price review RIIO-ED1 which is now getting underway but which promises to involve large amounts of work from the DNOs and Customers such as ourselves not least because of the potential benefits/costs associated with Smart metering , Smart grids etc. On the top of this there are the implications arising from the introduction of the EU Third Package with amongst other things the promise of a single electricity market within Europe, a unified grid code and common connection arrangements throughout Europe. Given the shortage of defined reference points within the electricity market and overall economic difficulties and general uncertainty it is perhaps not surprising that the market for Power Purchase Agreements has dried up.

Electricity Market Reform

The single most important area of uncertainty lies with the EMR where amongst the areas of concern the most significant for small renewable generators such as ourselves, is the lack of any supplier purchase obligation as there is under the Renewables Obligation. The EMR was conceived as a mechanism to provide secure revenue streams to Nuclear Power Station developers who require certainty on revenues over the forty year lifetime of a nuclear station to justify the massive upfront capital investment. In many ways renewables act as a 'fig leaf' to cover the covert subsidy of nuclear power. It is evident that the existing Renewables Obligation works and has resulted in an increase in the amount of electricity generated from renewable resources from 2.2% in 2003 to 9.7% in 2011. It is interesting to note that in many ways the RO has acted as a premium FIT as can be seen in the paper by Newbery (Contracting for Wind generation EPRG Working Paper 1120)

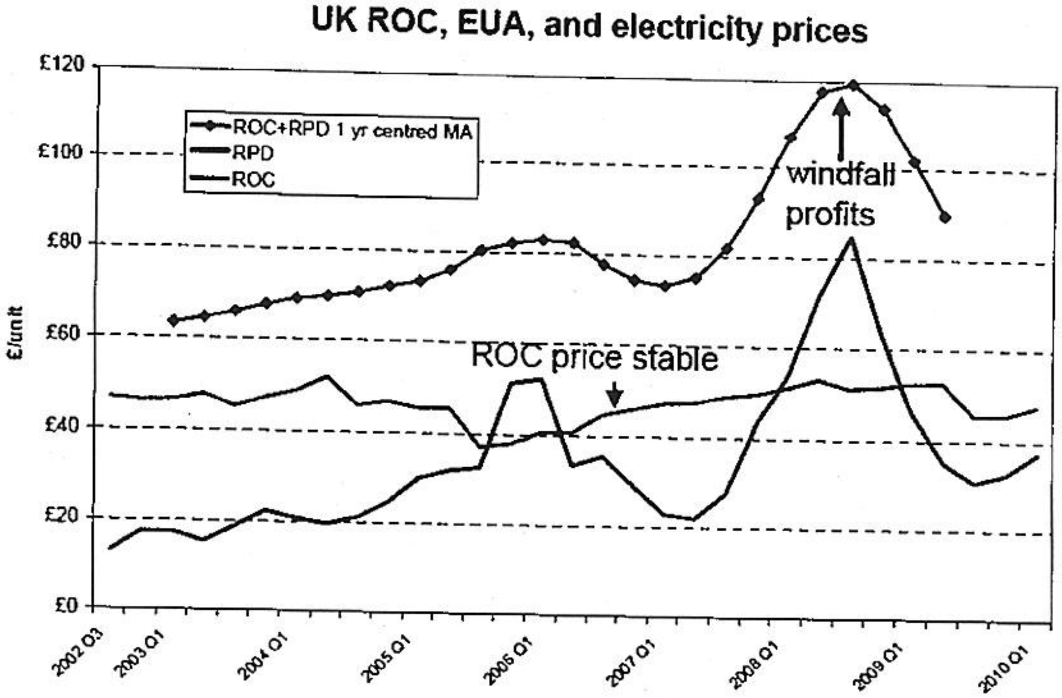

Figure 1 The value of ROCs and of selling electricity with a ROC. 2002-9
Sources: UKPX and Ofgem

It is not clear from the various EMR consultations whether even small generators will be expected to participate in the Balancing and Settlements Market and take balancing risk (via CVA) or whether we will be able to continue to have PPAs with suppliers which entail the suppliers taking any

balancing risk (via SVA). As small windfarm developers we rely on a Power Purchase Agreement (PPA) as our route to market, to obtain project finance and with the size of project we are dealing with we and our financing institutions rely on a creditworthy PPA provider to take on the balancing risk. Our experience of the PPA market in recent years follows closely the situation outlined in the call for evidence with a very restricted response to PPA enquiries.

None of the potential solutions outlined in the call for evidence will answer the basic issues behind the lack of PPAs. All the solutions require time for the market to adapt and for the reforms to bed in. We do not have the luxury of time, there is already a hiatus on investment and any possibility of achievement of the 2020 targets begins to slip away. The priority should be to complete the liquidity review and implement its findings as soon as possible. Similarly the Cash Out review should be expedited. Only then should consideration be given to EMR although in recognising the importance of EMR to the construction of new nuclear generation stations perhaps the best way forward may be to proceed with an EMR for nuclear power stations based on a FIT with CFDs and to either retain the RO for renewables or move to a Premium FIT.

The fact remains that onshore wind is the most cost effective option for meeting the Government's 2020 targets but given that the lead times for project development are typically in excess of five years we require certainty on the medium to long term outlook for the electricity industry as a matter of urgency. The overall climate of uncertainty is now beginning to affect investment decisions but unless a means of overcoming barriers to independent developers obtaining PPAs is developed there will not be an overall GB competitive and diverse market for renewable energy nor electricity as a whole and the market will continue to be controlled by the 'Big 6' electricity suppliers.

We have no issues with our response entering the public domain but if you wish to discuss any of the above please do not hesitate to contact me.

Yours sincerely

[redacted]

Head of Grid and Regulatory Affairs