

Forth Energy

Forth Energy's response to DECC's "A call for evidence on barriers to securing long-term contracts for independent renewable generation investment"

Forth Energy, a joint venture between Forth Ports Limited and SSE plc, plans to develop three high-efficiency, wood-fuelled Combined Heat and Power (CHP) plants in Scotland. The plants will be situated at the ports of Grangemouth, Dundee and Rosyth. Together they will have the capability to deliver 300 MW of reliable, flexible, renewable electricity to the national grid and 260 MW of renewable heat to both existing and new neighbouring industrial and commercial users, and to new district heating networks. Their combined output can deliver around 30% of Scotland's 2020 renewable heat target and approximately 6% of the renewable electricity target.

Forth Energy is currently awaiting consent for each of its 3 projects before engaging with potential Power Purchase Agreement (PPA) providers. Accordingly our comments are confined to how Electricity Market Reform (EMR) may impact the future PPA market (Question 5 of the call for evidence document). In summary, Forth Energy believes that under EMR:

- **PPAs will remain critical for independent generators to raise project finance for new capacity.**
- **A competitive PPA market is essential for generators to obtain terms that reflect the assumptions made in setting CFD strike prices.**
- **PPA providers are likely to offer a further discount on the power price compared to current levels.**
- **The tenor of PPAs sought is likely to match the duration of financial support under the CFD.**
- **Clarity on the CFD structure and reference price is required to allow stakeholders to consider appropriate PPA structures.**

PPAs will remain critical for independent generators to raise project finance for new capacity

Under EMR, the ability to obtain long-term PPAs which reduce power price risk will remain critical to enabling independent generators to raise the finance required to construct new renewable generation capacity. The CFD structure requires a generator to physically sell its power in order to obtain the market reference price. The generator will also need to minimise short-term imbalance charges due to changes in output or planned and unplanned outages. Accordingly an independent generator will require a route to market to conduct these transactions and a long-term PPA remains the likely choice to provide this route. Our discussions with potential providers of project finance indicate that a long-term PPA will continue to be critical under EMR to allow the raising of finance to construct our projects.

A competitive PPA market is essential for generators to obtain terms that reflect the assumptions made in setting CFD strike prices

For a financially viable project, an independent renewable generator must be able to obtain a PPA on similar terms to those that are assumed in determining CFD strike prices, particularly regarding assumed revenues and the required rate of return. A competitive PPA market with multiple potential providers will be essential in ensuring generators can obtain PPAs on such terms. We anticipate that the introduction of the CFD could increase competition by encouraging independent aggregators to enter the PPA market.

PPA providers are likely to offer a further discount on the power price compared to current levels

Under the RO, a PPA provider's overheads and profit margins are recovered through the discount it offers on both the power price and ROC value. Under EMR, these items will be recovered through the power price discount only. This is likely to result in an increase to the discount on the power price offered by PPA providers, compared to current levels.

The tenor of PPAs sought is likely to match the duration of financial support under the CFD

Renewable generators are generally not financially viable without the support mechanism and so can only enter into PPAs for the duration of that support. The potential for the period of support to be reduced from 20 years under the RO to 15 years under the FIT CFD is likely to reduce the tenor of PPAs being sought by generators.

Clarity on the CFD structure and reference price is required to allow stakeholders to consider appropriate PPA structures

Generators and PPA providers both require clarity on the precise form of the CFD and the reference prices to be used to allow them to consider the appropriate structure of PPAs under EMR. These details need to be made available well ahead of the closure date of the RO to avoid a hiatus in the construction of new renewable capacity by independent generators, caused by a delay in their ability to agree suitable PPAs.