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Dear Matt,

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

Estover Energy welcomes the opportunity to respond to the Call for Evidence on barriers to securing long-term contracts for independent renewable generation investment. As an independent generator we believe we have a valuable contribution to meeting the renewable energy targets.

Estover is developing a portfolio of local-scale biomass CHP plants. These are fuelled using fresh wood sourced locally in the UK. Each plant is co-located with an industrial heat user to whom we provide low-carbon heat and electricity. The excess electricity is sold via the network on the wholesale market.

Our plants are dependent on non-recourse project finance to be built. This means the PPA for the exported electricity is absolutely crucial. The length of the contract must be at least the length of the debt, and the terms must meet the thresholds required by the banks.

Specific questions in the consultation

Identifying the problem – current situation

We have a major concern regarding the availability and terms of PPAs. We are starting to search for a long-term bankable PPA. The advice we receive is that Statkraft is the only company offering a bankable PPA in the market. This appears to be true. While other companies say they offer PPAs the terms and discounts are such that we would not be able to finance from them. Some utilities are offering to 'sleeve' our power export and sell it to their customers, typically large end-users like supermarkets. This is complex and difficult to bank but appears to be the only way of reaching end customers.

Impact of EMR

We are very concerned that the move from the RO to CfD is likely to undermine our ability to secure PPAs. Our view is that the uncertainty over Electricity Market Reform and other market activity has had a role in off-takers unwillingness to commit to long term positions.

Due to the continuing uncertainty over EMR (and the view that biomass may not be included) we are focusing on building under the RO. We think that the ending of the RO means suppliers do not want to buy up as many ROCs as they used to. We believe this is affecting the ability to sell under the RO. At least one PPA in the market from a major supplier only offers taking 50% of the ROCs.

Options to achieve the Government's objective

The call for evidence sets out a number of options, which are not mutually exclusive, and a number they should be pursuing regardless of the EMR.

Competition measures

Improvements in the transparency and efficient operation of the wholesale market should be pursued regardless of the EMR. Government should ensure every effort is taken to improve liquidity in power trading.

Supporting the roles of aggregators in the market is desirable as new entrants should provide more competition into the market. However it should be recognised that aggregators have historically struggled to expand in the market and there are a number of market design issues that make it difficult.

Market Liquidity

The latest update of Ofgem's review¹ into liquidity has reported that although there has been some improvement there has not been significant change. Most respondents to the consultation considered that action is required to improve liquidity in the GB power market, and as a result Ofgem will come forward in the autumn with proposals for the mandatory action. It is clear, firstly there is an issue with market liquidity, and secondly this is unlikely to be resolved by the time the first CfD's are signed. The government cannot solely rely on these proposals to support the independent PPA market.

Overall

For Estover it is important to have a multiple routes to market. PPAs are crucial to project finance and the current lack of availability is causing problems. We are still at an early stage so are

Government will clearly need to carefully consider the next steps, informed by the evidence it receives from all those involved in the market.

Yours sincerely,



Director, Estover Energy Ltd.

¹ Retail Market Review: GB wholesale market liquidity update

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=281&refer=MARKETS/RETMKTS/RMR>