

Our Ref: BJP/CL

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Electricity Market Reform Project
Department of Energy & Climate Change
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Dear Sir

RESPONSE BY THE BANKS GROUP TO THE CONSULTATION ON ENERGY MARKET REFORM – MARCH 2011

The Banks Group has one of the largest and most successful development teams in the UK. We develop land for a variety of uses including residential and commercial property, surface mining, renewable energy and energy from waste. We are actively involved in over 120 projects from inception through to completion including gaining all necessary planning permissions and consents.

We have over 34 years of experience of developing complex projects and have a strong reputation of success and high standards of delivery. Our development with care approach ensures that our developments have a positive long term effect on the environment and the local communities we are working within. Please find attached our brochures dealing with our mining and renewable activities.

In many respects what the government is trying to achieve through its energy and investment policy at a national level is what we have been doing as our business approach over the last eight years. Over this period we have diversified from our traditional energy business base of surface coal mining and waste management to develop our renewable energy business, which currently has an extensive programme of projects including onshore wind farms, advanced waste management facilities and other alternative renewable technologies. Proceeds from the coal and property businesses have and continue to be invested in the renewable business, however on a daily basis we have to address the competing demands for investment from our business areas. As a business we currently have an annual turnover of circa £55m and over the last five years have invested some £50m into our renewable energy projects whilst continuing to sustain and develop our coal activity through further investment of over £50m. We are currently in the process of contributing to the delivery of the UK's renewable energy needs with over 600Mw of renewable generation in various stages of development.

We support the government's efforts to create a more stable environment for investment in low carbon electricity generation and the publication of the consultations on Electricity Market Reform. However we feel that the proposals will have a negative impact on traditional sources of energy generated by coal, and that the effect of these will be to disadvantage the development of CCS technology in the immediate term, and have an impact on the existing coal generating sector at the very time when security of supply and particularly indigenous coal production is of crucial importance to the UK economy.



In Summary the key points in our comments are:

There needs to be joined up thinking across all policy and fiscal measures related to energy and the electricity market in order to deliver low carbon energy generation. In particular we must have consistent and transparent policy and an effective planning system that enables the delivery of energy related developments on a timely basis.

We must ensure that there is a level playing field across Europe and the wider international community to avoid unfair competition for indigenous generation, leakage of carbon and export of jobs and economic activity. UK competitiveness should not be undermined by the introduction of EMR and carbon floor pricing.

Introduction of the EMR proposals and carbon price floor will, on the timescales and level proposed, have a sharp disincentive for further investment in coal related projects. We believe that this will impact on planned indigenous coal production, any further investment in existing coal generating capacity, especially to meet new emission standards, any medium / long term investment in new coal generating capacity, and commercial investment in carbon capture and storage. We strongly advocate that there is a glide path into the new arrangements that any carbon price floor is pushed back to nearer 2020 and started at a low level at the start to enable a steady transition to low carbon generation.

It is easy to destroy existing generating capacity through uncertainty from EMR or punitive fiscal regimes but much harder to deliver new low carbon / renewables generating capacity. As a consequence it is likely that there will continue to be a dash for gas that will affect the ability to achieve the longer term 2030 targets. We feel the EMR needs to be weighted towards support for existing coal generating capacity, and therefore the indigenous coal industry, as this will provide a platform for new renewables / low carbon generating capacity, including CCS, that will enable those targets to be met.

We need a phased and steady transition that actively promotes business confidence and ensures that sufficient energy is delivered to meet society's needs in the short, medium and long term. Fundamentally existing UK jobs and economic activity need to be preserved in the short term to absorb the structural change without unplanned repercussions eg substantial job losses, substantial hikes in energy prices or specific energy shortages.

We do not believe that the current proposals alone will necessarily encourage more investment in low carbon renewable energy generation because of a focus on cost of capital only. There are a number of other factors, not least the level of FIT, how it applies to different technologies, certainty of the FIT level long term and what the mechanisms for review are, and the ability of the land use planning system to deliver certainty in gaining new planning permissions.

We propose that the best option under the EMR should be based on the Premium FIT approach as this appears to give the best certainty and framework for investment in low carbon generation, and that the arrangements for transition from RO to FIT are clear and certain. It is crucial that the level of FIT is right - getting the level wrong would be a major disincentive to investment.

There is little comfort for coal, and if coal based CCS is to be reality, it is important that

unabated gas generation should be CCS compliant from 2020 once the technology is proven.

For our business, the EMR proposals could have a significant impact on our ability to achieve our planned investment in renewable energy as the coal side of the business could be impacted significantly if the proposals are implemented as set out.

We are concerned that the proposals will result in a significant increase in consumer's bills whilst increasing the risk that electricity generation capacity is insufficient to meet demand especially at peak periods of demand during winter prolonged cold spells when coal generation capacity has traditionally met the requirement.

Response to individual questions:

FEED IN TARIFS

- 1 Do you agree with the Government's assessment of the ability of the current market to support the investment in low-carbon generation needed to meet environmental targets?**

The EMR is a positive document that seeks to address some of the key energy supply and investment issues that will face the move towards a decarbonised energy sector by 2030 and is therefore welcomed and supported. However there are a number of key issues in the consultation that we are concerned about, that could undermine the ability of the market to support investment in low carbon generation. Our assessment of what these are:

- i It should be recognised that the UK operates in a global energy market and needs to maintain its competitiveness through market arrangements that don't encourage the migration of economic activity overseas.
- ii Cost of capital is important but not is the only driver in low carbon investment.
- iii Revenue / return expected is crucial - ie the FIT level.
- iv Technology cost.
- v The ability to secure planning permission and associated consents are of crucial importance in securing the right investment market. Crucial to investment decisions for business will be certainty associated with the FIT and the process and timing for reviews.
- vi Once the FIT level is set, it should be fixed and stable for a long period, and the mechanisms for setting it must involve both government and the business / market.

We have real concern on the proposals for a Carbon Floor Price – see attached HMRC consultation and the impact that this will have, particularly if introduced too early and at too high a level. This will only exacerbate the construction of new CCGT plants at the expense of renewables, and significantly reduce the ability for coal to progress through to full-scale CCS implementation.

We propose that there should be a 'glide path' into the new arrangements for both EMR and carbon price to give certainty and clarity for all fuel and generator types.

2 Do you agree with the Government's assessment of the future risks to the UK's security of electricity supplies?

Yes. However we feel that the EMR will fail in its objectives unless there is a pan European approach to carbon and energy policy, and that there is a level playing field between the different types of generation. The issues of security are dealt with at a fairly superficial level and do not take account of the likely short term decimation of the coal power generating sector in the period to 2020, with little realistic likelihood of new CCS plants coming on stream to replace them.

This is important in the context of a continuation in the 'dash for gas' and uncertainty over nuclear. The events of the last month in the middle east and Africa have impacted on energy commodity prices and demonstrate that gas is not as secure as is maybe thought. Coal is an indigenous reserve that should be safeguarded longer term through ensuring CCS happens, while in the short term allows existing coal plants to operate until the new renewables and low carbon infrastructure comes on stream post 2020 in sufficient quantity to overcome reliance on imported gas.

3 Do you agree with the Government's assessment of the pros and cons of each of the models of feed-in tariff (FIT)?

The assessment between the fit models is broadly agreed with, although we are concerned that there is little detail available on the 'numbers and evidence' used to make the assessment between each type of FIT.

We agree with the assessments that bring the decision down to one between a CfD FIT and a Premium FIT although the decision on which is best is a close call. We believe there are additional matters which could tip the balance in either direction, and there should be more detail and analysis published before the final decision is made. In any event it will be necessary for government and business to work together to get the right FIT level to attract new low carbon investment.

In any FIT level, a linkage to fuel prices for low carbon fossil fuel (i.e. CCS) and biomass generation is necessary, the competition for which would be unabated gas-fired plant. Because gas-fired generation (plus the carbon price) sets the wholesale electricity price the FIT must be designed to provide a benefit for coal or gas with CCS and biomass vis-à-vis unabated gas which is maintained in the light of changing coal and gas prices.

4 Do you agree with the Government's preferred policy of introducing a contract for difference based feed-in tariff (FIT with CfD)?

No. Whilst we can see the benefits for investors by having a guaranteed FIT and safeguards for government should the market price of power rise above the FIT level, through a CfD FIT, we are concerned that there is little available information on the FIT level(s) being proposed, and that if the level is set incorrectly, this will act as a major hurdle for new investment. Government alone is generally not best placed to assess the market level and government and business to work together to get the right FIT level right. On this basis, we believe that a Premium FIT would be the best solution, as it would form a logical follow on from the RO with its blend of market rate and additional tariff.

In any event the linkage to price of low carbon fossil fuel should be maintained in the calculation as per Q3.

5 What do you see as the advantages and disadvantages of transferring different risks from the generator or the supplier to the Government? In particular, what are the implications of removing the (long-term) electricity price risk from generators under the CfD model?

The advantages are certainty of price for the investment decision, provided the level and banding is such that it is considered right. However the downside is that government must realise that certainty can be all too easily undermined by adhoc reviews, as per the recent FIT announcements. This would seriously dent investment decisions. As a consequence the setting and negotiation of the FIT level needs to be transparent and open to scrutiny, and undertaken with generators. Choosing the CfD option would prevent above market returns being achieved where the price electricity rose above the norm. How important this is however is questionable given the lack of information on FIT rates.

In addition, see the answer to Q4.

6 What are the efficient operational decisions that the price signal incentivises? How important are these for the market to function properly? How would they be affected by the proposed policy?

We have no comment on this matter.

7 Do you agree with the Government's assessment of the impact of the different models of FITs on the cost of capital for low-carbon generators?

Yes - however we urge the government not to see cost of capital as the only factor in the investment decision for low carbon infrastructure. The other key factors are:

- i The UK operates in a global market and needs to maintain its competitiveness through market arrangements that don't encourage the migration of economic activity overseas.
- ii Revenue / return expected from the investment is crucial - ie the FIT level.

- iii Technology cost and risk.
- iv Ability to secure planning permission and other land associated consents.

8 What impact do you think the different models of FITs will have on the availability of finance for low-carbon electricity generation investments from both new investors and existing the investor base?

This depends on the relationship between the FIT and fossil fuel prices (see Q.3 above). The difference between low carbon coal or gas generation with CCS and biomass generation on the one hand, which are exposed to market fuel prices, and other forms of low carbon generation without such exposure on the other which are not exposed to fuel prices, must be recognised and taken into account in the FIT if investment is to be bankable. The interaction between the support level and the capital cost on investment returns will be the fundamental issue. The cost of capital is only one component of this, and may well not be the most important component.

9 What impact do you think the different models of FITs will have on different types of generators (e.g. vertically integrated utilities, existing independent gas, wind or biomass generators and new entrant generators)? How would the different models impact on contract negotiations/relationships with electricity suppliers?

We are unsure about how nuclear fits within the EMR and FIT arrangements, and how they will affect the market.

We are unable to comment for utilities and vertically integrated businesses.

As an independent developer of renewable projects, both wind and AD and coal mining operations, we see that the crucial aspect is the level and banding of the FIT regime, and certainty that comes from government regarding reviews. The lead in times for projects, typically 3-5 years and significant upfront investment, in excess of £1M per project before planning permission and consents are granted, means that the certainty on the FIT and investment regime is absolutely crucial. Sudden changes to a FIT tariff, such as with the recent PV review lead to huge risk. On this basis the premium FIT would be the preferred as there is a greater element of market involvement. If a CfD is used greater certainty is needed.

10 How important do you think greater liquidity in the wholesale market is to the effective operation of the FIT with CfD model? What reference price or index should be used?

All new projects rely on significant capital investment and any improvement in liquidity will stimulate investment. Brown power income is traditionally received in month following generation, with ROCs and LECS received 90 days later and ROC Recycle revenue an average of 12 months after generation. A new FITS regime could significantly improve this. However, it is not clear why FIT with CfD would be more effective than a Premium FIT in improving liquidity.

The reference price and indexation is vital to the success of either FIT with CfD or Premium FIT. However, we are not able to propose a specific index.

11 Should the FIT be paid on availability or output?

Output. Availability issues should be addressed via the capacity payment mechanism.

EMISSIONS PERFORMANCE STANDARDS

- 12 **Do you agree with the Government's assessment of the impact of an emission performance standard on the decarbonisation of the electricity sector and on security of supply risk?**

No. The proposal as it stands merely restates existing government policy in another way and will not incentivise the construction of new fossil fuel plant with CCS; it will disincentivise the construction of new coal-fired plant compared and benefit unabated gas. A single, non fuel-specific EPS will always disadvantage coal-fired generation and, as such, will reduce diversity and hence security of supply issue set out above. In essence the EPS proposals will have the likely effect of speeding up the building of new gas CCGT in the short terms and have a negative impact on the investment in renewables. This will have a significant impact on achieving the 2030 and 2050 decarbonisation targets.

EMR should indicate that the EPS will be lowered at some point such that new gas-fired plant will need to be equipped with CCS.

Overall, the EPS as proposed, gives a free ride to new unabated gas-fired plant and discriminates against new coal-fired plant. In addition to carbon price support, this represents a major incentive to switch from coal to gas-fired plant when considering new investment. As such, it will reduce diversity and hence security of supply. Moreover, whilst it may achieve earlier reductions in carbon emissions, it will result in long-term carbon lock-in because of the large amount of unabated gas plant that it will incentivise and thus make longer term carbon reduction ambitions much more difficult to achieve.

The EMR should have much stronger incentives and proposals relating to CCS and provide a road map for its testing and introduction, including how the proposed EPS relates to the funding rules for CCS demonstrations and exemption from carbon price support for the carbon abated.

- 13 **Which option do you consider most appropriate for the level of the EPS? What considerations should the Government take into account in designing derogations for projects forming part of the UK or EU demonstration programme?**

Neither, except in the short term Banks provided there is an exemption for the CCS demonstration programme. However, once CCS is technically proven and commercially available, hopefully by 2020, an EPS should be introduced no later than 2025 and the EMR package should give a clear signal to this effect. It may be appropriate to have a slightly higher longer term EPS, for CCS demonstration plants to recognise that they are 'first of a kind' and may not apply what eventually is proven to be the most efficient and effective technology.

- 14 **Do you agree that the EPS should be aimed at new plant, and 'grandfathered' at the point of consent? How should the Government determine the economic life of a power station for the purposes of grandfathering?**

No. Grandfathering should only apply to old plant not required to be constructed Carbon Capture Ready. All plant, including existing plant and plant now under construction that is, or was, required at the point of consent to be built CCR should have to apply the lower EPS level from c2025 once CCS is technically proven and commercially available.

15 Do you agree that the EPS should be extended to cover existing plant in the event they undergo significant life extensions or upgrades? How could the Government implement such an approach in practice?

Only after the CCS Review shows that CCS is technically proven and commercially available. In any event, the EPS should apply only to upgrades. It would be wholly unreasonable to require an existing plant to comply with an EPS in the event that it chooses, for example, to invest in NO_x abatement to meet the requirements of the IED and hence extend its life beyond what it would otherwise have been. If there is no such exemption for life extensions in such circumstances, there will be no investment to meet the IED requirements and virtually the whole of the existing fleet of coal-fired plant will close.

The policy of both the previous and present governments completely ignores the higher efficiency route to lower carbon emissions that is being followed virtually everywhere else in the world. Allowing higher efficiency upgrades without the need to comply with the EPS initially at existing plant will (i) lower carbon emissions in the short term and (ii) facilitate later CCS retrofit because of the energy penalty associated with CCS. The backstop would be the requirement to comply with an EPS of 100g CO₂/kWh once CCS has been proved to be technically proven and commercially available.

16 Do you agree with the proposed review of the EPS, incorporated into the progress reports required under the Energy Act 2010?

Yes, but there should be a much clearer signal that plant will be expected to comply with an EPS of 100g CO₂/kWh (150g CO₂/kWh for CCS demonstration plant) from, say, 2025. This should apply not only to new plant but to all plant required to be CCR at the point of consent. Only by applying this requirement can long-term carbon lock-in associated with a large amount of unabated gas plant be avoided.

17 How should biomass be treated for the purposes of meeting the EPS? What additional considerations should the Government take into account?

Bearing in mind that burning biomass in coal-fired power plant represents by far the most cost-effective and by far the largest opportunity for biomass generation, the same EPS rules should apply to biomass as to coal-fired plant, including a requirement to meet an EPS from 2025.

The Government should, however, set up a mechanism to certify biomass sources to ensure that they are genuinely low carbon on the one hand and do not have adverse consequences, e.g. on food production, on the other.

18 Do you agree the principle of exceptions to the EPS in the event of long-term or short-term energy shortfalls?

Yes, although this provision should apply only in the short to medium term. In the longer

term, beyond 2030, CCS can be expected to be near universal and there should be no ongoing need for such a provision.

OPTIONS FOR MARKET EFFICIENCY AND SECURITY OF SUPPLY

19 Do you agree with our assessment of the pros and cons of introducing a capacity mechanism?

We see a major disadvantage of the capacity mechanism being the impact on coal burn and the effect on the supply chain that serves the coal power stations. As a consequence of the proposals, it is likely that the coal burn will be unpredictable and therefore the generators are likely to be unwilling to place long term orders and buy on spot. This will have an impact for the UK coal mining industry, as coal is not produced in such an 'on/off' way. Coal sites ideally need to produce a regular supply of coal and dispatch on a regular basis. If this were not to be the case, it would have an environmental impact, with coal being stored on coal sites rather than at power stations where it is best dealt with long term. Reduction in UK mined coal and reliance on imports would hit some 7000 jobs and employment in some of the most deprived parts of the country.

We would seek a minimum guaranteed coal burn.

With respect to the advantages, it is necessary to consider three types of capacity shortfall:

- (i) At periods of peak demand, for a few hours and for a few GW.
- (ii) A shortfall that could exist between day and night in winter lasting for up to 12 hours a day and amounting to 10-15 GW.
- (iii) The capacity shortfall that will undoubtedly occur from time to time when climatic conditions result in minimal wind generation across the whole country. This problem will get greater and greater as the amount of wind generation capacity increases. Such conditions occur at least once every winter and in some winters last for several days.

Different solutions, or different mixes of solutions, may be necessary for the different types of capacity shortfall.

It should be recognised that the existing fleet of coal-fired power plant does an excellent job at present of covering for output shortfalls elsewhere. Within the EMR package as a whole, including the impact of carbon price support, care should be taken to ensure that a reasonable amount of such plant continues to have sufficient incentive to invest to meet the requirements of the IED and thus be able to continue to provide this essential role, albeit gradually diminishing, throughout the 2020s when the problems associated with the intermittency and unreliability of wind generation, and the inflexibility of nuclear generation will be increasing. Capacity payments represent an ideal mechanism to provide this incentive but must be signalled sufficiently early to incentivise the necessary investment decisions which will need to be taken well before the end of the present decade.

We expect coal-fired CCS plant to be able to fulfil this role for capacity shortfalls in categories (i) and (ii) above but, in view of the high level of investment required, capacity payments will be required to recognise that such plant may be operating on load factors that are less than optimum.

For capacity shortfalls in category (i), either new peaking plant, or older existing plant operating on low load factors can meet the requirement. Total costs will be lower if existing plant continues in operation, thus avoiding the investment cost of constructing new peaking plant.

It is imperative that the availability and level of capacity payments is signalled well in advance, i.e. ten years or more. Much existing plant will need to take investment decisions in the near future if it is to meet the requirements of the IED. Capacity payments will provide a stream of revenue that will help to justify that investment for a reasonable amount of such plant, but will be of no use if it is not known that they will be available at the time the investment decision has to be made. The analysis in the EMR consultation document points to 3GW of plant “that would otherwise have closed” attracting capacity payments in the mid-2020s. It is not much use, for example, offering a capacity payment in 2024 for 2025-2026 if the plant has closed in 2023.

- 20 **Do you agree with the Government’s preferred policy of introducing a capacity mechanism in addition to the improvements to the current market?**

Yes

- 21 **What do you think the impacts of introducing a targeted capacity mechanism will be on prices in the wholesale electricity market?**

We feel they would be minimal. The wholesale price at the margin will continue to be determined by fossil fuel plant based on fuel prices plus the carbon price.

- 22 **Do you agree with Government’s preference for a design of a capacity mechanism:**

- a central body holding the responsibility;

Yes

- volume based, not price based; and

Yes

- a targeted mechanism, rather than market-wide.

Yes, and targeted on those forms of generation that can meet the need. There can be no argument, for example, that intermittent wind generation, or inflexible nuclear generation, should not attract capacity payments. However, within the identified forms of generation, the capacity payments should be market wide.

- 23 **What do you think the impact of introducing a capacity mechanism would be on incentives to invest in demand-side response, storage, interconnection and**

energy efficiency? Will the preferred package of options allow these technologies to play more of a role?

Unable to comment.

24 Which of the two models of targeted capacity mechanism would you prefer to see implemented:

- **Last-resort dispatch; or**
- **Economic dispatch.**

Unable to comment.

25 Do you think there should be a locational element to capacity pricing?

Unable to comment

ANALYSIS OF PACKAGES

26 Do you agree with the Government's preferred package of options (carbon price support, feed-in tariff (CfD or premium), emission performance standard, peak capacity tender)? Why?

No – we see no need for carbon price support in addition to FITs. The proposals appear to be basing nuclear support on carbon price support and FIT as a package. We are unclear how the nuclear options fit with true renewables and low carbon such as wind.

We see the primary driver towards new low carbon investment being the FIT, be that CfD or Premium, and we strongly support this element. However the CPS and EPS are mechanisms that add little to the package, other than hitting fossil fuels, notably coal. We feel that the short term security issues until a mature renewables and low carbon generating capacity is in place as the biggest issue, and both EPS and CPS will erode existing generating capacity.

Moreover, carbon price support will incentivise switching from coal to gas with all the security of supply and price risks that will entail. Whilst this may result in earlier carbon reductions, it will lock in carbon emissions in the longer term because of the amount of unabated gas plant that will be constructed as a result. This will make it more difficult to meet longer-term carbon reduction ambitions.

We see the EPS as being completely unnecessary as it duplicated other pan European policy. In its present form it will only act to accelerate the dash for unabated gas CCGT. IF implemented, EPS must require new and CCR gas capacity to fit or retrofit CCS, as well as new coal-fired capacity, once CCS has been technically proven and is commercially available.

One further consequence of carbon price support is that it will drive the overall market or coal in the mid 2020s to potentially low levels, and in any event uncertain levels. Investment decisions for new surface mines will be difficult to make given the high capital costs in plant and development costs if market is uncertain.

27 What are your views on the alternative package that Government has described?

The same basic principles apply to our view on the first option above in Q26. The CSP and EPS are unnecessary and will do significant harm to the coal sector whilst allowing unabated CCGT Gas plants to continue.

28 Will the proposed package of options have wider impacts on the electricity system that have not been identified in this document, for example on electricity networks?

Unable to comment.

29 How do you see the different elements of the preferred package interacting? Are these interactions different for other packages?

If the Government considers that the reform package has to include the elements set out in preferred option then we would comment as follows:

- (i) We would suggest that a Premium FIT packaged as a continuation to the RO regime is introduced as the options that has proven to work and can provide certainty to the market.
- (ii) If this is not acceptable, the CfD FIT level should not be banded, but have one level such that the governments targets for renewable / low carbon energy are achieved. This would provide a simple straightforward mechanism that is transparent to investors. Reviews should be programmed and not undertaken in an adhoc manner.
- (iii) Carbon floor price should be avoided if possible because it will stimulate a switch from coal to gas that damages diversity and security of supply, risks high and volatile prices, It threatens the survival of the UK's coal mining capacity, and will make the UK and it's manufacturing base uncompetitive in relation to the rest of Europe. However if it is to be introduced, it needs to have a low commencement price and increase slowly in the period up to 2020 to allow business to adapt and for CCS to be a practical reality.
- (iv) The FIT level should be designed to encourage CCS for both coal and gas, as well as other low carbon generation, with the level determined to cover costs and provide a reasonable return on investment.
- (v) If EPS is to be introduced, then an EPS that applies to all new and CCR COAL AND GAS PLANT by 2025, with higher levels for CCS demonstration plants once CCS has been technically proven and is commercially available. Without such a reduction, the EPS is redundant.
- (vi) Capacity payments targeted to plant that can provide what is required, but is market wide within such categories, and signalled sufficiently early to enable investment decisions to be made to meet the requirements of the IED

IMPLEMENTATION ISSUES

30 What do you think are the main implementation risks for the Government's preferred package? Are these risks different for the other packages being considered?

The key risks that we see are:

The process could destroy existing generating capacity very effectively, particularly coal without there being any backup plan should the investment in low carbon and nuclear not have the anticipated take up. This is particularly the case up to at least 2020, before CCS is commercially viable.

We support the proposals to seek increased investment in renewables / low carbon energy, but see the package of measures as being overly complicated and interdependent on each other. This could lead to uncertainty in the market affecting investment decisions.

The primary driver should be a Premium FIT regime that is clear and transparent, with a high degree of certainty over a long term period.

31 Do you have views on the role that auctions or tenders can play in setting the price for a feed-in tariff, compared to administratively determined support levels?

We would want the level to be set by government, in a mechanism that would involve both government and business / the market.

As a developer we would be concerned that auctioning could seriously affect the viability of a project into the future. The lead in time for major projects of circa 5 yrs just to get through planning and permitting, means that investment decisions need to be taken many years in advance. Tendering could have a serious negative effect on this, consequentially affecting the total investment in low carbon and renewable generations.

- **Can auctions or tenders deliver competitive market prices that appropriately reflect the risks and uncertainties of new or emerging technologies?**
- **Should auctions, tenders or the administrative approach to setting levels be technology neutral or technology specific?**
- **How should the different costs of each technology be reflected? Should there be a single contract for difference on the electricity price for all low-carbon and a series of technology different premiums on top?**
- **Are there other models government should consider?**
- **Should prices be set for individual projects or for technologies**
- **Do you think there is sufficient competition amongst potential developers / sites to run effective auctions?**
- **Could an auction contribute to preventing the feed-in tariff policy from incentivising an unsustainable level of deployment of any one particular technology? Are there other ways to mitigate against this risk?**

- 32 **What changes do you think would be necessary to the institutional arrangements in the electricity sector to support these market reforms?**

Unable to comment

Do you have view on how market distortion and any other unintended consequences of a FIT or a targeted capacity mechanism can be minimised?

Unable to comment

- 33 **Do you agree with the Government's assessment of the risks of delays to planned investments while the preferred package is implemented?**

No

- 34 **Do you agree with the principles underpinning the transition of the Renewables Obligation into the new arrangements? Are there other strategies which you think could be used to avoid delays to planned investments?**

Yes. Although RO are going to be grandfathered on projects prior to 2017, there needs to be a high degree of certainty that the grandfathering will continue at the level agreed and not be eroded through reviews.

- 35 **We propose that accreditation under the RO would remain open until 31 March 2017. The Government's ambition to introduce the new feed-in tariff for low carbon in 2013/14 (subject to Parliamentary time). Which of these options do you favour:**

- **All new renewable electricity capacity accrediting before 1 April 2017 accredits under the RO;**
- **All new renewable electricity capacity accrediting after the introduction of the low-carbon support mechanism but before 1 April 2017 should have a choice between accrediting under the RO or the new mechanism.**

Must have a choice. Pilot schemes before the 2017 switchover would ensure problems are identified and removed before the general switchover. In addition, any technology which the new FIT scheme would benefit need not have to wait until 2017.

- 36 **Some technologies are not currently grandfathered under the RO. If the Government chooses not to grandfather some or all of these technologies, should we:**

- **Carry out scheduled banding reviews (either separately or as part of the tariff setting for the new scheme)? How frequently should these be carried out?**
- **Carry out an "early review" if evidence is provided of significant change in costs or other criteria as in legislation?**

- **Should we move them out of the “vintaged” RO and into the new scheme, removing the potential need for scheduled banding reviews under the RO?**

The banding review scheduled for 2014 should be carried out as previously announced. This would cover the period to 2017 adequately. From 2017 onwards, all accredited sites should be grandfathered based on 2017 levels. From 2014 to 2017, new projects should be able to choose between ROCS and the new FITS. This adds the certainty the industry needs to enable projects to proceed between now and 2017.

37 **Which option for calculating the Obligation post 2017 do you favour?**

- **Continue using both target and headroom**
- **Use Calculation B (Headroom) only from 2017**
- **Fix the price of a ROC for existing and new generation**

Fix the price of a ROC, with the price linked to RPI, from the current level of £36.99 per ROC. This will reduce manipulation by future governments which could affect the viability of projects in existence at 2017 and also add certainty for projects being financed/constructed between now and 2017.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]