REG WINDPOWER
PART OF THE REG GROUP

Suite 2
The Coach House
Kelston Park
Kelston
Bath BA1 9AE

T: 01225 928000

W: www.regwindpower.co.uk

E: info@regwindpower.co.uk

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Electricity Market Reform Project
Department of Energy & Climate Change
4th Floor Area E
3 Whitehall Place
London
SW1A 2AW

Email: EMR-condoc@decc.gsi.gov and elec.marketreforms@decc.gsi.gov.uk

By email only

Dear Sir/Madam

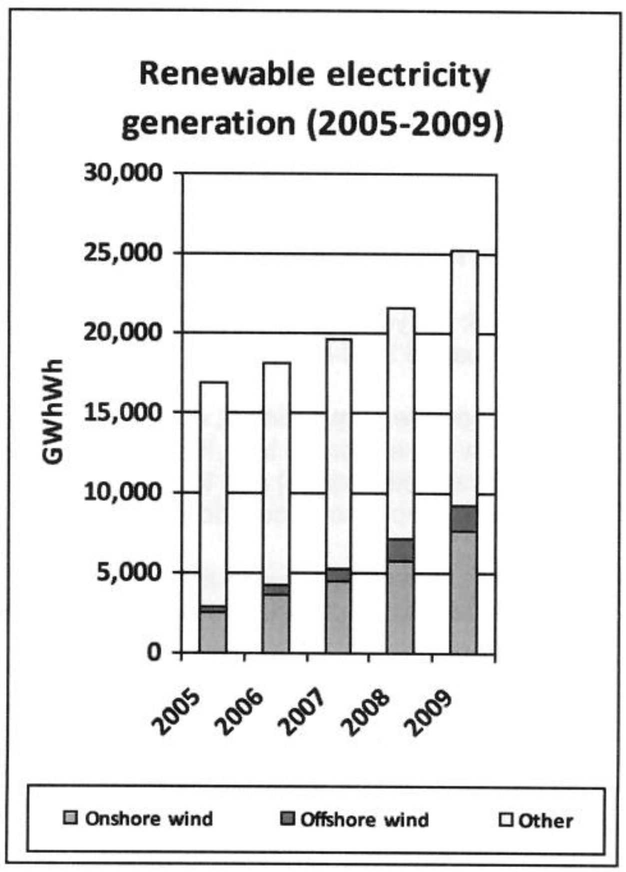
Electricity Market Reform Project

Further to the launch of a consultation in respect of the above project in mid December 2010, please find herein the response from REG Windpower.

Introduction

REG Windpower is the trading name for The Cornwall Light & Power Co. Ltd, a wholly-owned subsidiary of Renewable Energy Generation (REG) which was set up in May 2005 with the single purpose of investing in renewable energy projects. REG is a fast-growing, independent, British renewable energy developer, owner and operator and listed on the AIM Stock Exchange, London. REG Windpower currently:

- owns (100%) and operates 10 UK wind farms with an aggregate capacity of over 41MW;
- has planning permission for 3 UK wind farms with an aggregate capacity of 18MW;
- has over 700MW of UK wind opportunities in active development; and
- employs over 25 professional staff in two UK offices.



Substantive response

In the post-Renewables Obligation period, wind energy – on- and off-shore – has been almost entirely responsible for relatively rapid growth in UK renewable generation as statistics from DUKES 2010 amply show (see chart). Today, wind generation provides over one-third of the UK's renewable electricity and 2.5% of its total electricity. Continued growth of wind energy is clearly essential to meet renewables targets and maintaining the success of the RO in delivering a marked acceleration in renewables deployment must be at the heart of the EMR project.

The rapid growth of wind energy has been under-pinned by the Renewables Obligation which has over nearly a decade secured significant investor confidence while at the same time providing a means of reviewing banding to reflect changes in technology costs etc. At a time when the UK (and global) economy begins to emerge from the worst economic crisis in decades, much value must be attributed to retaining a mechanism that has been shown to deliver whilst building significant investor confidence.

For the reasons above, REG Windpower urges that the RO is retained within the EMR Project as a viable option for facilitating accelerated renewable energy growth.

Turning to specific questions raised in the consultation, REG Windpower broadly supports and endorses the responses provided by the trade association, **RenewableUK**, but nonetheless wishes to respond to the following questions raised:

Question 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 availability of investment for low-carbon energy is affected by many factors but it is REG Windpower's view that retention of the RO provides the basis for supporting the investment needed, as evidenced by the significant growth in renewable energy under the RO with the key advantage of maintaining/enhancing investor confidence through regulatory continuity. Retaining the RO for renewables can work in parallel with the other support mechanisms being considered to support technologies that, unlike renewables, have not been deployed in significant volumes in recent years and where the question of *maintaining* investor confidence is redundant, eg new nuclear and CCS.

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

In the event that our key proposal (retaining RO) is not adopted, REG Windpower sees the premium FIT (with a carbon price support mechanism) as the clear second choice for supporting low-carbon energy growth and meeting the energy challenges this project seeks to address.

Changing the current regime risks stalling investment in the sector by anything up to two years whilst the changes are implemented. Unless such a change is made in a decisive manner to a clear and well-understood mechanism, time will be lost. As such, the premium FIT option offers investors the most straightforward switch to a new funding regime if a move away from RO is considered necessary.

REG Windpower also raises the fact that none of the proposed FIT options mitigate the risk of not being able to secure a PPA for the output from new generation; it is clear that the RO provides a strong incentive in this regard. Any introduction of a FIT should therefore obligate suppliers to purchase renewable electricity, with owners having a choice between a guaranteed off-take price or procuring a PPA from the market (as with the current, ≤5MW FIT regime).

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

No; see response to question 3, above. However, were a CfD mechanism to be implemented, then it should allow generators to take the upside when power prices are high (in the same way as is applied in the Netherlands) and that tariffs should be set independently and not via an auction process (see response to question 31, below).

Question 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?

It is REG Windpower's view that the consultation document appears to misunderstand the definition of WACC, stating that as a project is de-risked, so will the WACC. But WACC relates to the cost of capital for the investor organisation. Project hurdle rates must be higher to reflect project specific risks, such as construction risks, development risks, feedstock price/volume risk etc. Higher hurdle rates are essential to cover the substantial risks we and others take in developing new build renewable generation. In order to deliver the significant new, low-carbon generation required, it is essential that the companies that will deliver this maintain sufficient project returns to be profitable. The discount rates for a project therefore need to be higher than that assumed in the DECC modelling.

Question 11: Should the FIT be paid on availability or output?

Output

Question 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?

1. Carbon price support: REG Windpower is supportive.
2. CfD/premium FIT: REG Windpower strongly urges further consideration of retaining the RO (see above). However, a premium FIT is REG Windpower's clear second option largely as a result of its relative simplicity and ability to retain investor confidence (vis-a-vis CfD).
3. Emission performance standard: no comment.
4. Peak capacity tender: no comment.

Question 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?

REG Windpower would recommend strongly that auctions/tenders are omitted from the process of FIT price-setting. Such an approach would act as a huge barrier to investment by materially increasing price uncertainty and volatility. For renewable energy technologies – where the availability of "fuel" is often concentrated in certain areas or types of area – such an approach can have adverse, unintended consequences for the deployment of renewable generation. In the context of wind – as with the NFFO rounds of the 1980s and 1990s – such an approach would inevitably lead to development of the windiest sites which are often the most elevated, visible and sensitive causing a direct conflict between price and deployment risk.

Question 36: We propose that accreditation under the RO would remain open until 31 March 2017. The Government's ambition is to introduce the new FIT 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.

REG Windpower would prefer the second option, provided a choice between the new support mechanism and the RO.

Question 38: 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

REG Windpower would prefer the continued use of the RO target with headroom.

[redacted]

[redacted]