

## Welcome to The e-POWER Bulletin!

The e-POWER Bulletin aims to provide a unique focus, giving you - the generators - just what you need to know when selling your renewable power. No more, no less. In this issue we take a look at:

- the government's plans to roll-back spending on renewables subsidies
- the recent e-ROC auction results;
- trends in wholesale power prices;
- the future for local energy markets and trading in the UK;
- the review of the small-scale feed-in tariff scheme and what it could mean to generators; and

- the impacts of cash-out reforms on the PPA market.

Whether you're a prospective or existing e-POWER user, the aim of this newsletter is to meet your needs. So if it doesn't hit the spot or you've got ideas for future content, I would love to hear from you.

Thanks for reading,

Stuart Stephens



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## Government progresses renewables reforms

**In the last e-POWER bulletin in September, we discussed the government's plans to control the costs of renewables support schemes, including the proposed closure of the Renewables Obligation (RO) to sub-5MW solar. Since this time, further announcements on cost control measures have been made for the feed-in tariff (FiT) scheme and onshore wind under the RO.**

### FiT review

Launched in 2010, the FiT scheme has significantly exceeded DECC's expectations, with anaerobic digestion, wind, and hydropower already meeting the government's deployment projections for 2020. DECC expects solar PV to be in its deployment range for 2020 by the end of this financial year.

Unsurprisingly, therefore, DECC's proposals for avoiding a feared overspend on low-carbon

subsidies, capped within the Levy Control Framework, have centred on the scheme.

[On 27 August, DECC issued a consultation](#) on how it intended to reduce expenditure on the FiT scheme. Most significantly for generators, the department proposed sharp cuts for generation tariffs from 1 January 2016, with small-scale solar projects in line for the biggest reductions. 50kW-250kW solar would see tariffs reduce from 9.63p/kWh and 9.21p/kWh (depending on size) to a new rate of 2.64p/kWh, an average reduction of 72%.

The government said the new tariff levels will provide sufficient incentive for new projects, providing an "appropriate" rate of return.

Tariff bands have also been amended to reduce the complexity facing participants in the scheme. DECC has stated that revised bands will minimise the opportunities for "gaming" tariffs, and remove incentives that result in



inefficiencies in deployment.

The consultation further proposes to amend the default and contingent (deployment-based) depression mechanisms. Specifically, DECC proposes amending the depression mechanism to ensure generation tariffs take into account projected changes to the bill savings and to the costs of installations.

Yet more significant to new generators will be the proposal to limit spending under the FIT scheme to an overall budget of £75-£100mn from January 2016 out to 2018-19. DECC expressed concern that digression alone might not be enough to control costs, and an overall budget cap was therefore deemed necessary.

DECC would end generation tariffs for new FIT sites “as soon as legislatively possible” if budget caps were breached. This could be as early as January 2016, with the removal of generation tariffs in effect a closure of the scheme to new capacity.

### Deemed exports scrutinised

DECC also outlined draft proposals to end deemed exports in favour of fully metered sites.

Currently, sub-30kW generators without an export meter are paid the export tariff on the basis of a “deemed” rate - set at 75% of generation for hydro and 50% of generation for all other technologies.

No changes in export tariffs are proposed by DECC at this time. However, a number of options are under consideration. These include rebasing the export tariff to a lower level, or introducing a more dynamic link to wholesale electricity prices for new FITs applicants.

Currently, the higher rate export tariff of 4.85p/kWh (£48.5/MWh) is above wholesale market prices of £38-£42/MWh. The change to a wholesale link, or the suggestion that the export tariff could be reduced to a flat rate of £30-£35/MWh, could significantly change to market for small scale generation.

A lower rate could incentivise generators to go to market for a PPA instead of accepting a new lower export rate.

### Timescales

The window for responses to DECC’s proposals closed on 23 October. Submissions are now being reviewed, and the government is expected to publish its response to the consultation in the coming weeks. The legislation will then have to go through Parliament.

### Some silver linings—RO grace periods

The renewables industry was generally critical of the proposals, suggesting that the planned cuts were too severe. However, the sector has, over the past month, received somewhat more positive news, in the form of extended grace periods for eligible onshore wind sites under the RO.

DECC had earlier confirmed its intention to close the RO to new onshore wind projects from April 2016. But the department has now softened the grace period criteria to include an “investment freezing” clause. This will allow eligible projects, who already satisfy standard grace period criteria to April 2017, to apply for an additional nine-month accreditation extension to 31 December 2017. Developers will be given this extension if they can demonstrate that lenders were unprepared to finance construction of a project until the *Energy Bill* receives Royal Assent in the first quarter of 2016. DECC estimates that around 2.9GW of onshore wind capacity is eligible for these standard grace periods.

Overall the government estimates the early closure would stop 200MW of onshore wind accrediting to 2020. The move is expected to have a minimal impact on consumer bills, saving domestic consumers 30p/year in DECC’s central scenario.

On 21 October, opposition Peers in the Lords voted to delete the proposals for early closure from the *Energy Bill*, accusing the government of giving insufficient consideration to their impacts. But the government will hope to reinstate the provisions when the Bill moves to the Commons for scrutiny.

## DECC sets RO for 2016-17

DECC confirmed on 30 September that the Renewables Obligation (RO) for Compliance Period 15 (2016-17) would be 0.348 Rocs/MWh for England, Scotland and Wales and 0.142 Rocs/MWh in Northern Ireland. Once again, headroom was used to set the RO at 102.0mn Rocs.

The obligation represented a 20% year-on-year increase on the 0.290 Rocs/MWh in 2015-16, the highest increase since the mechanism's inception. This is mainly attributable to two factors:

- revisions in DECC's demand projections have lowered the amount of demand that the RO can be calculated against; and
- uplifted load factor assumptions for a number of technologies in DECC's calculation and a re-categorised RO load factor methodology for newly built plant.

In terms of categorisation, DECC has introduced a load factor for existing stations and for new build stations, in order to reflect potential higher load factors for newer projects. The department's view is that, in general, new sites are showing higher efficiencies because of more efficient technology. Specifically for wind technologies, DECC has also introduced a "newer build" category, in between the existing and new build load factors, which refers to stations having commissioned in the last two years. The change for wind technologies has also come in light of industry evidence presented to DECC on improving load factors for new plant.

The large increase in the RO will have a direct impact on the market. For generators, the increased headroom figure and changed methodology may help in avoiding oversupply for the compliance period in 2016-17 and could result in higher recycle values. Oversupply has occurred in the previous two compliance periods (CP12 and CP13) and has led to recycle values below £1/Roc.

However, some stakeholders have expressed surprise about the revised methodology in light of recent proposals to limit spending under Levy Control Framework (LCF).

## Wholesale prices

Seasonal power contracts have fallen 8.1% on average since the September 2015 e-POWER bulletin, and continue to hit new lows. With the move into the new gas year, power contracts also moved forward, with the summer 16 contract now the front season. The contract dropped 6% over the two months to £38.1/MWh by 6 November, the lowest-price summer seasonal contract since 2010.

Power prices have continued to track falling commodity prices lower, with little sign of recovery in these markets prompting further falls in power prices out to 2018. Oil prices tracked lower over September and October. They showed brief signs of recovery with news of slowing US production, before falling away again as demand continues to stagnate. Coal prices were impacted by prolonged forecasts of global oversupply, dropping 10% to \$48.0/t, the lowest price in over a decade.

Power prices also followed UK gas prices closely. High LNG supplies and a comfortable storage outlook pulled seasonal gas contracts down 12.7% on average.

As a result, winter 16 power dropped 6.9% to £41.6/MWh, summer 17 power fell 8.7% to £36.5/MWh and winter 17 power decreased 9.7% to £40.4/MWh.

**Overall, weak commodity prices have continued to influence falls in power prices over September and October and the market is showing relatively few signs of upside in the near term.**

Seasonal price trends





## National Grid consults on exporting GSPs

[National Grid released an informal consultation on 6 August](#) regarding exporting Grid Supply Points (GSPs) that export electricity to the transmission system.

GSPs provide interface between transmission and distribution networks, and there are around 350 in total. 104 GSPs exported during 2013-14 and this rose to 116 in 2014-15. Around three-quarters of these are in Scotland, and 54 out of the 60 exporting during peak times during 2014-15 were in Scotland. National Grid is seeking views on high-level options, and is considering whether exporting GSPs should be exposed to a similar level of TNUoS charges that a generator exporting to the transmission system experiences. Preliminary evidence suggests a maximum exporting GSP charge levied on exporting GSPs could reduce TNUoS embedded benefits by over 10% in Scottish regions.

The original consultation is now closed, although further iterations are expected over the coming months. Implementation is likely to be finalised in April 2018.

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## PPA market sees increasing competition

The market for short-term Power Purchase Agreements (PPAs) continues to show signs of increasing competition, according to the quarterly update of Cornwall Energy's *Green Power Forecast* report. Despite weak wholesale power and Roc prices and the removal of Leacs causing "all-in" project values to fall, the report found that value retention as a percentage against market values was rising, offsetting some of these falls. Increasing value retention was ascribed both to intense competition amongst offtakers and a move by generators to gain more value from power, Rocs and embedded benefits, with the removal of Leacs from contracts. Liquidity among short-term PPA market offtakers remained high, with bidding on tendered and auctioned sites continuing to be strong.

However, away from the thriving short-term market, the report noted that recent policy announcements on controlling the costs of renewables subsidies, as well as a lack of clarity over future CfD auctions, had impacted the longer-term PPA market.

The long-term market has seen little change over the last quarter, with many generators and offtakers assessing strategies and business options in light of recent policy changes.

In relation to the short-term market, e-POWER auctions were assessed for their average value retention against other routes to market. The report noted that, in general, typical value retention for Roc and FIT projects entering NFPA auctions was towards the upper end of the routes to market assessed. These routes to market were: below 1 year PPAs, 1-3 year PPAs, fixed and flexible PPAs, and 10-15 year PPAs.

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## CCC considers long-term power sector scenarios

The government's climate adviser, the Committee on Climate Change (CCC), published its report on [Power Sector Scenarios for the Fifth Carbon Budget](#) on 22 October.

The CCC stated that, during the 2020s, up to 200TWh of new generation would be needed in the UK to replace decommissioning coal and nuclear plants and to meet demand. But the organisation expressed confidence that onshore wind and solar could play a significant role in meeting this challenge. It forecast that, if the carbon price was set on a trajectory to £78/tonne by 2030, onshore wind and solar would be subsidy free by the first half of the 2020s, even if this intermittent generation had to face the full costs of balancing.

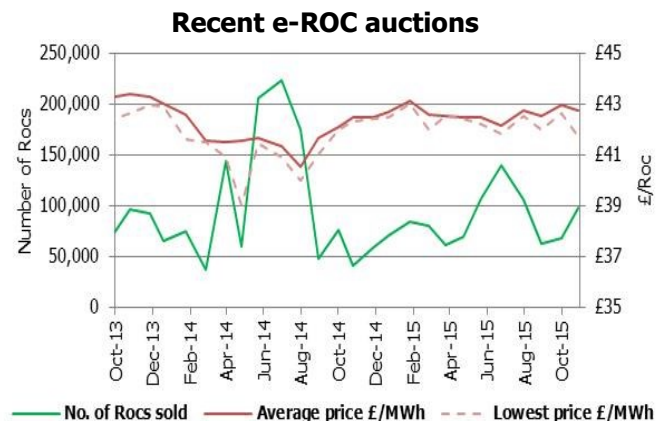
But the CCC argued that, for investment to proceed at lowest cost, investors needed certainty. It recommended that the government extend the Levy Control Framework (LCF) to at least 2025 to make it clear to investors that low-carbon contracts will not suddenly be removed. The report further advised setting a timetable for the next round of contracts for difference—while maintaining the separate funding pots—and devising a pathway for the commercialisation of carbon capture and storage. The CCC will publish its advice to Parliament on the Fifth Carbon Budget on 26 November.



## Latest e-ROC auction results

The latest e-ROC auction took place on 27 October 2015, with over 500 bids from nine suppliers creating sales of 97,901 Rocs. The total number of Rocs sold was 43% higher than the September 2015 auction and was over double the levels seen in October 2014. Rocs were sold at an average price of £42.75/Roc, down 19p from the September 2015 auction with prices subdued somewhat by the high number of CP13 Rocs being sold in the auction. Lower prices are also a result of continued forecasts for an oversupplied market for CP14.

**The next e-ROC and e-POWER auctions will both take place on Thursday 26th November 2015.**



## Other industry news in brief

### UK falls out of top 10 locations for renewables investors

Ernst and Young's latest [Renewable Energy Country Attractiveness Index \(RECAI\)](#), published in September, has seen the UK fall out of the top 10 locations for renewables investment for the first time in the report's history.

The UK is now below Brazil and Chile, and well behind Germany, with Ernst and Young stating that the fall was due to a wave of policy announcements that had created investor uncertainty. The report said the government was judged to be "picking winners" in its policies, by removing funding from cheaper wind and solar projects and towards less mature renewables and nuclear. This was creating a lack of direction and clarity in energy policy, potentially hindering future investment.

### MPs press energy minister on solar cuts

The energy and climate change select committee heard [evidence from energy minister Andrea Leadsom](#) on 20 October, regarding investor confidence in the energy sector. Challenged on the idea that the proposed cuts to the feed-in tariff were already causing job losses, Leadsom said that the changes were necessary to remain within government budgets, and investors could still expect a "reasonable" return on investment.

But, throughout the hearing, Leadsom emphasised that the changes had not been finalised and that her "mind was open" to the possibility of revisions.

### Report shows Scotland leading on onshore wind

Renewables UK's [State of the](#)

### [Industry report 2015](#) has

highlighted the growing regional split within the UK in terms of renewables deployment, with Scotland now having 60% of onshore wind capacity and 70% of planning consents. The report showed that 648MW of by onshore wind capacity was added between July 2014 and June 2015.



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