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 rollback announced on renewables spending by the government
- recent e-ROC auction results;
- insight on wholesale power prices;
- The potential future for local energy markets and trading in the UK;
- The review of the small-scale FiT 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

Government reins in renewables spending

In the first 100 days of new government, announcements have already confirmed the closure of the RO to onshore wind from April 2016. More wide ranging reforms have followed as the roll back on renewables spending under the Levy Control Framework (LCF) continues.

Removal of Lecs

The first new announcement on spending cuts came in the Summer Budget on 8 July, with Chancellor George Osbourne announcing that Levy Exemption Certificates (Lecs), a key source of income for renewables generators, would be removed and renewables generators would no longer be exempt from Climate Change Levy (CCL) payments.

The removal was justified on the premise that "it would ensure taxpayers are not subsiding overseas generators", with the Chancellor stating removal could save up £900mn p.a. by 2020-21. However, the removal also impacts UK generation, which is estimated to account for nearly three-quarters of Lec production in 2015-16.

Exemptions from the CCL were removed on 1 August 2015 and the lag in the market from Ofgem payments means final remuneration will be in October 2015. HMRC is consulting on a transitional period from 1 August where suppliers can redeem Lecs produced before this date. Ofgem, after confusion originally, has stated they will not issue Lecs for generation after the 1 August closure date.

Instant impact

Despite the proposed transitional period, the change will have an instant impact on all stations either currently accredited to receive Lecs or those that had planned to do so for future projects. Exposure to the change is more pronounced for FiT generators, as they do not

receive the additional security of relatively stable Roc prices as RO accredited projects do.

The announcement, as expected, has been met by disapproval from the industry, with a number of suppliers and generators writing to the Chancellor to explain their dismay at the decision and the short time scales imposed.

On September 2, Drax and Infinis launched judicial review proceedings over the 24 days notice period given.

Responses to the HMRC consultation are open until 31 October 2015.

Further measures

Later on 22 July as part of efforts to control spending on renewable subsidies under the LCF, the government announced further cost saving measures.

Forecasts from the Office of Budget Responsibility (OBR) stated that spending under the LCF, a mechanism designed to monitor and control the annual costs of renewable subsidies paid by government, would be overspending by 2020-21 in the order of £1.5bn. To control this the government announced:

- The confirmation of the removal of grandfathering for biomass conversions;
- A consultation on changes to the preliminary accreditation rules under the Feed-in Tariff (FiT) scheme (which this bulletin covers on page 3); and
- A proposal to close the RO a year earlier in April 2016 to below 5MW solar and remove grandfathering for new projects.

The solar proposal was perhaps the most surprising with a banding review also expected in the context of the sharp falls in solar costs. DECC stated their was "strong evidence" to show that costs to developers had fallen faster than previously anticipated, which could determine future banding for solar under the RO. A 12-month grace period has been proposed for below 5MW projects who have met one of the three following criteria:

- preliminary accreditation to the RO scheme;
- evidence of significant financial commitment made before 22 July 2015 for grid connection, land rights or planning application; and
- evidencing grid delay for projects expected before 1 April 2016.

Even with the grace periods DECC's ambition to review grandfathering, a policy which ensures projects accredited to the RO at a given subsidy rate are assured this for the 20-year support period, means some projects are still subject to policy uncertainties. For instance, a project that achieves significant grace period conditions but commissions after 31 March 2016 will be able to build through grace periods but is subject to removal of its grandfathered support rate. The uncertainties mean a high number of proposed solar projects, which DECC forecast could total up to 4GW by 2017, could change their investment decisions.

Action and reaction

As with Lecs, the announcements have caused a sharp response from industry stakeholders, with the UK Green Building Council stating the policy will create "further uncertainty about the future of small scale renewables, and undermines confidence in the industry". Energy and Climate change Select Committee Chair Angus MacNiel added that we has "disappointed that the government made the announcements in summer recess" as proper parliamentary scrutiny was not possible until after consultation deadlines.

Because of uncertainty over investment decisions, it is expected that the full impacts of policy changes will take time to filter through to the market.

Potential changes to the FiT scheme

Announced as part of cost saving measures on 22 July, DECC is proposing to remove pre-accreditation for the FiT scheme, for projects looking to accredit from 22 July 2015. Government now argues that pre-accreditation has fuelled deployment spikes preceding tariff changes under degression and it is now seeking to "rebalance the risks between consumers and the industry". Through parliamentary approval, this reform could be in place by the Autumn, with pre-accreditation still available in the intervening period.

Further to this, on 27 August the government laid out more wide ranging proposals to change the FiT scheme. Among the proposed measures considered are:

- sharp cuts for generation tariffs with 80% cuts for small scale solar tariffs;
- potential removal of generation tariffs for new FiT applications from January 2016 if proposed cost control caps are deemed unable to place the scheme on a "sustainable trajectory"; and
- a move to quarterly digression for all technologies as well as proposed metering for all export sites (including small scale below 50kW).

Costs of the scheme will also be capped on a quarterly basis with an overall budget of £75mn - £100mn in 2018/19 and DECC aims to make the changes as soon as legislatively possible, which could be as early as January 2016. The changes only apply to solar PV, wind and hydro sites, with no proposed changes for AD at this point in time. Amendments are in line with spending controls under the Levy Control Framework (LCF), and DECC believes the cutbacks will provide sufficient rate of return for investors at 4-9%. The spending cuts could allow for legitimate increases in spending elsewhere. However, announcements have not been forthcoming. Responses to DECC's proposals are requested by 23 October 2015.

Wholesale prices

Seasonal power contracts have fallen 4% on average since the June 2015 e-POWER bulletin, and are now at record lows. The winter 15 contract, currently trading at £43.9/MWh, is the lowest price winter seasonal since October 2010.

Prices have continued to fall amid tumbling oil, gas and coal prices which have also hit record lows. Brent crude oil decreased 22% from June to September, reaching $43.4/bl on 24 August, its lowest level since March 2009. Falls have been caused by continued oversupply in the market from US and OPEC sources and more recently by fears over a slowdown in the Chinese economy. Coal has also been influenced by Chinese growth fears, and contracts are currently trading at $51.2/t, their lowest level since 2006.

The power market has also continued to track the UK gas market closely, with plentiful UK supplies and low demand causing an 8% fall on average for seasonal UK gas contracts.

Overall, the sharp downturn in commodities caused winter 15 power to fall 3.6% to £43.9/MWh, summer 16 power to slide 2.8% to £41.0/MWh and winter 16 power to decrease 4.0% to £45.1/MWh since the June bulletin.

Seasonal price trends

Stakeholders debate local energy markets

On 22 July Cornwall Energy held its second *Creating Local Energy* conference. The event aimed to bring stakeholders together to develop ideas on non-traditional business models and other innovative arrangements for local energy supply.

e-POWER's Stuart Stephens was a speaker at the event and focussed on routes to market that maximise value for local generators. He also highlighted emerging options for local power through e-POWER, with developments on auctioning non half-hourly export metered sites potentially facilitating local supply auctions in the future.

The conference also included a panel of exports comprising of businesses, trade associations and higher education foundations which explored regulatory changes that could help drive the developments of local markets. Overall, the conference argued the license-lite process for new suppliers needed further work and that elective half-hourly settlement could be the key to unlocking local energy markets.

Balancing reforms to impact generators

Ofgem's Electricity Balancing Significant Code Review (EBSCR), was launched in 2012 to address concerns in the market around balancing arrangements. Recent market developments mean the changes may well impact generators and PPA agreements. On 20 March 2015, Ofgem approved the original P305 proposal which will implement the following changes on 5 November 2015;

- Ofgem wants to make cash-out more "marginal" through reducing the Pricing Average Reference (PAR) used to calculate them;
- cost for disconnections and voltage reduction would be based on the Value of Lost Load (VoLL) to consumers, and correct supplier imbalance volumes for disconnections. The value of VoLL would be administratively set at £3,000/MWh and then £6,000/MWh from 2018;
- reserve costs would be priced to reflect the value reserve provides at times of system stress; and
- a move will be made to a single cash-out price for each settlement period to simplify the arrangements and reduce imbalance costs.

The impacts of these reforms on generators are still not fully known in practice, but many of the proposed measures could lead to increased complexity and uncertainty for generators. The rule changes will yield more marginal cash out prices and therefore could increase discounts sought by offtakers from intermittent generators. **This is an area of the market in which generators will need to be prepared for in the months to come.**

CfD update

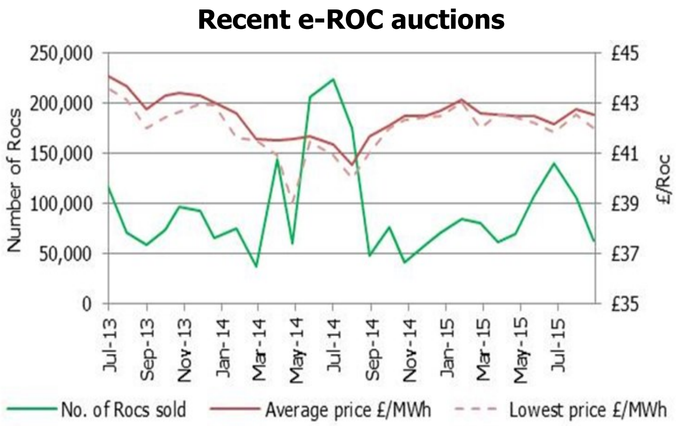
DECC stated in an investor call on 22 July that there would not be a CfD auction commencing this October. DECC have stated that the CfD, as well as the LCF mechanism overall, is under review and details on future arrangements are set to be issued in the Autumn of 2015. It is understood that DECC's CfD review will focus on the levelised cost of energy used to calculate strike prices. However, no further clarification or documentation has been published regarding future auctions or timelines.

As a result, the Low Carbon Contracts company have scrapped their indicative CfD round two operational plan.

Latest e-ROC auction results

The latest e-ROC auction took place on 28 August 2015, with 62,165 Rocs sold at an average price of £42.53/Roc. Average prices were down 20p from the July 2015 auction. The total number of Rocs sold was 31% higher than the August 2014 auction. Price uncertainty for CP14 Rocs is due to the large amount of CP13 Rocs being banked and also the amount of Rocs expected to be produced for CP14. Banking levels from CP13 into CP14 have not yet been finalised, and high levels of banking could push the Roc market for CP14 into oversupply.

The next e-ROC and e-POWER auctions will both take place on 30 September 2015.



Other industry news in brief

Scotland and Wales press for talks on community energy

Devolved administrations have called for the UK government to enter into a "meaningful dialogue" on proposed cuts to renewables support, with concerns over changes to community energy. The two governments sent a joint letter to DECC on 11 August in which they reiterated their support for the community renewables sector.

40% surge in bioenergy

Generation from bioenergy surged 40% last year, owing to Anaerobic Digestion (AD) sector growth.

Analysis by the Anaerobic Digestion and Biogas Association (ADBA) said that the increase reflected a doubling in the number of farm-based AD plants to 147 and an increase in AD capacity for food waste.

CCL judicial review launched

Drax group and Infinis Energy have begun proceedings for a judicial review of the notice period for the removal of the Climate Change Levy (CCL) exemption for electricity generated from renewables. The review, announced on 2 September, was launched on the basis the exemption was removed without a proper notice period, being only 24 days. The companies are asking the court to consider "a reasonable notice period for the withdrawal of such financial support."

Renewables investment ranked

Investment firm Carter Jonas have ranked the investment potential of renewable technologies after DECC's recent policy changes. Results show that 50kW solar projects are considered the most attractive, with 200kW biomass ranked second and 1MW and 500kW AD plants ranked fourth and sixth. Following proposed cut backs, especially under the RO. 5MW solar and 10MW onshore wind projects ranked eighth and ninth out of the nine project types assessed.

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