

## **Joint Statement on the Renewables Obligation**

We welcome the Government's intention to increase the volume and diversity of renewable energy in the UK.

Our preference would be to deliver this through mechanisms outside the Renewables Obligation (RO).

### **We support the current structure of the Renewables Obligation because:**

#### **The initiative works ...**

The Renewables Obligation (RO) has successfully stimulated interest in a range of renewable energy projects in the UK from developers and financiers.

Problems with the supporting delivery systems, such as planning and network constraints, are the real barriers to renewable energy development. Unless these barriers are addressed, there will still be a bottleneck for projects resulting from any alternative policies, including banding.

#### **Changes will impact on investor confidence ...**

A clear, stable and long-term policy framework is necessary to establish investor confidence in new energy infrastructure.

Revisiting the existing policy will create uncertainty which may have significant negative impacts on renewable energy investment making it more difficult to achieve the Government's renewable energy targets.

Amending the RO may have implications that go beyond the renewable energy industry. Investor confidence in major energy infrastructure projects in the UK will be damaged if a perception is created that the Government is not delivering a stable policy framework for investment.

#### **There are more appropriate instruments to deliver targeted support to emerging technologies ...**

The RO is a market mechanism designed to deliver the most commercially attractive projects first.

By itself, it is not an appropriate mechanism on its own to support emerging technologies which require targeted support.

Alternative sources of funding that could be used to support emerging technologies that warrant further investigation include:

- the Environmental Transformation Fund
- surplus Fossil Fuel Levy funds

#### **There are ways to support the delivery of off-shore wind projects that do not require amendments to the RO ...**

One of the objectives of amending the RO is to direct more support towards off-shore wind energy.

Consideration should be given to measures which would benefit the economics of off-shore wind farms such as reducing the ancillary costs by socialising grid-costs – similar to the manner in which island connections are treated and the Hydro Benefit is applied.

**If changes are made to the Renewables Obligation, then the following issues need to be addressed:**

**Existing projects should not be affected ...**

The proposed amendments to the RO have the potential to impact on the commercial viability of existing projects.

We believe that the impact of any changes to the RO on the revenue of existing projects should be minimised to ensure that these projects remain commercially viable.

To this end, we do not support the recommendation to remove the RPI link from the buyout price from 2015/16 onwards.

Any final decision on the 'ski slope' should be deferred until closer to it taking effect.

**Planned projects should not be affected ...**

There are over 16 gigawatts of onshore wind energy at various stages of development. Significant investment has been made in these projects, some of which will not be operational until after the date when banding may come in. These investments were made on the basis of the current obligation and it would undermine investor confidence if these projects were disadvantaged.

It will be more difficult for renewable energy projects to get financing if there is a prospect that the ROC earning ability of a project will be reduced within the project's development timescale. This makes grandfathering a highly sensitive issue.

There is a spectrum of points where grandfathering could apply ranging from the submission of a planning application to the generation of electricity, none of which are perfect.

**Appropriate levels of revenue support must be set ...**

If the RO is amended, the most likely scenario is that the redistribution of revenue support towards offshore wind will come from a combination of reduced support for co-firing of biomass and other mature technologies such as onshore wind energy.

It is essential that care is taken to ensure any redistribution of support does not impact on the commercial viability of co-firing and on-shore wind projects, otherwise the delivery of the baseline output from these technologies will be endangered.

In general, the number of levels of revenue support should be minimised. An approach could be to link the level of revenue support to a market derived assessment of the development rather than on a technology specific approach.

### **The framework should not be changed again ...**

It is critical that the Government does not continue to change the framework for investing in renewable energy in the UK.

If changes to the detailed operation of the RO are made, they should be made in a timely and transparent manner within very clear boundaries to minimise any negative impact on investor confidence.

### **Planning and network constraints need to be addressed ...**

Delays in the planning approval for renewable energy projects and electricity network upgrades have led to an undersupply of ROCs in the market.

Without radical reform in these areas, the renewable energy targets will not be met, whatever policy is implemented.

To this end we welcome the Government's intention to reform the planning framework for large infrastructure projects and are actively working with the Government to inform this process.

### **The proposed amendments will not be net neutral ...**

We believe that it is not possible to deliver significant offshore wind energy projects in a way that is net neutral in terms of costs and amount of renewable energy generated. We believe that the principle of net neutrality cannot be successfully applied.

### **A decision must be made soon ...**

Whatever happens, there is a need for a timely decision from Government about the future of the RO in order to sustain investment in renewable energy in the UK.

These views are shared by the organisations listed below.

- Association of Electricity Producers
- British Wind Energy Association
- Micropower Council
- Renewable Energy Association
- Scottish Renewables Forum
- UK Business Council for Sustainable Energy