Client - briefing

Government Renewable Energy Review

DLP BRIEFING NOTE 107

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Government Renewable Energy Review – Introduction

Recent Construction Industry news covering the Governments proposed approach to stimulate the forward momentum of an important Renewable Energy market have raised views and concerns within the industry.

Set out below are three condensed briefings which make for interesting reading.
At DLP Consulting, the impact of Government developments on the important drivers for the industry are used to ensure that relevant directions are taken in the development process from Planning through to on-site completion.

Government Energy Boost

The market for energy efficiency upgrades in buildings is being helped to expand by a Government plan to enable companies to get an assured flat-rate income from their installation, DLP has learned.

The proposed change would put energy efficiency retrofit work on an equal footing with the construction of new power stations. This would be achieved by the Government's electricity market reforms

The Government has already pledged to guarantee future revenues of power stations by introducing a "capacity market" which will allow producers of electricity to get paid just for having the capacity to produce electricity.

The Department of Energy and Climate Change (DECC) plan to consult in the autumn on the roll out of energy efficiency measures.

Three options are being considered: -

1. Allowing the offset capacity from installing energy efficiency to be sold in the "capacity market" giving it a perceived boost.
2. Introducing a supplier obligation
3. Creating an energy efficiency feed-in tariff

It is predicted the proposals could provide a significant boost for energy efficiency work in buildings.

This has evolved from addressing global feedback provided by companies who have been delivering such models for some time.

These proposals are aimed at addressing the criticism the Government received after publishing its draft Energy Bill in May and not including such measures since.

Support for the demand side of the market is being called for in a report compiled by the Energy Select Committee on the Bill, published last month.

It is widely campaigned by the Green Alliance that this needs to get placed in legislation. In comparison with the US the UK has really lagged behind on this issue.

The news emerged as DECC published guidance demanding Local Authorities make plans for "significant improvement" in energy consumption from homes in their area and publish bi-annual reports on their progress. The guidance provided no benchmark or target for councils to aim at to meet the definition of "significant improvement".

Renewable Subsidy Review

DLP have learnt that after the Government's long awaited decision on the incentives to be carried forward for the future of renewable electricity incentives, it is welcome news that their effective deployment remain on the agenda. It is widely felt this could be a vital 'boost' to the energy market of UK PLC.

There was a general expectation in the industry that the announcement would create only the backdrop for a repositioning of the fossil fuel market and little in the way of meaningful incentives for both large and small scale technologies. In particular gas, given the various recent commentaries from the Government on its aspiration for the UK to become a 'Gas Hub'. However, the announcement has provided some interesting outcomes. It does appear to deviate greatly from the proposals set out in the original consultation, which sends a clear and welcome signal to the renewables sector.

Assessment of the results, reports that wind remains pretty much on track with only a relatively minor fall in subsidy to the onshore wind sector allowance. The offshore sector now has a sliding scale approach applied to it, incrementally reducing in 2015 through to 2016.

For small to medium sized projects who cannot generate the required 5MW the likely impact is they will have to try and access the Feed in Tariffs (FITs) scheme instead.

Similarly large scale solar photovoltaic (PV) remains unchanged for now, with a similar sliding scale as offshore wind. This should provide some very welcome certainty to the market given the recent changes to the FITs for small scale PV.

With the development of these incentives being seen as a very positive step with further investment opportunities becoming available, deeper scrutiny of the detail highlights a series of 'catches' which may give difficulty when moving forward. Particular note should be made to Government plans to review the cost assumptions during 2013. This will lead to a re-evaluation of technologies including wind and solar due to falling product prices which will potentially reduce incentives.

There is a risk that these consultations may introduce additional ambiguity, which in turn could be a retrograde step, closing the door on significant large scale investment opportunities whose emergence is currently struggling due to ongoing market uncertainty.
The 5MW capacity ceiling, which the government is proposing to consult on during 2013, if implemented is likely to impact upon many small to medium sized projects. If they cannot generate the required 5MW then the only other route is to try and access the far less generous FITs scheme instead. This could itself put off initial future investment as medium-sized, nationally spread schemes are likely to represent the majority of proposals going forward.

It is feared this could lead to a situation where only the largest of schemes find advantage under an 'all or nothing' approach. Whilst these projects carry significant headline generation figures, they could be viable to a restricted number of locations and sizes. Further, the element the Localism should to be taken into account together with the ability of local communities to benefit from this potential economic opportunity. These opportunities are hosting renewable sites or potentially developing local generation and supply possibilities of their own. However, this will need developing with robust incentives and the 'cut off' capacities might prove to be an unbreakable glass ceiling for some, limiting availability.

In general this announcement is welcomed by the industry and includes very positive content and provides elements of certainty the industry thought would not be forth coming. Not with standing this further gauged consultation is required to ensure the maximum potential economic benefits.

Treasury Green Investment Plan –Commercial

DLP have learnt that billions of investment planned by the government to secure building new nuclear, wind, tidal and other clean energy sources have been rendered unfit for purpose by the Treasury, MPs have claimed.

The Energy and Climate Change Committee’s report concluded the government’s plans for reform of the electricity market under the Energy Bill were “unlikely to be workable in practice”.

To guarantee the price to investors who build new clean electricity generation plants is the cornerstone of the Government’s proposals. This will enable them to charge for that electricity for years to come.

To give investors confidence to spend on build programmes with high upfront costs such as new nuclear power plants the “contracts for difference” mechanism is needed.
However, the report implies caps imposed by the Treasury on the budget for such incentives were undermining the plan. This is because they did not allow investors to have confidence about the outcome should the pot of cash available be used up.
A two stage registration process of projects at an early and late planning stage was put forward by the committee to avoid the problem.

The government needs to provide investors with more certainty about exactly how much money will be available without seemingly writing out a blank cheque for green energy

Investors will need confidence that a robust policy framework is delivered by the Parliamentary process in a timely manner when they take critical decisions on their projects.”

A policy that is clear and bankable would give investor’s confidence when delivering complex, bespoke new arrangements which otherwise only look workable on paper.
Industry concerns that a separate body and not the Government would be underwriting the difference has been backed up by the report.

As it would not be possible to accurately assess the creditworthiness of a separate body and therefore deliver the savings on borrowing it has been indicated that the current scheme would not succeed in reducing the cost of capital for developers, as planned.

This Bill will enable radical changes to the electricity market to be made. From this it is expected that the Bill will deliver investment in secure, low carbon, affordable energy.
With the Committee’s recognition of the Bill’s importance together with the pre-legislative scrutiny period, the Bill could be used to develop a robust and effective market in the interests of both consumers and investors.

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