Renewables--which way is the wind blowing?

13/07/2015

Environment analysis: Gavin Doyle, an associate in the projects, energy and infrastructure group at Berwin Leighton Paisner, provides an overview of the renewables market following the Secretary of State for Energy and Climate Change's statement on ending subsidies for onshore wind.

Original news

No new subsidies for onshore wind, DECC confirms, LNB News 23/06/2015 136

The current number of onshore wind in projects is sufficient, and adding to these could lead to more onshore wind projects than the UK can afford--leading to higher consumer bills or less support for other renewable technologies, Amber Rudd, Secretary of State for Energy and Climate Change, has said. In an oral statement to Parliament, Ms Rudd set out the reasons why the Department of Energy and Climate Change (DECC) considers it appropriate to curtail further subsidised deployment of onshore wind.

What are the current subsidies for wind?

There are three subsidies schemes currently available to wind generators in the UK:

- the Renewables Obligation (RO)
- Feed-in Tariffs (FITs)
- Electricity Market Reform (EMR)--Contracts for Difference (CfD)

The RO

The RO has been the principal support mechanism for wind since its introduction in 2002 and creates a market for renewable electricity by placing an obligation on UK electricity suppliers to source an increasing proportion of their electricity supply from renewable sources.

RO certificates (ROCs) are issued by Ofgem to generators of eligible renewable electricity--who in turn sell the ROCs to electricity suppliers who use the ROCs to demonstrate compliance with the RO.

Offshore wind currently receives 1.9 ROCs per megawatt hour (MWh) generated and onshore wind receives 0.9 ROCs per MWh.

In a system known as 'grandfathering', generators receive ROCs at the same banding level for a period of 20 years from the date of accreditation.

FITs

FITs encourage the deployment of additional small-scale (less than 5MW) low carbon electricity generation by providing generators with a guaranteed sum for 20 years for:

- the electricity they generate and use (generation tariff)
- unused surplus electricity they export back to the grid (export tariff)

In order to keep a lid on runaway FIT costs, the generation tariff level is subject to degression (reduction) on either a quarterly (for solar PV) or annual basis (other renewable technologies, including wind), depending on how much of a particular technology is deployed.

EMR--CfD

Under the CfD scheme, a generator party to a CfD (if successful in an allocation round) is paid the difference between the 'strike price' (set by DECC to reflect an estimated cost of investing in a particular renewable generation technology) and the 'reference price' (the average market price for electricity).

This is intended to provide greater certainty to generators and reduce exposure to volatile wholesale electricity prices over the 15-year term of the CfD.

The administrative strike price (ASP) in the first allocation round was set by DECC at £155 per MWh for offshore wind and £95 for onshore wind, but due to the high number of CfD bidders, the CfDs were allocated by auction and the vast majority of CfD applicants did not achieve the ASP.

What subsidies are being removed, and why?

DECC announced that it will end new RO subsidies for onshore wind farms across Great Britain as of 1 April 2016--a year earlier than expected.

This was justified on the basis that even with an early RO closure, 12.35 GW of onshore wind under the RO and CfD will be deployed which puts the government in decent shape to meet its EU 2020 targets.

In a wider signal to the onshore wind industry Amber Rudd, Secretary of State for Energy and Climate Change, also confirmed that DECC will be using the 'tools available to implement our manifesto commitments' to revise the CfD and FIT regime for onshore wind--potentially removing onshore wind from the FIT regime and any further CfD allocation rounds.

Where does this leave onshore wind projects in development?

The Secretary of State announced that a grace period may apply for those onshore wind projects which as of 18 June 2015 already had planning consent, an accepted grid connection offer and evidence of land rights--a measure she felt drew the line in the right place and maintained investor certainty in the wider renewables sector. But it is anticipated that around 7.1 GW of onshore wind capacity will not now be eligible for the grace period and are unlikely to go ahead.

In a separate statement, DECC also announced proposed planning changes to give local people the final say as regards whether a wind turbine will be located in their vicinity.

Will onshore wind still be a significant contributor to renewable energy?

DECC estimate that after taking account of an early closure, circa 12.3 GW of onshore wind will be operating by 2020, equivalent to around 10% of the UK's total electricity generation.

Subsidies aside, the viability of any new onshore wind projects will depend very much on local community acceptance and the availability of grid capacity at a reasonable cost.

Does ending the subsidies for onshore wind mean that other renewable technologies will stand to gain?

Potentially yes, but there have been no announcements regarding what these 'emerging technologies' are, nor how they will be subsidised.

The Conservatives want the renewables sector--in the long term--to stand on its own two feet without a long-term subsidy. Quite how this is translated into support for emerging technologies remains to be seen.

If the CfD scheme is reformed to limit onshore wind projects, other technologies will stand to gain due to the removal of competition from onshore wind (which won over half of the contracts allocated in the first round). Offshore wind will likely pick up most of the slack.

What are the UK's renewable energy targets? Are we on course to meet these targets?

The 2020 target is to produce 15% of its overall energy from renewable sources across the transport, heat and electricity generation sectors.

In order to meet its 15% target, 30% of its electricity needs to come from renewable sources by 2020. According to a recent statement from the Office for National Statistics, the UK is roughly halfway towards this electricity generation target and the EU Environment Agency recently indicated the UK is on track to meet its 2020 targets.

Will removing these subsidies affect certain regions harder?

Wind power is Scotland's fastest growing renewable energy technology. The Scottish Government has a target of generating 100% of Scotland's electricity from renewable energy by 2020 (compared to a target of 31% by 2011). The majority of this is likely to have come from wind. As around 70% of onshore wind projects in the UK planning system are based in Scotland, the decision will have a disproportionate impact on Scotland.

Are there any further points of interest?

Investors may become concerned about the knock-on effect on the wider renewables industry.

What was previously seen as a medium to long term objective--the removal of subsidies from the energy market--has come to the fore a lot sooner than expected for onshore wind and follows on the heels of the closure of the RO to large scale solar in April 2015.

DECC's announcement increases regulatory uncertainty in a sector which had been seen as having a relatively benign regulatory risk profile--and this could increase the cost of capital for the renewables industry generally, contrary to the intent of the CfD.

With clear support from government and an administrative strike price under EMR (no complicated auctions here)--nuclear power is now the wild card. Whether it gets off the ground is a different story.

Gavin is an associate in the projects and infrastructure group and is qualified in England and Wales and in Ireland. Gavin specialises in project finance and commercial project contracts with a particular focus on the energy sector. Prior to joining the firm, Gavin spent 18 months working in the London office of Energy Developments Limited, an ASX listed international power company with 900 MW of installed electricity generation capacity from landfill gas, waste coal mine gas and LNG.

Interviewed by Kate Beaumont.

The views expressed by our Legal Analysis interviewees are not necessarily those of the proprietor