



BWEA Consultation Response: The Renewables Obligation (Amendment) Order. Statutory Consultation

Friday 21st November 2003

SUMMARY

The BWEA was established in 1978 and is the representative body for companies active in the UK wind energy market. Its membership has grown rapidly in recent years and now consists of 290 companies including all grid-connected wind energy and every company with a lease to develop offshore (see Appendix).

Wind energy is widely recognized as an abundant energy resource indigenous to the UK. Most commentators accept that wind is likely to represent at the very least half of the Government's '10% by 2010' target because of the maturity and low cost of wind powered generation relative to other forms of renewable electricity generation technologies. Continued growth of installed wind energy generation capacity beyond this 10% 2010 baseline is almost guaranteed.

In representing the industry BWEA is therefore in a unique position to comment on the measures necessary to ensure that 'UK Plc' is able to deliver the requisite number of MW of installed wind and other renewables capacity by 2010 and beyond.

Before commenting on the proposals made within this consultation BWEA would like to refer to the extensive survey of the financial community that it commissioned earlier this summer and which was carried out in order to assess investor perceptions with regard to the Renewables Obligation (RO). This work has shown that the broad perception amongst electricity suppliers, financiers, developers and others is that the UK leads the world in renewable energy policy development. This Government's progressive attitude to renewables, their determination to implement the Renewables Obligation and their ongoing commitment to renewables in the Energy White Paper, has stimulated an unprecedented level of interest in developing, building and operating wind farms in and around the UK.

As a result of this unprecedented level of support BWEA is now aware of more than 1,100 MW of onshore wind farms which have received planning permission and are moving rapidly toward construction. We know of more than 5,000 MW of onshore projects that are under active consideration and which are either in planning or will shortly be submitted to planning.

This level of activity is mirrored in the offshore environment where we have seen mushrooming levels of interest in developing wind farms in UK coastal waters. More than 1,100 MW of capacity has already been consented in 'Round One' and the UK's first offshore wind farm was formally commissioned today in North Wales. Looking ahead we note that the private sector already has hopes of constructing more than 20,000 MW of wind farms around the UK coastline under 'Round Two'. In this regard we await with

anticipation the announcement of the formal lease awards under 'Round Two'. We hope that this will take place before Christmas and that from it we will see no less than 6,000 MW of development rights awarded.

Clearly there is an enormous amount of interest in electricity generation from wind and this is due in large part to Government foresight and commitment. We therefore have no doubt that the renewables industry, as currently defined in the Renewables Obligation Order 2002 (**Paragraph 8: Eligible Renewable Sources**), is quite capable of meeting the targets for both 2010 and 2020.

However it is also very clear that, if we are to actually *build* the requisite amount of generation capacity, investor confidence in the degree of political commitment underpinning energy policy must be unshakeable. This confidence can best be strengthened by a 'firm hand on the tiller' and by avoiding changes to existing policy which do not have the clear support of the wider renewable energy community.

In this regard we are concerned that the co-firing changes could well have a significant negative impact on ROC prices while imparting no clear benefit to the renewables industry and as a result we note that the alterations do not enjoy widespread support. Any amendments to the RO, which are implemented without broad support, do much to increase the degree of regulatory risk associated with this instrument. Increasing levels of regulatory risk cause financiers and electricity suppliers to demand higher risk premiums. Higher risk premiums result in increased levels of RO inefficiency and reduced build rates.

It is therefore BWEA's belief that no further consideration should be given to implementing the co-firing amendments at this time if, indeed, at all. We do however note that a small number of our members, that have co-firing interests, do not concur with this view.

As we move forward BWEA would like to focus our efforts on overcoming the barriers that are currently preventing the construction of consented wind farms. BWEA has previously highlighted areas of priority concern and we welcome any opportunity to work with all stakeholders to address these. It is by tackling these issues that we can best ensure that we are able to meet our ambitious 2010 and 2020 targets with genuinely sustainable generation technologies. Along the way we aim to generate jobs and investment and to contribute towards increasing the long-term security of the UK's electricity supply.

We discuss below our specific thoughts on the 13 issues raised within the consultation.

CHANGES TO RULES ON CO-FIRING OF ENERGY CROPS

BWEA feels that the changes as proposed are 'fundamental' rather than 'technical' and as such it is inappropriate for them to be considered in a consultation which is intended to be only about 'technical' matters.

Even if BWEA was to consider the proposed amendments within a fundamental review we would not be convinced about the potential benefits of the amendments as stated. The reasons for this are as follows;

Investor Confidence:

As previously discussed BWEA is certain that the 10% target for renewable energy by 2010 is eminently achievable using genuine renewables and without co-fired ROCs.

The real challenge going forward, which stands between consent and construction, is for financiers and industry to work together in order to convert political commitment (i.e. Renewable Obligation Certificates (ROCs)) into bankable instruments (i.e. Power Purchase Agreements (PPAs)) through which it will be possible to finance wind farm construction. Given the nature of the RO it is clear that it will only be possible to do this if developers, electricity suppliers and bankers firmly believe that the degree of regulatory risk associated with the RO is minimal. Fundamental changes to the RO, which do not significantly benefit the true renewables community, are at risk of increasing perceived levels of such regulatory risk.

That the proposals have even been put forward for public consultation has negatively affected investor confidence. If the proposals are adopted there can be no doubt that they will further damage the confidence of investors in the long term stability of the RO. This will slow up the build rate of wind farms (and other renewables financed by the RO) and will have the unintended consequence of jeopardizing the chances of meeting the renewable targets. Fortunately the opposite is also true: If, as a result of this consultation, the Government recognizes investor concerns and dismisses the proposed co-firing amendments, it will provide a very strong and very positive, signal to the investment community.

Lack of incentives for domestic biomass development:

BWEA notes that support for these proposals is limited almost exclusively to a small number of generators that stand to benefit directly from the co-firing of cheap, imported, biomass waste. Some current and potential co-firing generators have already stated that they intend to use more expensive domestic forestry residue to meet their co-firing needs. While we would applaud the intention, BWEA notes that the hard logic of economics tends to overcome the best of intentions once enabling legislation is in place.

BWEA does not feel that the proposed amendments to the co-firing rules will in any way support the long term development of a domestic biomass industry and in this regard would draw attention to the fact that there is almost no indication of support from the broader electricity generation industry, the bioenergy industry, crop producers or environmental groups for the proposed amendments.

BWEA is of the view that changes to the rules should not be implemented without significant backing from these groups.

Waste of Energy Consumer's Funds:

There are two aspects to this;

- Increased regulatory risk
- Investment in genuine renewables

Increased regulatory risk. It is quite clear that investors feel that every time the Government makes significant changes to the RO it increases the likelihood of further changes at some point in the future. This perception of increased regulatory risk translates into higher risk premiums. In practical terms this means that the difference between the ROC

price and the long term PPA price, which developers need in order to finance the construction of wind farms, will increase.

It is clear that the general public is not interested in long term PPA prices. Nonetheless various bodies are becoming increasingly aware of the ROC price and, as they do so, there is an increasing tendency amongst them to confuse the ROC price with the cost of renewable generation. It should therefore be clear to any policy maker that anything which increases regulatory risk and hence ROC prices, will, as far as the general public is concerned, increase the cost of renewable generation capacity.

Increased regulatory risk and the higher ROC prices that this causes, is therefore to be strongly discouraged.

Investment in genuine renewables. The support of the energy consumer for the Renewables Obligation comes from the belief that the money raised from the scheme is invested in clean forms of renewable generation technology that will create new jobs in the UK and provide for a secure source of power well into the future.

This is not the case with the co-firing of foreign biomass waste which does not create UK jobs and, neither, we would argue, does it stimulate the development of a new UK industry.

Creating Additional Carbon Emissions:

Co-firing occurs in coal-fired power stations. The high profits to be made from the production of ROCs mean that coal-fired generation will enter the market at lower prices than would be the case without co-firing revenue. This means that coal-based generation might then displace cleaner gas-based generation and in the process increase overall UK carbon emissions.

While we are aware of the Large Combustion Plant Directive and the limits that this places on certain flue gas emissions from coal-fired plant we nonetheless believe that there is a clear risk that co-firing of imported biomass waste has the potential to actually increase the amount of carbon dioxide emitted to the atmosphere both at a national and global level. Given the high risk of this negative effect on the environment BWEA believes that additional work should be undertaken to investigate the true level of carbon emissions associated with an extension of the existing co-firing rules.

A Compromise: Extended Co-firing under the Emissions Trading Scheme

The BWEA does not consider the burning of imported biomass to be a solution to the UK's need for new and secure forms of renewable energy. Consequently we are unable to support the co-firing amendments as proposed.

Nonetheless BWEA does recognise that co-firing may have a role to play in reducing carbon emissions. In this regard BWEA would suggest that the DTI might wish to consider that co-firing of biomass waste in existing thermal power stations could count as emissions reduction under the emissions trading scheme to be initiated in the UK in 2005. As part of the National Allocation Plan for carbon credits the emissions from existing thermal power stations would be set so that any carbon saved from the burning of biomass waste would count as carbon reduction under the EU ETS. We believe that such a solution should find favour with those parties interested in co-firing and it would not damage the original purpose of the RO which is to stimulate investment in genuine domestic renewables.

CONVERSION OF FOSSIL FUEL GENERATION STATIONS TO BURN BIOMASS

This constitutes another 'fundamental' rather than 'technical' review and as such BWEA believes that the issue should not be considered within this technical review and instead should be revisited at the time of the 2005/6 review.

DEFINITION OF 'FUEL USED'

The proposed change is supported

INPUT ELECTRICITY

The proposed change is supported

DEFINITION OF ENERGY CONTENT

The proposed change is supported

ROCs FOR SMALL GENERATORS AND ANNUAL EXPORT DECLARATIONS

The proposed change is supported

NFFO AND NON-NFFO GENERATING STATIONS AT THE SAME LOCATION

We agree that the current Article 8(11) is ambiguous and has the unintended affect of preventing parties, that are not party to a NFFO contract, from developing renewable energy projects within a NFFO boundary

For this reason we support, in principle, the proposed amendments to Article 8(11) as we recognise the need to address the issue of NFFO site sterilisation. However we also recognise that this is a very complex issue and that additional consultation may be required in order to reach a clear solution to this problem.

NFFO GENERATED ELECTRICITY

The proposed change is supported

BANKING DAYS

The proposed change is supported

SINGLE BUY OUT FUND FOR GB

BWEA would support a single buy-out fund as we agree with the concerns expressed in paragraph 2.48 of the consultation document.

FOSSIL FUEL GENERATING STATIONS WITH DEDICATED RENEWABLES GENERATING SETS

The case for not making any changes at present is supported

DEFINITION OF ELECTRICITY ELIGIBLE FOR ROCs

BWEA does not have strong views on this issue

REVOCATION OF ROCs

BWEA does not have strong views on this issue

Appendix – Member Companies of BWEA at 21 November 2003

A2Sea A/S
AAG SWEPCO Ltd
ABB New Ventures GmbH
ABEnergy Ltd
ABP Marine Environment Research
AEA Technology Environment
Aegis Rubber Engineering
AEI Cables Ltd
Afon Toolmakers & Engineers Limited
Agrilek Limited
Airtricity Development Ltd
Albro Planning & Environmental
All Wind UK Ltd
Allen & Overy
All-Energy Opportunities
Alstom T & D Ltd
AMEC Wind
Andaray Engineering Ltd
Andrew Weir Shipping
Andrew Wilkes & Associates
Anglesey Wind & Energy Ltd
Anglian Water Services
Ashurst Morris Crisp
ATCO Power Generation Ltd
AWG Project Management Services
B9 Energy (O&M) Ltd
Babtie Group Limited
Baroc Energy Ltd
Barton Willmore Planning Partnership
Baywind Energy Co-operative Ltd
Bendalls Engineering
Bircham Dyson Bell
Black & Veatch Consulting Ltd
Bomel Limited
Bond Pearce Solicitors
Bonus Energy A/S
Bosch Rexroth Ltd
British Energy plc
Broadview Energy Limited
Brodies W.S., Solicitors
Brown McFarlane Ltd
Cambrian Engineering (Cymru) Ltd
Casella Stanger Ltd
CB & I John Brown Limited
CEASA Promociones Eolicas S.L
Cegelec UK
Centre for Economic Renewable Power Delivery
Centre for Sustainable Energy
Charles W. Taylor & Sons Ltd
Clarke Energy Ltd
Clean Energy Company Limited
CLRC, Rutherford Appleton Laboratory
CNS Subsea Ltd
CO2e
Collett Transport Ltd
ConocoPhillips
Cornwall Light and Power Co Ltd
Corus
Coupe Foundry Ltd
CREST
CTC Marine Projects
Cumbria Windfarms Ltd
Cwmni Gwynt Teg Cyf
D.N.V. Ltd
Dan McNally Limited
Dansteel Trading Ltd
Data Systems & Solutions Ltd
Densit A/S
DeWind UK Operations
DLA (Partnership)
DM Energy
Dong VE A/S
Dowding & Mills Engineering Services
DP Energy Ireland Ltd
DSB Offshore Limited
Dulas Ltd
Dundas & Wilson
E4environment Limited
Eclipse Energy
Eco2 Ltd
EcoGen Ltd
Econnect Ltd
Ecotech Centre
Edmund Nuttall Limited
eeegr, East of England Energy Group
EGS (International) Ltd
EHN
Eide Marine Services AS
Elequip Projects Limited
ELSAM A/S
EMU Ltd
Energi E2 A/S
Energiekontor (UK) Ltd
Energy for Sustainable Development
Energy Workshop (The)
ENERTRAG UK Ltd
Engineering Technology Applications
Entec UK Ltd
Enviros Consulting
ERA Technology Ltd
Ernst & Young
Eurus Energy UK Limited
Fairfield Mabey Ltd
Falck Renewables Limited
Farm Energy Ltd
Fellows International Limited
Force 9 energy
Fortis Bank
Fugro Engineering Services Ltd
Gamesa Eolica
Garrad Hassan & Partners Ltd
GE Wind Energy
Global Marine Systems Ltd - Energy Services
GPA Partnership
GreenPower
GREP A/S
Halcrow Group Ltd
Hammonds
Harworth Power Ltd
Heath Lambert Group
Hedley Purvis
Heriot-Watt University
Hibernian Wind Power
HR Wallingford
HVB
Hyder Consulting Limited
Hydro Soil Services UK
Hydrossearch
Hydrotechnik UK Ltd
I & H Brown Limited
Impax Capital Corporation
Infinergy Ltd
Institute for Environment and Sustainability Research
Investec Bank (UK) Limited
IPA Energy Consulting
IPSA Power Ltd
Iskra Wind Turbine Manufacturers Limited
Isleburn Mackay & Macleod Ltd
IT Power Ltd
J P Kenny
James Walker & Co Ltd
JBI Technology Limited
John Mowlem & Company plc
KBR
Keliston Engineering Ltd
Kema Ltd
Kongsberg Simrad Limited
KPMG
Landscape Design Associates
Ledingham Chalmers
LM Glasfiber A/S
LMQ Ltd
London Offshore Consultants
London Power Company
Lovells
Macaulay Institute
MacRoberts Solicitors
Mammoet Van Oord B.U
Marlec Engineering Co Ltd
Marsh Ltd
Martineau Johnson
Masons
Mayflower Energy Limited
McCarthy Tetrault
McGrigor Donald
McNicholas Construction Services Ltd
Mersey Docks & Harbour Company
Met Office
Metoc plc
Miller Insurance Services Limited
Mistral Invest
Morgan Cole
Morgan Est
Mott MacDonald
Mullion Manufacturing Limited
Nabarro Nathanson
NaREC (New and Renewable Energy Centre)
National Energy Foundation
National Grid Transco
National Wind Power Ltd
Natural Power Consultants Ltd
NEG Micon UK Ltd
Noble Denton
NOI Scotland Limited
Nordex UK Ltd
Nordic Windpower AB
Norsk Hydro Energy
North British Wind Power Limited
North Energy Associates Ltd
Norton Rose
Nsure Renewables
NUON Renewable Energy Projects
Nuon Renewables
NV Besix SA

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| Ocean Power Delivery Ltd | RSK Environment Limited | Trac International Ltd |
| Oceantecs Limited | Ruston Wheb | Tractebel Energy Engineering |
| Offshore Energy Resources Limited | Saipem s.a. | Trade Wind Energy Ltd |
| Offshore Renewable Energy Alliance | Scott Wilson Oceans | Trinity House |
| Open University | Scottish & Southern Energy plc | Triodos Bank / Triodos Renewable |
| Orga Suisse S.a.r.l | ScottishPower | Energy Fund |
| Orrick Herrington & Sutcliffe | Screwfast Foundations Limited | UMIST |
| Osborne Clarke | Seabed Scour Control Systems Ltd | Underwater Security Consultants Ltd |
| Osiris Projects | Seacore Ltd | unit[e] |
| OTM Consulting Ltd | SeaWind | United Utilities Green Energy |
| Pager Power Limited | Shaw Power Technologies | University of Birmingham |
| PB Power Ltd | International | University of Durham |
| Peel Holdings plc | Shell WindEnergy Ltd | University of the West of England |
| Pirelli Cables Ltd | Siemens Power Generation | Vattenfall |
| PMSS Ltd | Simmons & Simmons | Vestas - Danish Wind Technology A/S |
| Posford Haskoning Ltd | Sinclair Knight Europe Ltd | Warwick Energy Limited |
| Powerforce | SLP Energy Ltd | Waterman Environmental |
| Powergen Renewables | SMD Ltd | Watson, Farley & Williams |
| Proven Engineering Products Ltd | SP Dataserve Ltd | Wavegen |
| QinetiQ Ltd | Statkraft SF | West Coast Energy Ltd |
| R.D.C. Ltd | Stephenson Halliday | Western Windpower |
| Redfield Consulting Limited | Stewart Group Limited | Wichita Co. Ltd |
| Renew North | Strategic Alliance Services | Wind Hydrogen Limited |
| Renewables East | Terence O'Rourke | Wind Prospect Ltd |
| Renewables North West | TEXSYS | Windelectric Management Ltd |
| REpower Systems AG | The Engineering Business Limited | Windfarms Ltd |
| RES Group | Theodore Goddard | Windspeed Ltd |
| ReSoft Ltd | Titan Environmental Surveys Ltd | Wisenergy |
| Ridge Wind Ltd | Titan Maritime (UK) Ltd | WKN Offshore Tech. GmbH |
| RJ McLeod (Contractors) Ltd | TLT Solicitors | Wragge & Co |
| RMB Engineering Services | Toby Manning Limited | Wrigleys Solicitors |
| Royal & SunAlliance | Total Energies Developpement S.A. | Wynns Limited |
| RPS Group | | Your Energy |