



Dr Marilyn Booth
Room 1116
Sustainable Energy Policy Unit
Department of Trade and Industry
1 Victoria Street
London
SW1H 0ET

1 December 2000

Dear Marilyn

The British Wind Energy Association (BWEA) is the trade and professional association for individuals and companies involved in the UK wind energy market. BWEA currently has 140 corporate members involved in all parts of the supply, development and generation chain. Corporate membership of the Association has tripled over the past three years, with particular interest shown in the potential for an offshore wind energy market. A list of current members is appended at Annexe B.

With three Board members of the European Wind Energy Association, BWEA currently holds the Chair of the Confederation of Renewable Energy Associations.

BWEA welcomes the opportunity to respond to the preliminary consultation (ROPC). Wind energy is key to achieving the Government's renewable energy targets and we are pleased to be able to offer comments on the proposals.

We are particularly encouraged by the reference to "long-term co-operation and discussion between industry and Government". BWEA and the organisations it supports are fully committed to continuing constructive dialogue with Government to secure the greatest potential from wind energy in the UK.

The Association broadly welcomes the renewables obligation. We have a number of observations to make, together with certain key reservations, but if those issues are satisfactorily resolved, we believe that the obligation could deliver the intended additional 4.4% of electricity from wind energy envisaged in the 'high wind scenario', as outlined in the March 1999 consultation paper. Our news release issued in response to the ROPC is given at Annexe A.

This response largely concerns itself with the wind industry's analysis of the proposed obligation's effect on developing wind energy, both on- and offshore.

However, we wish to make an important observation about the obligation's influence on the development of other technologies, both within and outside the scope of the proposals. BWEA endorses the Government view that a range of renewable technologies will be needed.

To quote the then Minister for Energy and Industry, John Battle, MP *"I also expect renewables not only to generate power, but also to provide heat and transport..."*

This concurs with the view expressed by the Confederation of Renewable Energy Associations (CREA), that *"the current proposals without modification will not achieve the 10% target, as some technologies' deployment will be severely curtailed..."*. BWEA supports the simple 'single-band' obligation, but also commends to you the detailed views of the CREA member associations in their analyses of impacts on their respective technologies.

Several specialised sections of this response (for example 'ROCs' and 'Autogenerators') may require further information. I will be happy to direct you to companies in membership with more detail on these points.

We will be placing our response to the consultation, together with the CREA response and those of other Associations at the BWEA and CREA web-sites www.bwea.com

Yours sincerely

A handwritten signature in black ink, appearing to read 'N.G.', with a horizontal line underneath.

Nick Goodall
Chief Executive

Headline Issues

'Imports'

The potential threat to indigenous renewables development presented by imports (particularly small French hydro) needs to be anticipated. We are concerned that supply companies may hold back in anticipation of large volumes of renewables becoming available from elsewhere in the Union. There are possible solutions, including inter-Governmental agreement on 'purchasing country is entitled to the green credits' or strict adoption of 'nothing built before 1990 is eligible' principle, which other correspondents will have dealt with in more detail.

'Bankability'

There is increasing evidence that because contracts under the obligation are inherently less secure, the cost of finance (therefore projects and hence, electricity to the end user) increases. This effect may also make development less attractive to smaller participants and thus limit diversity in the market. The 'green premium' is of course, a cap, not a supplementary price premium. It is unrealistic to expect that even in the most intimately linked supplier-generator relationship is unlikely to see all (or even the majority) of the value of the green value of the electricity being paid to the generator. Early indications suggest that the generator may even be the minor party.

'Regional planning targets'

This issue, covered in section 3, perhaps more than any other single issue, is of fundamental importance to the industry. Although we welcome the Government initiating regional resource studies, it is unclear how these studies will firstly be aggregated and secondly, implemented. I have enclosed our reference document *'Planning for wind energy – a guide for regional targets'* by way of illustrating how progress can be made in this area. Without significant early building of projects, we do not believe that the obligation will be able to operate and will cause an embarrassment of buy-out monies. We continue to see local planning decisions routinely 'called-in', a trend that will further frustrate the workings of the obligation and further discourage smaller companies and new entrants to the market.

It should be noted that although twice as much wind energy was developed in 2000 than in 1999, this is only in the order of 50MW. Achieving UK targets will require six or seven times this rate of deployment. Regional planning guidance is unlikely to begin to change until 2003. We trust that these will not be merely aspirational.

BWEA actively supports NFFO contract portability. This will prove helpful in facilitating the development of around 1000MW of un-commissioned wind projects with NFFO contracts. Please see Appendix C for the CREA recommendation on this matter.

'Impact of NETA'

This is seriously under-estimated in calculations made about the theoretical payment for wind projects. Although individual companies will give you commercial-in-confidence views, it appears that the risk is in the order of ca. 0.4p–1p/kWh. The effect is expected to be greater for smaller projects. The added burden of participating in an aggregation or other future markets will add to the total cost and again, this is likely to be greater for smaller, independent, "community" schemes. It is a characteristic of wind, not a design flaw that can be 'engineered out' that it is less than perfectly predictable. The likely penalties are out of proportion to the impact of wind on an integrated electricity network. Seeking to encourage the development of wind energy on the one hand, yet 'punishing' its imperfect output profile without adequate corrective intervention is an unnecessarily damaging aspect of the design of NETA.

'Embedded generation'

It is reasonable to assume that as increasing numbers of small-scale plant are integrated, the impact on the distribution system will increase. However, not all of these effects are negative. Continuing attention to the work currently being undertaken by the CREA Embedded Generators Network (EGN) group will be of value in future consideration of charging arrangements.

'Carbon savings'

We have profound concerns about a persistent inconsistency in the bases and calculations applied thereon. Not only have the estimates changed substantially since the first consultation document was issued, but the basis for estimating the savings from different technologies seems to vary. A detailed response by D Milborow tackles this question in more detail and we recommend attention is paid to clarifying this fundamental issue.

Views on key issues as specifically identified in the consultation

2.4 Eligible technologies.

BWEA cautions that assumptions about continuing downward price reduction should not be assumed. Wider social issues concerning onshore siting may see lower-wind speed (and therefore higher cost) sites being developed. BWEA agrees that capital grants for offshore wind will be necessary to stimulate early projects.

2.5 Obligation profile.

BWEA believes that the obligation should be set higher, earlier to ensure the earliest building of projects. A 'sellers' market is desirable to ensure that maximum value is retained by generators in deals negotiated. The effects of the operation of the obligation should not only be kept under constant review and formally evaluated annually with disclosure of the findings. Government should make it clear that from the outset that if the obligation does not stimulate building of projects, the obligation (and/or buy-out price) will be raised. Further reinforcement of an intention to increase the proportion of renewable energy in the market beyond 10% will be useful in both encouraging more development and in meeting the ongoing challenges of climate change and of energy diversity.

2.6 Renewable obligation certificates (ROCs)

This should be UK-wide at the earliest opportunity, including between GB and NI. 'ring-fencing' Scotland will profoundly limit the potential for achieving the 10% target at large and an 'evenly-distributed by both resource and demand' onshore wind target. Autonomous generation, also known as on-site supply must not be overlooked in establishing a working arrangement for eligibility for ROCs.

2.7 Banking and borrowing.

BWEA believes that borrowing, in particular, may be an opportunity to reduce the impacts of balancing and settlement charges under NETA. The timing of these periods must satisfactorily coincide with the supply company customer contract rounds to be effective. Compounded borrowing should not be allowed.

2.8 Buy-out price.

BWEA believes that at 3p/kWh, where reinforced with capital grants for offshore wind, is likely to see adequate levels of new build projects. The anticipated split of this premium between supplier and generator is likely to mean that less than the full value will accrue to the generator. Moreover, greater trading issues may conspire to the effect that only larger entities are able to operate economically over time. Linking to RPI is essential.

2.9 Cost to the consumer.

BWEA does not accept that the total cost to the consumer will be as much as £600M. There is already considerable evidence that not all of the green

premium element will be paid to the generator. Any part retained by the supplier is not therefore a cost on anyone and it should not be assumed that it would be passed onto the consumer. Moreover, the larger political question is one of public recognition of the effects of climate change and the potential for a change in electricity generation as part of the amelioration strategy. It is not clear on what basis the projected additional cost per quarter has been arrived at and therefore, assumptions made about such a level's acceptability are, in our view, difficult to confirm. Other key benefits afforded by increased renewables, including security and diversity of supply do not appear to have been 'valued' in the presumed calculation.

2.10 Recycling buy-out payment receipts.

BWEA agrees that payments should be recycled to compliant suppliers.

2.11 Banded obligation.

BWEA endorses the simple obligation approach for wind energy (given capital grants for offshore wind), but notes that this may not see the full range of technologies available and envisaged (even under the 'high wind' scenario) achieving their potential.

2.12 Capital grants.

BWEA welcomes capital grants for offshore wind energy schemes. The suggested range of £39M-£89M (including NOF funds) will result in significant support for a 'first round' of offshore. However, we anticipate that this may only be in the low hundreds of installed megawatts, which may prove insufficient to drive the price of both turbines and construction techniques down to below the then current price. If this is so (and in order to bring on the remaining 1700 or so MW) then further capital grants may need to be made available. BWEA (representing all known prospective offshore developers) continues to deal with the Department and Crown Estate on this matter and detailed thinking on capital grant allocation will continue after the consultation deadline. 'Joined-up thinking' between DTI and DCMS on ensuring that DTI and NOF capital grant monies work effectively, will be helpful in extracting the maximum value from the grants.

A significant challenge to offshore development appears to be the length of time necessary for the DTI-preferred Section 36 consent route which we are currently advised to allow 18 months for completion (it is not clear if this includes an provision for public inquiry). No company will move forward with development work until consent is secured and the timing of the determination of capital grant availability is a key aspect of this.

We recommend that 100% capital allowances in the first year should be made available. This should enable greater MW per £.

Appendix A

Press Release

BWEA welcomes renewables consultation



6th October 2000

The British Wind Energy Association welcomes Trade and Industry Secretary Stephen Byers' announcement of the preliminary consultation on the renewables obligation. This reaffirms the Government's proposed intention of ensuring that 10% of the UK's electricity supply comes from renewable energy by 2010. Almost half of the anticipated target is expected to be met by wind energy.

The indicated buy-out price is likely to see satisfactory levels of onshore wind being developed if the proposed regional planning targets are successfully implemented. Equally, if offshore wind farms are backed by a sufficiently high level of capital grants (now expected to be announced at the end of October), a boost for this emerging industry will have been achieved.

However, concern remains about the damaging impact of NETA on contract prices and it appears increasingly likely that its' effects may be fatal for smaller independent and 'community' schemes.

BWEA is keen to see the operation of the percentage obligation regularly and vigorously reviewed.

The Association reminds Government that although there is, as Mr Byers confirms, "a priority" to develop offshore, there remains a need to introduce approximately 2500 onshore turbines in the UK by 2010 and that progress in securing a common purpose in the planning process is of paramount importance in the near future.

Notes for editors

The consultation document is available at www.dti.gov.uk/renew/ropc.pdf

For the BWEA expert report on how the anticipated onshore wind energy target can be met at a regional level see [Planning for wind energy](http://www.bwea.com) available from www.bwea.com

Appendix B

Companies in membership of BWEA at 1 December 2000

Acia Engineering Acoustics	Edison Mission Energy Limited
AEA Technology Environment	EMU Environmental Ltd
Aegis Rubber Engineering	Energiekontor (UK) Ltd
Aerpac UK Limited	Energy for Sustainable
Aileron Associates Limited	Development
Ambient Energy Ltd	Energy Unlimited
Amec	Enron Wind
AMEC Border Wind	Enviros Aspinwall
Andaray Engineering Ltd	Ernst & Young
Anderson Strathern WS	ESB Power Generation, Renewables
Anglesey Wind & Energy Ltd	Fairfield Mabey Ltd
B9 Energy (O&M) Ltd	Farm Energy Ltd
Baywind Energy Co-operative	Fred Olsen Ltd
Bomel Limited	Fugro Limited
Bond Pearce Solicitors	Galeforce Wind Turbines (N.I.) Ltd
Bonus Energy A/S	Garrad Hassan & Partners Ltd
British Energy plc	GPA Partnership
Brodies W.S., Solicitors	Halcrow Group Ltd
Brown & Root Ltd	Hammond Suddards Solicitors
Cambrian Engineering (Cymru) Ltd	Hedley Purvis
Centre for Economic Renewable	HR Wallingford
Power Delivery	Hyder Industrial Ltd
Centre for Sustainable Energy	Independent Energy UK Ltd
Charles W. Taylor & Sons Ltd	Ingenco Limited
Chris Blandford Associates	IT Power Ltd
CLRC, Rutherford Appleton	Jackson Production Services Ltd
Laboratory	Jennings O'Donovan & Partners
Collett Transport Ltd	Landscape Design Associates
Cornwall Light and Power Co Ltd	Lilley Grant Rush Ltd
Coupe Foundry Ltd	M & N Wind Power Ltd
CREST	Mannesmann Rexroth Ltd
Cumbria Windfarms Ltd	Manx Wind Energy Services Ltd
Cwmni Gwynt Teg Cyf	Marlec Engineering Co Ltd
Dansteel Ltd	Mayflower Corporation plc
DEME Group N.V.	Mersey Docks & Harbour Company
DERA, Defence Evaluation	Metoc plc
Research Agency	Mitsui Babcock Energy Ltd
DM Energy	Mobil Oil Company Ltd
DP Energy Ltd	National Energy Foundation
DSB Offshore Limited	National Engineering Laboratory
E4environment Limited	National Wind Power Ltd
EcoGen Ltd	Natural Power Consultants Ltd
Econnect Ltd	NEG Micon UK Ltd
Ecotricity (Nexgen Group)	Nicholas Grimshaw & Partners

Nordex GmbH
North Energy Associates Ltd
Ocean Resource Ltd
Oceans Engineering Ltd
ODE, Offshore Design Engineering
Ltd
Oil States Ind. UK Ltd
Open University
PMSS Ltd
PowerGen Renewables Ltd
Proven Engineering Products Ltd
R.D.C. Ltd
Renew North
Renewable Energy Systems Ltd
ReSoft Ltd
Riomay Ltd
RMB Engineering Services
Royal and Sunalliance
SAGE Engineering Ltd
Scottish Power
Seacore Ltd
Shell International Renewables Ltd
SLP Engineering Ltd
Stephens Stephenson
Sustainable Energy Limited
Titan Maritime (UK) Ltd

TMEnvironmental Power
Tomen Power Corporation UK Ltd
Triodos Bank
TXU Europe Power Ltd
UMIST
Umweltkontor Ireland Limited
unit[e]
University of Durham
University of the West of England
Vector Instruments
Vestas - Danish Wind Technology
A/S
Wavegen
West Coast Energy Ltd
Western Windpower
Wichita Co. Ltd
Wind Prospect Ltd
Wind-Ways Ltd
Windelectric Ltd
Windfarm Construction &
Maintenance Ltd. (WCM)
WindGeneration Ltd
Windjen Power Limited
WRE Generation Ltd
Wrigleys Solicitors
Yorkshire Windpower Ltd

Appendix C

NFFO contract portability – document approved by CREA, November 2000

'NFFO portability'

A meeting of the 'NFFO portability' working group took place on 19 October 2000

Participating were John Seed, David Williams, Nick Fleming, Gaynor Hartnell and Gerry Swarbrick with Nick Goodall as CREA Director present, acting as Secretary.

The objective of the meeting was agreed as the need to speak with a single industry voice on the subject of NFFO contract portability.

It is now understood that OFGEM has passed the decisions, both on overall 'allowability' and 'under which circumstances', back to DTI, who are expected to clarify the issue of project location through the fossil fuel levy regulations, which is within their gift.

A number of precedents have been established which lead the working group to believe that further tests are likely to be successful, other than under the following circumstances: a change in technology band or a change in project dnc.

The working group recommends (that, rather than seeking unrestricted movement), the following definition.

"The developer will be allowed to move the location of a project (other than without a technology band or increasing its dnc) once only and in order to do so, must have secured planning permission at the proposed new site before an application is made to the NFPA. The project must additionally be connected to the grid within England and Wales".

"Projects which are relocated to be side by side will either be metered separately or in the case of thermal plant where it may not be technically appropriate to do this, output under the lowest priced NFFO contract would be exhausted before payment under any second or more contracts is made for electricity generated."

Appendix 4

'Planning for wind energy – a guide for regional targets'
(also at www.bwea.com)