

Announcement of Offshore Wind Review – April 22 2009

Q&A

What is involved in the review process?

The Renewables Advisory Board (RAB) will carry out a peer review of the evidence and the Secretary of State will then decide whether changes to banding appear necessary. If so, he will consult on those changes for 12 weeks. Any change to bands following review and consultation will be subject to Parliamentary and State Aids approval.

When will the changes come into force?

It would be the intention that any increase in the level of support to offshore wind would be implemented on 1st April 2010, at the start of the next RO obligation period.

What changes to the bands do you have in mind?

If the review (and subsequent consultation) confirms the evidence we have been provided with, we propose to provide even more incentive to offshore wind in the form of 2 Renewables Obligation Certificates (ROCs), building on the recent uplift to 1.5 ROCs. This access to additional support for offshore wind projects would be for a time-limited period and subject to a number of conditions.

Dates in detail:

If the new costs analysis is borne out in the review, we would consult on amendments to the RO so that offshore wind projects which sign contracts between 23 April 2009 and 31 March 2010 confirming that the project will go ahead and start offshore works before the end of 2011 will qualify for 2 ROCs/MWh. Again subject to the result of the review, we may also consider allowing projects which sign contracts between 1 April 2010 and 31 March 2011 and start offshore works before the end of 2012 to qualify for 1.75 ROC/MWh.

For how long will projects that meet the criteria continue to receive the increased support?

Grandfathering provisions will apply as normal to any projects that qualify for the increased support. Under the current Renewables Obligation Order this means that they would continue to receive the higher number of ROCs until the RO ends in 2027. We announced in the Pre-Budget Report in November 2008 that we will extend the RO from its current end date of 2027 to at least 2037. However, we also set out that we would introduce a duration limit so that projects did not continue to receive support for longer than is necessary. We will consult on the detail of this in the consultation to be published this summer.

My project reached financial close before 23 April 2009, why won't it qualify for additional ROCs?

Based on the evidence we have seen to date, we consider that where contracts were signed before the Budget announcement, this was on the basis that projects were commercially viable at 1.5 ROCs/MWh. The proposal to set the cut-off date for eligibility at 23 April 2009 will be subject to consultation, and we will welcome views on this as well as further evidence as part of the consultation process. One of the

purposes of the consultation is to review the criteria and ensure that they are appropriate.

2 ROCs will not be enough for my project – why aren't you offering 2.5 ROCs?

Based on the evidence we have seen to date, we consider that 2 ROCs will be adequate for a majority of affected projects. Further evidence and other views will of course be welcomed during the consultation process.

Why are you announcing a review now when you've just implemented banding?

We have recently been presented with evidence that costs for offshore wind projects reaching financial close have risen markedly in the last few months and that key projects are under serious risk of not proceeding without further support – jeopardising our renewable energy goals and our ability to develop an offshore wind industry, hence the need for a review.

Under the current legislation, does this qualify as an Early Review?

Yes. Evidence has been presented to DECC that the costs of offshore wind projects reaching financial close are now significantly higher than those that the original banding level was based on. In light of this evidence the Secretary of State is satisfied that one of the conditions required to carry out an early review under the Renewables Obligation Order 2009 is satisfied.

Why are you carrying out a review, why not just change the bands if it's necessary?

The Electricity Act 1989 (as amended by the Energy Act 2008) requires the Secretary of State to carry out a review and consultation before making any change to banding.

Why is supporting offshore wind so important?

Offshore wind is expected to make the largest single contribution to renewable electricity in the UK by 2020 and we will need significantly more than the 8GW currently planned to meet our challenging EU targets and help us make the shift to a low carbon economy.

How many projects would potentially not go ahead without an increase in support?

We are aware of at least 1.3GW of offshore wind capacity whose economics are under threat. This is enough to power around 1 million homes (assuming each household uses around 3.5MWh a year).

In total we expect that up to 3 GW of planned projects may benefit from any increase in support.

Aren't you just lining the pockets of a couple of turbine makers?

We believe that cost increases are down to a combination of factors, not just an increase in the price of turbines. The review and any subsequent consultation will provide an opportunity to look at these factors in more detail. It is in the interests of the industry and the supply chain to see projects go forward to lead to learning and cost reductions.

Why aren't you reviewing the bands for other technologies?

We have no evidence to suggest they are facing the same cost issues. Although the economic downturn has had an effect on the renewables industry in general, the case of offshore wind is different, due to specific supply chain and market factors not faced by other technologies.

Why are you only offering support for a time-limited period?

The evidence seems to suggest that the increased costs and market conditions are likely to be only of limited duration and should improve over the next 12-24 months.

When will the consultation on RAB's review report and the original evidence take place?

This will form part of the consultation on the Renewables Obligation Order 2010 to be published this summer.

What impact will this have on ROC values/other renewables?

It is our firm intention to ensure that any increase in support for offshore wind does not materially undermine the economics of other renewable projects. We are already looking, as part of the work towards our Renewable Energy Strategy, at how to reduce any unnecessary risk in the RO, and are considering whether an increase in headroom would be required as we move towards our 2020 target. We also set out in the Renewable Energy Strategy consultation document published in June 2008 that we will need to either raise or remove the current 20% cap on the level of the obligation to allow the RO to incentivise the required level of renewable generation.

Won't this mean higher electricity bills?

If introduced, a higher band would have no cost in the short term before the projects are commissioned and start generating electricity. The consultation to be published this summer will consider the longer-term impacts on electricity bills as part of the Impact Assessment.

Q&A on Ernst & Young report

These questions relate to the report 'Cost of and financial support for offshore wind', produced for DECC by Ernst & Young and published by DECC on 27 April 2009.

What does the report look at?

Ernst and Young have assessed the current capital and operating costs for offshore wind projects in the UK and the historical evolution of the key drivers for these costs. Based on this analysis, the report considers the level of financial support required to encourage the short-term roll-out of offshore wind projects in the UK.

What does the report conclude?

The analysis indicates that offshore wind projects at or near financial close in January 2009 have considerably higher costs than an analysis completed in April 2007 which

indicated that Renewables Obligation banding of 1.5 ROCs per MWh was appropriate for offshore wind.

The report concludes that if support were to be provided through the existing mechanism of the Renewables Obligation, the number of ROCs per MWh required to provide a reasonable economic return would be between 2 and 2.5 ROCs.

The report recommends that Government considers providing additional support in the near term to enable projects to proceed, to counteract short term price issues (i.e. exchange rate fluctuations).

If Ernst & Young are recommending 2-2.5 ROCs, why has Government concluded that 2 ROCs is enough?

Based on the evidence we have seen to date, we consider that 2 ROCs will be adequate for a majority of affected projects. Further evidence and other views will of course be welcomed during the consultation process.