

Electricity Market Reform - How does it affect my proposed renewable energy projects?

The Government's Electricity Market Reform (EMR) proposes some radical reforms to the electricity sector including the way in which renewable energy projects are incentivised and how electricity from them is traded. Those with existing projects ought to re-examine their power agreements to ensure they are workable post 2017. Renewable energy projects being considered, financed and entering operation between now and 2017 will have to give considerable thought to the EMR proposals and be ready to deal with what might be a rapidly changing landscape of policy and legislation as power trading principles emerge.

Here is the Burges Salmon checklist of issues to consider if your project falls within the transitional period under the EMR proposals (2014 to 2017).

- What will the value of a renewables obligation certificate (ROC) be for your project?
From 1 April 2017 no new renewable energy project will be entitled to ROC's. Between effectively 2014 and 2017 projects will have a choice to either accredit under the Renewables Obligation (RO) or to opt for the new system of a Feed in Tariff Contract for Difference (FIT CFD). Understanding how the Government will maintain the value of a ROC post 2017 when the RO has closed to new entrants, will be crucial in deciding which route to take.
- Will you be extending your project post 2017 and if so by what amount? The extension may either fall under the new large scale FIT CFD Scheme or the small scale FIT?
- If the construction of your project is delayed or if you build your project in phases (very relevant to offshore wind) such that some of the turbines, are not accredited by 2017, what effect will that have on the project? Can you still pull these turbines under the RO? The answer to this will vary on current EMR proposals. If the delay is out of your control it may still be possible, otherwise, it is likely that you will end up with a project having a mix of incentives applying to it?
- What regulatory certainty is there is there that the large scale FIT CFD will not be altered? You will want to look closely at the ability of the Government to review the scheme when legislation is finally drafted. It appears that the Government is proposing reviews starting as early as 2016. The industry it is fair to say, has been alarmed at the way the Government has changed the rules for the small scale FIT so is looking to have confidence restored.

- How will the strike price for the new FIT CFD contracts be set and how will that measure up against the supported ROC price?
- When is the Government proposing to introduce auctioning as a way of determining the strike price for a FIT CFD for your renewable energy technology? Whilst the Government has said it will not "initially" implement auctioning there is a clear statement in the consultation and White Paper that eventually it will.
- In reality do transitional projects have much of a choice? The first FIT CFD contracts are due to be signed in 2014. The choice of incentive route is a focus prior to the start of construction when financing is required. At what stage will you be allowed to enter into a FIT CFD? For a large renewables project the construction period may be 2 years. Do you gamble on the ROC support level not being altered during this construction period prior to commissioning when you actually get accredited, or do you opt for and agree, a FIT CFD contract prior to construction.
- How will the new EMR work with the devolved administrations?
- What is the robustness of the FIT CFD counterparty? The Government recognises this issue and we are to see a third party body set up?

The White Paper provides a steer on some of these questions which project developers, investors and funders will want to consider.

Burges Salmon has closed projects post the EMR announcement and has had to deal with these uncertainties. We can provide advice in some of these areas and are monitoring the development of the EMR which may clarify some of these issues. If you would like further advice or want to know more about the services which Burges Salmon can offer contact:



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