



RESPONSE TO THE DECC CONSULTATION ON RENEWABLE ELECTRICITY FINANCIAL INCENTIVES

Ocean Electric Power is actively engaged in the development of offshore renewable energy projects. We therefore very much welcome the opportunity to comment on the proposed changes to the Renewable Obligation Order (ROO). Our specific comments are:

Extension of the RO to at least 2037

This change is very welcome as it will provide increased certainty to developers of longer lead-time projects. Offshore projects typically take longer to progress to the stage where construction can commence and generation begins than their land-based counterparts. The extension will provide increased confidence levels for the sponsors of the major projects that will make the greatest contribution to renewable energy targets being achieved.

Introduction of a 20 year limit on support

We believe that an open-ended support scheme with at least a minimum duration is most desirable from investors' perspective, however the financial viability of projects is typically assessed over a period of 20 years and therefore introduction of this limit will have no significant adverse effects. It will however be important that the end date of the support period occurs by reference to the end of the equipment commissioning period that follows construction. This will be necessary to avoid penalising large schemes with phased construction/commissioning stages.

Move to a headroom only mechanism with an increase in the headroom

The marine renewables sector uses the most capital intensive of renewable technologies and is already exposed to the perception amongst investors that the levels of risk involved are higher. We welcome changes in this area to the extent that they offer greater certainty over ROC values.

Opening up the RO to generation outside of the UK

A change in this area has the potential to unlock the significant resources of the Crown Dependencies for the benefit of the UK. Both the Isle of Man and the Channel Islands could, over time, each contribute around 1GW of renewable capacity from offshore wind and tidal stream generation. Their waters are adjacent to parts of the UK which could offer grid access close to centres of demand. This makes them attractive locations for project

development. We therefore strongly urge that the opportunity be taken for adoption in April 2010, in advance of discussions over other sources of supply at European level. This will allow projects in the Crown Dependencies waters to be progressed in time for delivery by the 2020 deadline.

Articles 27(4) and (5) and 33(3) Part 2

The level of ROCs for generation from marine (i.e. 'wet' renewables) is proposed to stay at 2 ROCs/MWh for both wave and tidal stream projects. This level is too low to support the first commercial projects. We strongly urge the government to consider adopting similar levels of support in England and Wales (and the Crown Dependencies) to those available in Scotland i.e. 3 ROCs for tidal stream and 5 ROCs for wave. We also support the proposals of those who suggest the extension of the FIT to projects of less than 5MW using wave and tidal stream technology.

Ocean Electric Power is a technology-neutral marine development company. That means that in the development of any generation project, it will use the technology that is viable and *for which funds can be obtained*. As developers (and funders) are well aware, commercial funding is available for proven technology; it is not available for technology that has (only) successfully completed a period of trials. The recently-announced funding schemes for device development take technology to the point where it is yet to be proved in commercial operation. They do not take it to the point where it is proved and hence to the point where it can be funded on a solely commercial basis.

What is needed, if the government is keen to support development of a domestic device industry, is an additional form of support. The sort of support that is needed is something that enables the risk of failure of a newly-developed device to be avoided by commercial lenders. The simplest such mechanism is a form of insurance that is neither available on the open market nor, were it to be so, capable of being absorbed by project economics. Other sorts of support schemes could serve equally well, ranging from some element of soft loans to government guarantees. Each of these sorts of scheme would enable lenders to assess a marine project on a broadly similar basis to that of other projects and would transform the funding situation at a key stage in development. Once a technology is proven in commercial operation, normal market funding mechanisms will be available.

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Chief Executive

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