

## **RESPONSE TO CONSULTATION: CHANGES TO RENEWABLES OBLIGATION ORDER**

### **Incentivising Project Development**

It is part of Scotland's policy on energy to develop its offshore resources to encourage a marine-power industry capable both of making a substantial contribution to its economy and to enable it, with certitude, to meet its renewable energy obligations.

Whilst we welcome proposed measures to support the Renewables Obligation set out in the Scottish government's consultation paper and the financial measures proposed by the UK government in its own consultation paper (which are designed to incentivise smaller-scale generation and which the Scottish government proposes to follow) neither government appears to contemplate the need for measures to encourage commercial marine generation using locally-developed devices within the foreseeable future. There appears to be a sense that both governments have done what is needed to enable a domestic marine-power industry to flourish.

We believe such a sense to be wrongly complacent. Our own development strategy is one that shows up the weakness in the two governments' plans.

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 is viable *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 new funding schemes for device development merely take domestic 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 commercially funded.

What is needed, if the Scottish government is intent on developing a domestic device industry, is an additional form of support to enable commercial power projects to be built using that technology.

Such support is not something that may be required at some point in the future. If development companies are to be encouraged to use domestically-developed devices rather than, say, the devices now going into large-scale commercial operation in Canada, Australia, the US and China, they need to be encouraged now at the point at which they are beginning their own detailed planning for their next projects.

The sort of support they need is something that enables the risk of failure of a newly-developed device to be avoided by commercial lenders. The simplest such device 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 un-fundable into the fundable.

We believe this sort of intervention by the Scottish government is necessary to enable it to achieve its stated objectives and that it should consult on the details of such intervention before the end of the year.

### **Incentivising - RO Levels**

Although RO levels are not the subject of the current consultation, it is nonetheless worth noting here that to set the level at 3 ROCs for tidal power is to set it at a level that makes execution of projects challenging. In some cases, this low level of support will ensure that many projects are simply not viable. We would encourage a further review of the level of RO support and suggest that a move towards the levels provided for wave-power schemes would be more effective.

### **Incentivising - Plant Reliefs**

Finally, at a more micro level, we believe that the sorts of reliefs available to, say, Good Quality biomass plant should be available to all renewables schemes. Thus we believe that Enhanced Capital Allowances should be extended to all renewable technologies and that renewables sites should be exempt from assessment for business rates, council tax and stamp duty.

### **Overseas Renewables**

We welcome the proposal to allow energy from renewable sources produced outside UK waters but imported into it to be ROCable. We believe such a proposal will further facilitate the development of a European energy market

and will add to our security of supply, as well as providing another source from which the UK's climate-change obligations can be met. There is, however, one point which is less than clear, *viz*: the requirement that renewable energy outputs that can be imported in this way must "offer genuine cost savings". Renewable energy is expensive relative to other forms of generation and as different forms of technology are developed the costs attributable to it rise. It is therefore hard to see exactly what the requirement means or aims at and clarification is required if the policy is to make sense.

### **RO Extension**

We welcome the extension of the life of the RO. The proposed (possibly interim) extension provides incentives for the development of longer-term projects and technologies.

### **Time-Limited Support**

The financial viability of a project is assessed over a period of years – in some cases, twenty years. A twenty-year limitation on support is thus, in theory, unproblematic. This is subject to the proviso that the twenty-year period starts to run at the end of the commissioning period of a plant, even if that plant has been built in stages and is, on final commissioning, generating and earning ROCs.

### **Headroom-Only Mechanism**

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.

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