



ECONOMIC CONSULTING ASSOCIATES

Market Brief

Huffing and puffing about very little: Ending ROC subsidies to onshore wind is not the issue

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This week's news on ending subsidies for mid-sized solar plants follows similar well-publicised post-election announcements by the UK government on the future of onshore wind. Amber Rudd (the responsible Minister) declared the delegation of planning approvals back to local government and then an end to "new subsidies for onshore wind". However, this is but a sideshow – the shift in the Renewable Obligation (RO) these measures signal is disruptive but a short-term issue. The future of renewable power in the UK depends on the future size and distribution of the Levy Control Framework (LCF). And there are worrying signs for onshore wind in particular and the Government's renewables targets more generally.

Out with subsidies to unacceptable technologies

In 2014, as deployment ran ahead of expectations, the UK government brought forward the closure of the existing RO subsidy scheme for large-scale solar PV from 2017 to 2015. While in a large part driven by cost concerns, public opposition also played a key role. In 2013, speaking to *BusinessGreen*, Greg Barker the-then Climate Change Minister warned of "monster solar farms" turning opinion against the technology.

The drivers behind bringing forward to 2016 the close of the access of onshore wind to ROC subsidies follow a similar vein but with public opinion playing an even clearer role. The change saw the door

shut on an estimated 1,000 turbines in the planning process, the write-off of the associated sunk development costs and harmed the UK's credibility as a stable and secure regulatory environment for renewables.

While the public justification given was one of cost, Amber Rudd, stated to Parliament that "we could end up with more onshore wind projects than we can afford") the government's actions to support offshore wind make it unlikely this is really the driver. Instead, it seems, renewables support policy is being driven by public acceptance rather than economics.

In with the new subsidies

The immediate impact of the policy change is still relatively marginal. The RO system was always due for full replacement by the new Contract-for-Difference (CfD) mechanism from 2017. CfDs, which hedge the market price to a pre-defined "strike price" (set via auction), provide an effective top-up - or subsidy - to the market price.

The early closure of solar and onshore wind ROs is therefore a short-term play over this two-year period. More concerning is the signal it sends as to the direction of future policy. And these are emphasised under the replacement subsidy framework.

The LCF sets an aggregate cap to all support for low carbon generation that is classified as “levies”, whether this is used to fund the RO or CfDs. The level of support is currently declared out to 2020-21, when it reaches £7.6 billion. Much of this available fund has already been allocated with limited and uncertain scope for additional auctions pre-2020.

The onshore/offshore divide

The first CfD auction separated renewable technologies into “established” and “non-established” pots. In theory this provides support to immature technologies, helping bring their costs down through experience by protecting them from competition with more mature alternatives. Offshore wind was categorised as “non-established” while onshore wind and solar PV were “established”. Around 80% of the available LCF funds were earmarked to the “non-established” pot.

This split makes little sense from an economic standpoint. While the pricing for offshore was impressively low, the technology remains significantly more expensive than its onshore cousin as well as solar. The net result is inevitably therefore less renewable bang for the buck. However, it fits well with the apparent government policy priority of putting renewables where they can’t be seen.

And what about nukes?

Where is nuclear in all this? Although nuclear power plants are eligible for CfDs, the costs of these are not included in the LCF. While the costs of nuclear are much debated, even the much-criticised 35-year

CfD deal agreed for Hinkley C, at a price of £92.50 per MWh, is cheaper than offshore wind. However, a government that cannot support onshore wind because of concerns over local opposition seems very unlikely to pursue a major nuclear programme. Hinkley C may, therefore, well be the start and end of the UK’s nuclear “renaissance”.

So what now?

The government’s declared intention is to progress to technology-neutral auctions in the 2020s and then, beyond that, to a true subsidy-free landscape with only carbon pricing as a support.

In actuality, the government appears to have decided to limit future support to low carbon generation that faces minimal local opposition – ie, offshore wind. But this then comes up against the other imposed constraint – the financial limits under the LCF. Taken together, the implication is that the UK is about to pour billions into supporting one of the most costly means of delivering renewables with inevitable impacts on the resulting capacity build. The results look likely to be the worst of all worlds – failing to meet renewables targets in a very expensive way.

While the media has focused on changes to the RO scheme, this is but a side show regarding the long-term future of low carbon development in the UK. The objective of decarbonisation seems at odds with the current direction of travel. The real questions lie in the future size and distribution of the Levy Control Framework and the government’s willingness to prioritise decarbonisation over local opposition.



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Economic Consulting Associates

41 Lonsdale Road
London, NW6 6RA
Tel: +44 (0) 20 7604 4546

www.eca-uk.com

