



ENERGY INCENTIVES AND OPPORTUNITIES TO INVEST IN RENEWABLE TECHNOLOGIES

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Opportunities to invest in the renewable energy sector in the United Kingdom have shifted quite dramatically since March 2015. Severe cuts to the Feed in Tariffs ("**FITs**") scheme and the closing of the Renewable Obligations ("**ROs**") scheme have all shaken investor confidence in the medium to long-term prospects of the industry, and caused a flurry of activity to complete projects before various deadlines close and subsidies drop. In its Budget 2016 the government has, however, increased its support for offshore wind and "other less established technologies".

The government will provide additional financial support to these developing technologies by auctioning Contracts for Difference ("**CFDs**") of up to £730 million in this Parliament for up to 4GW, with a first auction of £290 million. Support for offshore wind will be capped initially at £105/MWh (in 2011-12 prices), falling to £85/MWh for projects commissioning by 2026.

CFD contracts are entered into between electricity generators and the Low Carbon Contracts Company. A generator party to a CFD is paid the difference between the 'strike price' – a price for electricity reflecting the cost of investing in a particular low carbon technology – and the 'reference price' – a measure of the average market price for electricity in the UK market. The generator receives a payment when electricity is sold for less than stated in the contract, but will have to make a repayment when electricity is sold for more than the CFD price. It gives greater certainty and stability of revenues to electricity generators by reducing their exposure to volatile wholesale prices.

We are currently in a period of transition from ROs to CFDs. We set out in detail below the current arrangements for eligibility to the RO and FIT schemes. Further guidance is expected on the eligibility requirements for the next CFD auction. During this transition period operators of eligible generating stations may have a choice as to which scheme to apply for.

As technologies become better established and with the costs of renewables continually falling, new ventures may still be profitable despite the cuts to subsidies, even if not at the levels previously obtainable. Opportunities may also exist to invest in operational facilities which have already received RO or FITs accreditation. Although the landscape for investing in renewables looks quite different now to how it did even as recently as a year ago, some potential still exists for investment, growth and profit in the renewables sector.



RENEWABLE OBLIGATION CERTIFICATES

ROCs certify that a generator has produced electricity from renewable sources. If the generator is accredited by OFGEM then they will receive ROCS. ROCs are tradable commodities.

Sector	Eligible Projects	Closure	Grace period
Solar	Solar PV generating capacity greater than 5MW and additional capacity added to existing accredited installations.	CLOSED 31 March 2015 Any additional capacity from 1 April 2016 must be treated as "excluded capacity".	N/A—closed scheme.
Solar	Solar PV of 5 MW and below, and to additional capacity added to existing accredited stations.	CLOSED except for grace periods. New or additional capacity is eligible only if the generator applies for and meets one of the available grace periods from 1 April 2016 onwards. Additional capacity added to an existing station is not eligible if it means the new TIC (Total Installed Capacity) is >5MW.	Operators can gain accreditation until 31 March 2017 where: <ul style="list-style-type: none"> ▪ New solar PV installations - significant financial contribution or preliminary accreditation made on or before 22 July 2015 or there has been grid connection delays. ▪ Additional capacity added where total installed capacity does not exceed 5MW: <ul style="list-style-type: none"> • significant final contribution in relation to additional capacity and original installation accredited before 22 July 2015; or • original installation accredited before 1 April 2016 and additional capacity would have been commissioned before 1 April 2016 but for grid delay.
Wind	New onshore wind generation.	CLOSED except for grace periods. New or additional capacity is eligible only if the generator applies for and meets one of the five available grace periods from 13 May 2016 onwards.	Grace periods will apply to projects as of 18 June 2015 which already had relevant planning consents, a grid connection offer and acceptance and access to land rights. Projects that qualify for early closure grace periods will be accredited up to 31 March 2017.
Biomass	Generating stations that use biomass to produce electricity.	31 March 2017 (for new capacity)	The government have introduced a cap of 400MW on the total new build biomass generating capacity that will receive 1.4 ROCs/MWh after 31 March 2016. Once the 400MW cap is triggered, it is anticipated that any further new build biomass will not receive RO support. Projects applying to the 400MW cap must be aiming to commission under RO by 31 March 2017. Projects that experience delays after obtaining an unconditional place within the cap may be eligible to apply for a grace period until 30 September 2018.

FEED IN TARIFFS SCHEME

Successful applicants receive a tariff for each unit of electricity generated. The FITs scheme was paused from 15 January 2016 until 7 February 2016. During the pause Ofgem did not accredit any applications and any applications received were queued for entry into deployment caps. A new scheme opened on 8 February 2016 and the key changes are set out below.

Type	Eligible Projects	Key Changes
ROO-FIT	<p>Solar PV and Wind with a Declared Net Capacity ("DNC") greater than 50kW.</p> <p>Anaerobic digestion and hydro with a DNC up to and including 5MW.</p>	<ul style="list-style-type: none"> Applications for full accreditation on or after 15 January 2016 will be subject to deployment caps (also applies to MSC-FIT). Deployment caps set a limit on the amount of capacity that can be eligible for a particular FIT tariff during a tariff period. Once the cap is reached no further installations are eligible to receive the tariff rate applicable in that tariff period. Each deployment cap is for three months except the first cap which started on 8 February 2016 and ended 31 March 2016. There are different caps for different technologies. Applicants are admitted entry into each cap in order of the date and time the application was submitted to Ofgem. If an installation exceeds the deployment cap for that tariff period, that installation and all applications after the cap was reached will be placed in a queue for the next cap. A default degression will be applied to the available tariff rate in each new tariff period. In addition, if a deployment cap is reached there will be a contingent degression in the next tariff period on top of the planned default degression. All new applications for full accreditation must relate to an installation that has commissioned on or before the date the application is submitted to Ofgem. Solar PV installations must have an EPC issued on or before the commissioning date in order to gain the higher tariff rate (applies to MSC-FIT). Applications for preliminary accreditation will count towards caps in the same way that applications for full accreditation do. Extensions to applications commissioned on or after 15 January 2016 are not eligible for FIT payments (applies to MSC-FIT).
MSC-FIT	<p>Solar PV and Wind with a DNC of 50kW or less.</p> <p>Micro CHP with a DNC up to and including 2kW.</p>	<ul style="list-style-type: none"> Applications are admitted entry into each cap in order of the issue date and time on the MCS certificate. Installations which have MCS issue dates and commissioning dates before 15 January 2016, but apply for their FIT licence on or after this date will not apply to the deployment caps. These installations must have applied for their licence before 1 April 2016 to receive FIT payments.

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