DECC NEWS ITEM FID ENABLING PROGRAMME

The statement below, dated 23 June 2013, appears at the link below.

https://www.gov.uk/government/publications/increasing-certainty-for-investors-in-renewable-electricity-final-investment-decision-enabling-for-renewables

"The Government's Final Investment Decision Enabling programme is designed to enable developers of low carbon electricity projects to take final investment decisions ahead of the Contract for Difference regime being put in place as part of Electricity Market Reform.

DECC launched Final Investment Decision (FID) Enabling for Renewables in March 2013. Applications for participation in FID Enabling for Renewables closed on 1 July 2013. DECC published details of the process, evaluation criteria and indicative timetable for Investment Contract allocation on 27 June 2013.

On 4 December 2013, DECC published a summary of the applications that applied and qualified through Phase 2 of the programme, including details of the FID Enabling for Renewables affordability envelope and an indicative timetable for the contract award process. All applicants that met the Phase 2 minimum threshold evaluation criteria were sent draft investment contracts on 19 December 2013, (based on the draft CfD standard terms and conditions, published in FiT Contract for Difference: Standard Terms and Conditions) and were invited to submit binding applications, confirming that they wish to apply for an investment contract, by March 2014.

On 23 April 2014 DECC announced that eight renewable electricity projects have been offered investment contracts, allocating the first CfDs that are being introduced through the Electricity Market Reform programme. The projects include offshore wind farms, coal to biomass conversions and a dedicated biomass plant with combined heat and power. By 2020, the projects will provide up to £12 billion of private sector investment, supporting 8,500 jobs, and they could add a further 4.5GW of low-carbon electricity to Britain's energy mix (or around 4% of capacity), generating enough clean electricity to power over three million homes. We expect the investment contracts for the successful projects to be signed and laid in Parliament in May 2014, which is when they will take legal effect."

If the link above is followed there are three DECC Update documents which explain the process which Project One has been through to secure its Contracts for Difference, also known as Investment Contracts. These have not been included with this submission.

In June 2014 the Investment Contracts awarded under the FID Enabling for Renewables process were laid before Parliament and published. The full text of the Investment Contracts for all 8 successful projects (5 of which are for offshore wind projects) are also available at this link. These have not been included with this submission.

There are 3 Investment Contracts for Project One, one for each phase. They are each dated 9 May 2014 and with the Secretary of State for Energy and Climate Change. At the start of the Investment Contract for Phase 1 of Project One, the following statement is reproduced (equivalent statements precede the other two published contracts):

"The Secretary of State for Energy and Climate Change (Mr Edward Davey):
In accordance with paragraph 1 of Schedule 2 to the Energy Act 2013, I make this statement to accompany the investment contract between Heron Wind Limited and the Secretary of State for Energy and Climate Change, which relates to Phase 1 of the Hornsea Offshore Wind Farm Project ("the Project") and which I am laying before Parliament today.

In awarding this investment contract, I consider that payments to be made under the contract which are based on the difference between the strike price and the reference price specified in the contract, in relation to electricity generation) will encourage low carbon electricity generation. The payments remove uncertainty in the revenue stream during the contract term for Heron Wind Limited enabling the Project to be developed to deliver an expected 1200MW of new renewable offshore wind electricity capacity. The Project is a phased project; this investment contract relates to Phase 1 delivering an expected 400MW of the total capacity. Separate investment contracts relate to Phase 2 and Phase 3 of the Project.

(ii) Having considered the information provided to me by the Board of Heron Wind Limited (and warranted by them as accurate), including their statement that without this investment contract the Project would be delayed by at least 24 months, I consider that without this contract there is a significant risk that the electricity generation to which the contract relates will be significantly delayed.

(iii) In entering into this investment contract, I have had due regard to the matters set out in section 5(2) of the Energy Act 2013, including:

(a) the duties under sections 1 and 4(1)(b) of the Climate Change Act 2008 (carbon targets and budgets); and

(b) the duty under section 1(1) of the Energy Act 2013 (decarbonisation target range);

The power sector is the single largest source of UK carbon emissions. By 2050, carbon emissions from the power sector need to be close to zero to ensure that the net UK carbon account for the year 2050 is at least 80% lower than the 1990 baseline and enable the statutory target under the Climate Change Act 2008 to be met.

Government modelling suggests that around 60–80GW of new electricity capacity will need to be built by 2030, and of this around 40–70GW will need to come from low carbon technologies, of which renewable electricity could provide 35–50GW. Investment in offshore wind generation, such as that which will be provided by the Project, is an important step to achieving these decarbonisation requirements. The duty under section 1(1) of the Energy Act 2013 relates to a decarbonisation target range. A decarbonisation target range cannot be set in relation to any year before 2030, and the power to set that range cannot yet be exercised.

(c) ensuring the security of supply to consumers of electricity;

With the potential electrification of heating, transport and industrial processes, average electricity demand may rise by between 30% and 60% by 2050. By 2020, the UK could be importing nearly 55% or more of its gas. The additional 400MW of offshore wind capacity, expected to start generating in 2019, to which this investment contract relates will reduce our dependence on these imports and improve our security of supply.

(d) the likely cost to consumers of electricity;

This contract will use a Feed in Tariff Contract for Difference mechanism. This minimises costs to consumers as Heron Wind Limited will only receive a 'topup' (or difference) payment between the strike price and the reference price specified in the contract, in relation to the electricity generation to which this contract relates. As the Project is expected to start generating in 2019 Heron Wind Limited will receive an initial strike price of £140/MWh. The reference price will be deducted from this. If the reference price of electricity is above the strike price, the generator must make difference payments.

(e) the target set out in Article 3(1) of, and Annex 1 to, the Renewables Directive (use of energy from renewable sources) – Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources. We expect meeting the mandatory 2020 EU renewables target to include over 30% renewable electricity generation. Modelling by the System Operator (National Grid) suggests that this renewables share is achievable and the Project to which this contract relates is expected to make a positive contribution towards reaching that share. The Project will contribute an estimated 1200MW to the 8-15GW deployment range of projected total capacity for offshore wind set out in the Electricity Market Reform Delivery Plan, with Phase 1 contributing 400MW.