

How to Get It Really Wrong

**THE CARBON
CATALYSTS
GROUP**

**February
2010**

In January DECC announced that it was changing the Renewables Obligation rules for biomass plants and they would now no longer be grandfathered.

Putting that at its commercial-bottom-line clearest, what government told us that day was that the biomass plant you build now might or might not get 1.5 ROCs per MWh after 2013.

The news pulled the rug from under projects nearing the end of their development period that were looking for finance and would start to generate after April 2013. And it pulled the rug utterly obviously, predictably and as certainly as day follows night. Governments do not make changes of this kind in this kind of way. Never. Ever. They *know* that doing so freezes investment and brings development to a halt.

So everyone asked, shocked and appalled, for an explanation in meetings they demanded with DECC. A number of things emerged from those meetings.

First, and most worrying for the investment community, was the discovery that it was news to DECC that changing investment rules and removing investment props undermines the market. Extraordinary though it may seem, the DECC officials who have been in place for some time and its panoply of energy politicians seem simply not to have known the basic rules of markets, investments and government support, despite that being their main job in life.

A second thing that emerged from the meetings was that DECC had changed the rules because it couldn't manage to work out a simple *a priori* means of distinguishing between one kind of biomass and another. It couldn't fathom a scheme to ensure that the cheaper sorts of biomass plants got less support than the more expensive kinds of biomass plants. Again, it is worrying that officials who have been in post for so long can so signally fail to understand how to do these things. They might at least have looked at Germany, which managed to do precisely that in

its Renewable Energy Sources Act some considerable time ago.

With a cock-up on that scale one expects immediate action. What did we get? Nearly two weeks after developers and funders explained to DECC the momentous consequences of its ill-considered decision, Lord Hunt announced that he would make an announcement sometime later, (though no later than eight weeks later). Why the delay?

The answer is the third thing to emerge from the January meetings: any clearing up of the mess is not intended to happen soon. The 2010 Renewables Order – the Order by which this change is to be made – has already gone to the Joint Committee on Statutory Instruments. The DECC officials want to leave the matter to be dealt with until they get to dealing with the next Renewables Order in April 2011.

Just pause for a moment to consider the costs of such delay. Projects that might have come on stream after 2013 are stalled and will remain stalled until legislation (not Lord Hunt's possible future warm words) deals with the issue in April 2011.

In that time projects will fold for different reasons—options that lapse, costs that mount beyond a fundable bar, contracts that don't get taken up or which are renewed only at significantly higher cost. That delay will impact our reaching our renewables targets. It will also affect total overall costs since we know that new schemes are more expensive than older schemes.

The simple solution is to put before Parliament an order amending the erroneous order *now*. Anything less suggests that someone's face saving is more important than UK energy policy. So it may be to whoever is dragging their feet—but good order in government requires that corporate decisions rather than individual mistakes take precedence. Isn't it reasonable to assume good order will prevail?