

Note: IPPA Commercial Arrangements Meeting



16/01/2018

In attendance were

*Hannah Smith, Scottish Renewables
Joe Mitchell, Scottish Renewables
Claire Mack, Scottish Renewables
Clare Forster, Shepherd and Wedderburn LLP
Clare Lacey, QMPF*

*Sarah-Jane McArthur, Brodies LLP
Paul Minto, Addleshaw Goddard LLP
Rob Luke, Smartest Energy
Christoph Harwood, Sustainable Marine Energy*

SUMMARY

IPPA Proposal

In the absence of a clear route to market, the UK risks losing its status as a world leader in marine energy and the chance to develop a domestic industry.

The Innovation PPA (IPPA) is a proposal to support new renewable energy technologies reach a point of commercialisation. In an IPPA, the project developer arranges a PPA with corporate off taker or energy company, who then receives a 100% tax credit for excess of costs over the market rate.

The aim would be to get the IPPA into the 2018 budget, or at least a Government consultation to keep investors interested

Offshore Renewable Energy Catapult Review

The Offshore Renewable Energy Catapult (OREC) is producing a report that will demonstrate marine energy's ability to develop clear cost reduction pathways. This report is expected in Spring 2018 and will help inform discussions around the IPPA model.

Bankability of IPPA

This group agreed that the IPPA is a useful contribution to the discussion on commercialising the marine sector, and is a proposal that merits consideration. The group had a detailed discussion on the bankability and commercial appetite for the proposal.

Key points raised were:

- **Market Appetite:** Corporate Social Responsibility agendas were discussed, but the group still hesitated about who the likely offtakers would be (particularly when buying in at a high price point and considering cash flow implications). There was concern that Corporates are struggling to invest in the conventional PPA market for more established, and cheaper, renewable energy technologies, and that Local Authorities would struggle to resource this. Discussion brought out the possibility that Energy Companies may have more appetite.
- **Investable Contract Length:** Much discussion focussed on whether commercial appetite might be greater over shorter contract lengths, and how to strike the right balance between an investable contract length (i.e. 5 rather than 15?) and the subsequent impact on the strike price.
- **Taxation as a Mechanism:** There was hesitation over the associated risks with using a tax break as a mechanism for support. As fiscal policy is subject to regular change, the IPPA mechanism would require significant safeguards to secure tax rebates/credits due at the end of the contract period from political and fiscal change. The group raised procedural issues regarding whether the offtaker would require a UK tax liability. Shorter contract lengths were deemed less risky.
- **Project size limits:** The group felt that further consideration was needed on the MW size limit for agreements per project, and what the cumulative limit would likely be. There was discussion around what scale of project would attract debt financing and reduce capital costs.

- **Keeping costs off consumer bills;** It was agreed that this was welcome, and unsurprising that there was political support for such a move. The group did question whether, if the offtaker was a large supplier, and they assume financial risk, that cost would ultimately be passed to consumers.
- **Process:** It was felt that the process may be better run as an auction rather than as a First-Come-First-Served process, and that a third party may be required to administer. This would both give generators some temporal certainty around 'PPA rounds' but would also prevent 'land grabbing'. If the third party administrator was government/government regulated – it may then also allow government control over the project pipeline. It was unclear as to what the impact would therefore be on costs.

ACTIONS

Topic	Action	Lead
IPPA	Investigate bankability concerns further& feedback to other Trade Associations considering the IPPA	SR
	Outcomes of this meeting to be discussed with the SR Marine Member Network	SR