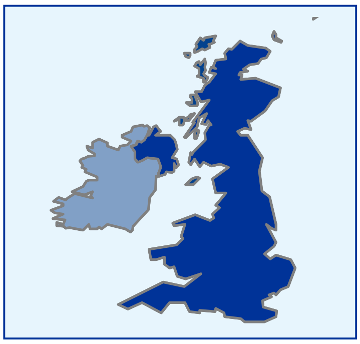
THE VALUE OF RENEWABLE ELECTRICITY IN THE UK

An *ILEX Energy Report* September 2009 Edition

ILEX ENERGY REPORT



Pöyry Energy Consulting releases its latest edition of the definitive source of long-term price projections for ROCs and electricity prices

Since 2002, the Renewables Obligation (RO) has been the main support mechanism used by the UK Government to support renewable electricity generation.

On 1 April 2009 the UK Government introduced legislation to band the RO, offering different levels of support to different technologies.

On 5 December 2008 the Renewable Energy Directive was published in the Official Journal for the European Union. This sets the UK a target to meet 15% of its energy from renewable sources by 2020.

The UK Government published its Renewable Energy Strategy for meeting that target in July 2009. This includes an expectation that around 30% of electricity will come from renewable sources by 2020. This represents a step change in ambition and will inevitably mean changes to the RO.

In light of the introduction of banding and increased ambition, Pöyry Energy Consulting has released a new edition of its ILEX Energy Report **The Value of Renewable Electricity in the UK**.

Designed to provide a complete guide to the UK's renewables support mechanism, the Renewables Obligation, and the other income streams available to renewable projects in the UK, *The Value of Renewable Electricity in the UK* report is the essential risk management tool for project developers, financiers and utilities.

This edition has been fully updated, providing Pöyry's latest projections for each element of value available to the UK's renewable generators:

- Renewable Obligation Certificates (ROCs);
- GB wholesale electricity prices, including the impact of the cost of carbon;
- Imbalance costs;
- Climate Change Levy Exemption Certificates (LECs);
- Embedded benefits.

The report describes the drivers for each element of value in turn and develops scenarios using a set of internally consistent price tracks to produce projections for the annual value of each element.

These elements are combined to compile an aggregate **total market value for renewable generation**.

Our total value projections take account of our most recent views of renewable project developments across the UK, the wholesale electricity market, and the current and future costs of renewable generation technologies.

The banding factors assigned to each technology are based on policy announcements and our own analysis. For the first phase of the banded Obligation, we use the banding levels set out in the legislation. In later years, we use banding factors derived from our model of the banded RO.

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Pöyry Energy Consulting

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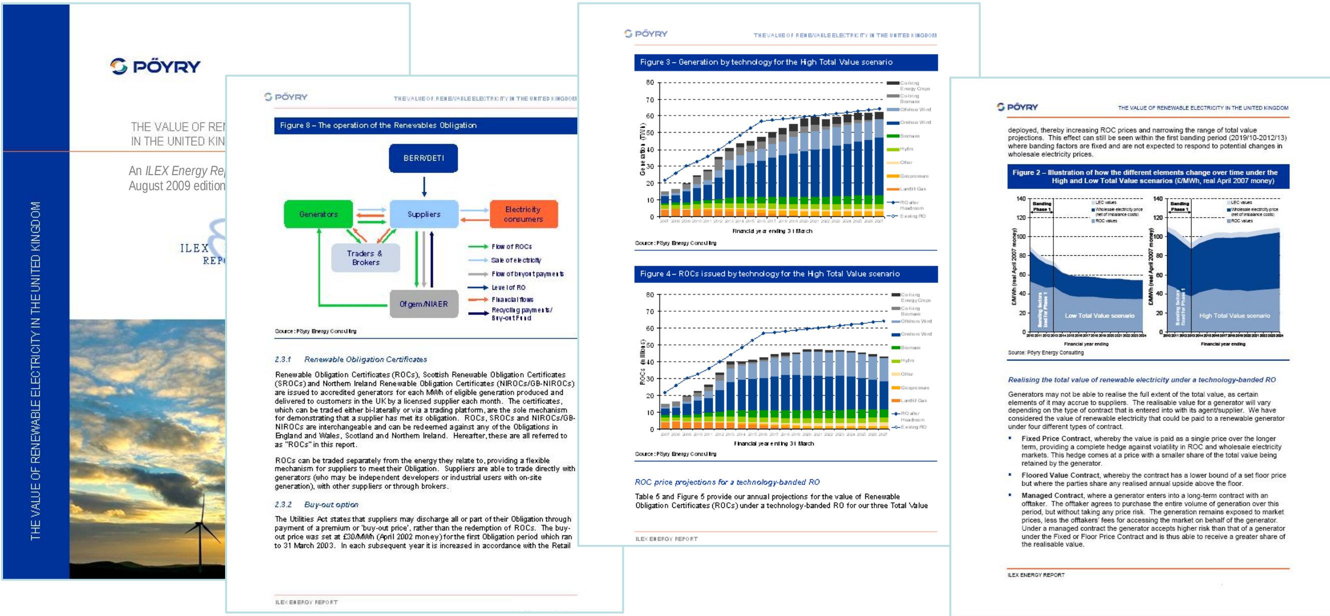

We provide scenario-based projections for the:

- banding factors likely to be attributed to each renewable technology beyond 2013 by scenario, given technology costs and electricity prices;
- volume of eligible generation and ROCs from each technology in each year; and
- total value of renewable electricity in each year.

This edition has been comprehensively updated to reflect changes in the fuel and power markets, project developments and transmission access.

This edition provides our initial quantification of the proposed changes to the Renewables Obligation set out in the July 2009 Renewable Energy Strategy:

- extension of RO to 2037;
- 20 years support for projects;
- banding-up of offshore wind;
- increased headroom; and
- removal of 20% cap on the RO.

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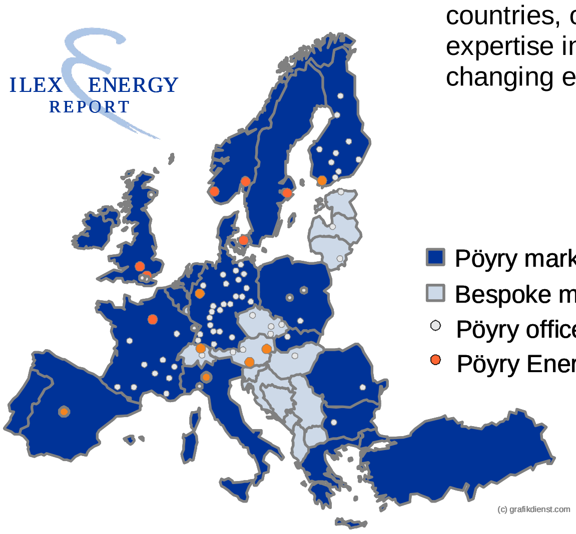

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ILEX Energy Reports

Pöyry Energy Consulting produces ILEX Energy Reports for electricity, gas, carbon and green certificate markets across Europe.

Pöyry Energy Consulting is Europe's leading energy consultancy, providing strategic, commercial, regulatory and policy advice to the energy market.

Our team of over 250 European energy specialists, located across 15 offices and 12 countries, offers unparalleled expertise in the rapidly changing energy sector.

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