



The Energy Bill: EMR

The REA has over 1000 corporate members and is the only UK trade body representing the full range of renewable technologies across all applications. Our aim is to bring renewables into the mainstream. We are committed to working with industry, Government and stakeholders to secure the most effective legislative and regulatory framework for renewable energy production. The UK must not lose the opportunity to be a global leader in the renewables sector. A renewed focus is needed urgently to realise the tremendous environmental, green economy, and energy security benefits a thriving domestic renewables industry will bring. Westminster policymakers need to wake up to the huge benefits of building a sustainable UK industry. The UK lags far behind both EU-average and world-average performance on renewables.

Investment in renewables today should be cheaper and certainly less risky than over-reliance on gas and delaying decarbonising the sector until later years. **Government was therefore right to seek to transform the electricity sector to encourage investment in low carbon technologies. Our concern is that the EMR (Electricity Market Reform) proposals as they stand do not yet work for renewable power.** We are keen to work with Government to ensure they do. It is essential that the renewable power sector has forward visibility as the current uncertainty is hampering investment.

10 Key Asks Summary:

1. **A clear objective and strategy**
2. **Powers and a commitment now to extend the RO to 2020**
3. **EMR must keep to the implementation timetable**
4. **A clear route to market for electricity sales**
5. **There must be a credible government backed counter party**
6. **An earlier commitment point for CfD contracts**
7. **Contracts must be awarded in a fair and transparent manner**
8. **A higher maximum size threshold for the fixed Feed-in Tariff**
9. **CfD eligibility for larger onsite generation**
10. **All renewable energy forms should be eligible for CfDs**

The Energy Bill is expected to be brought forward in the autumn, alongside the Government's response to pre-legislative scrutiny report of the ECC Committee. The new Gas Strategy and the revised Renewables Roadmap are also expected. The Chancellor will also be revising his infrastructure plan in the Autumn Statement. It is important all these documents support the achievement of the 2020 renewable energy targets

Certainty and consistency need to be at the core of government policy on renewables. Successful infrastructure investment requires a long-term perspective supported by a cross-party consensus. The Olympics illustrates the effectiveness of such an approach.

1. A clear objective and strategy

Importance: HIGH

There should be clear objectives and outcomes for EMR, which should translate into the specifics of the EMR programme and the delivery plan. As proposed by the Energy and Climate Change (ECC) Select Committee there should be a clear objective in the Bill for the EMR to prioritise the decarbonisation of the electricity system, with specific carbon objectives. The figure recommended by the Committee on Climate Change is around 50 gCO₂ / kWh by 2030. This will give investors the clear direction of travel they need.

The Levy Control Framework, which has been imposed by the Chancellor to control spending, must be set at a level that makes it compatible with meeting legally-binding renewable energy targets. It is important to achieve the outcomes cost effectively, but it is counterproductive to set targets that are not backed up by credible resources.

Government must provide a strategy for renewables post 2020. This is needed to maintain momentum and ensure delivery of the 2020 target. Having invested in the creation of a new sector it would be a mistake not to anticipate the sector's potential in the 2020's and 2030's. Renewables are highly likely to be the most cost-effective low carbon energy source by that time and their global market will be massive.

REA Confidence level in achieving a resolution: MEDIUM – up to Government

2. Powers in Energy Bill to extend the RO to 2020 in order to maintain confidence and investment in the industry

Importance: HIGH

The implementation of the EMR will be complex and timescales are short given the RO is set to close in 2017. Larger projects have 3 years+ build time and require substantial investment ahead of financial close. For the industry and investors EMR comes on top of a number of other uncertainties (such as the recent Banding Review) and REA members report EMR is already negatively impacting both investment in the sector and internal company investment – essential for jobs expansion. Lack of confidence will *not* be addressed by publishing the Bill or by clarifying the many issues in this briefing. Company and investor confidence can *only* be established in practice. Delays or teething problems will exacerbate uncertainty, place a large amount of development in doubt and jeopardise meeting the renewables target.

Extending the period that the RO will run in parallel with the new arrangements is therefore **essential** to give confidence for investment and employment in both technology and project development. Without a good period of overlap REA believes we will end up with the longest investment hiatus yet and a permanent loss of UK jobs in the sector.

The REA wants a commitment **now** that the RO will be extended out to 2020. Powers must be taken under the Energy Bill, even if Government is not yet convinced of the need for this.

REA Confidence level in achieving a resolution: MEDIUM – up to Government

3. EMR must keep to the implementation timetable

Importance: HIGH

Delay will seriously damage the attractiveness of the UK as a place to invest. Project developers are already unable to properly plan for the next 5 years.

Procrastination on RO bands has left industry with little confidence that government can reach cross-departmental consensus in a timely manner, even when there are huge sums of investment at risk. Levels of support must be set by evidence-based research; it is totally unacceptable for this process to be hijacked by politics. The REA also believes support should be underpinned by clear principles. The issues that have clouded the RO Banding Review must not be repeated under CfDs. The Contracts for Difference (CfD) strike prices *must* be published between April 2013 and June 2013. Members are already unable to look 5 years ahead.

Government must keep to the published implementation timetable and departments must be joined-up to support meeting legally binding targets.

REA Confidence level in achieving a resolution: MEDIUM – delays often experienced with respect to key policy announcements

4. A clear route to market for electricity sales

Importance: HIGH

To realise the value of the CfD, a generator must achieve the 'reference' price for its electricity sales in the market. Many independent generators rely on Power Purchase Agreements (PPAs) with suppliers or local consumers to sell their power. There is evidence the terms of these contracts is deteriorating significantly. The UK has a highly illiquid wholesale market. Ofgem will be introducing reforms to address this. For example, Ofgem are proposing to look into mandatory auctions where integrated suppliers would need to trade 25% of their power in the wholesale market. It is unlikely reforms will be implemented and have the desired impact by the time the first CfDs are signed.

The other proposals put forward by DECC (namely voluntary approaches) do not properly address the problem. A potential solution is for the Non Fossil Purchasing Agency to auction the power from contracts with CfDs, as it currently does with NFFO contracts. The NFPA auctions are well established and familiar with suppliers and generators. This could be a promising solution, with some helpful benefits to the wider market.

REA Confidence level in achieving a resolution: MEDIUM – the NFPA solution appears easier to implement as well as being more effective than alternatives

5. There must be a credible government backed counterparty

Importance: HIGH

Generators need to know who their CfD contract will be with. If there is a dispute, for example, who should the generators raise this with? A single counterparty underwritten by the Government is the best way forward. This results in lower costs due to decreased risk. There are questions whether the proposed multi-party counterparty model is legally enforceable. If there is a state aid issue with this model for nuclear this should be separated out, to allow CfDs for renewable to progress.

REA Confidence level in achieving a resolution: HIGH – it is expected this will be implemented

6. An earlier commitment point

Importance: HIGH

There is great uncertainty how the contracts will be allocated. Projects are unclear on the basis on which they may or may not be awarded a CfD. Significant investments must be made in the project planning stage, and this will be too risky if it is only at the point of financial close that a project finds out if it is successful in getting a CfD. **Project development will cease unless CfDs are awarded at an earlier stage** in the process of project development. The allocation of CfDs must be moved to an earlier point, such when planning permission and grid connection are secured.

REA Confidence level in achieving a resolution: HIGH – DECC is working closely with industry on the detail of this proposal

7. Contracts must be awarded in a fair & transparent manner

Importance: HIGH

One of the major challenges of EMR is how decisions will be made over which projects should be allocated CfDs if demand exceeds supply. National Grid, as the 'delivery body' will be allocating the contracts, and at present it has no guidance on what basis it should make decisions. Furthermore it is not clear whether Government is seeking to implement an overall lowest cost solution, specific amounts of capacity in particular technologies or whether deployment levels will be left to the market to determine, given the strike prices offered.

The REA recommends contracts should be awarded on a first-come-first-served basis, not rationed into six-monthly allocation rounds. The numerous penalties proposed for the new contracts should be removed; developers already have powerful incentives to deploy on time - any delays are usually beyond their control. Any penalty would simply add to deployment risk/costs. This approach will favour projects able to deploy more rapidly, but in the absence of any clear guidance from Government seems the fairest approach.

REA Confidence level in achieving a resolution: MEDIUM – this solution is easier to administer

8. A higher maximum size threshold for the fixed FIT

Importance: HIGH

The CfD mechanism is designed for larger generators. It is complex and will not be easily accessible for onsite generators. Many onsite generators want onsite renewables for self-supply. We believe CfDs will deter investment, even more than the RO did, for individuals, farmers, commercial companies, public sector buildings, communities etc. Evidence from Germany shows that the *great majority* of investment in renewable power is coming from these types of investors. In addition, without the RO as an incentive, suppliers will not be motivated to enter into PPAs with small independent generations.

Increasing the FIT to 10MW is not a perfect solution, it is merely replacing one arbitrary size threshold with another. There are many excellent industrial sites of a very large size that would provide great opportunities for onsite renewable power generation. There are arguments that even 10MW is not sufficient, therefore see 9 below.

REA Confidence level in achieving a resolution: MEDIUM – the ECC Select Committee recommended an increase to 10MW. Administratively it is easy to implement

9. Eligibility for CfDs for larger scale onsite generation

Importance: MEDIUM

Whatever the upper size threshold for fixed feed in tariffs, some valuable potential projects will always exceed it. Larger industrial scale sites wanting to meet their own power needs should not be disqualified from a premium payment for installing renewables. There needs to be a means by which CfDs can work for such generators.

REA Confidence level in achieving a resolution: MEDIUM – Government's intention is that onsite generation should be eligible for CfDs, although it is not yet clear how this can be achieved

10. All renewable energy forms should be eligible for CfDs

Importance: MEDIUM

It is proposed that CfDs are available for those technologies eligible for the Renewables Obligation. This is far from ideal, as there are many complexities and unnecessary limitations in the RO. The opportunity should be taken to have more straightforward, pragmatic eligibility criteria. Some renewable generation is not even eligible for the RO (e.g. tidal barrages over 1GW capacity) or power-only electricity generation from the combustion of waste. There was a band in the Renewables Obligation for unforeseen renewable energy sources, which will not be carried forward into the EMR. This could stifle innovation.

The new CfDs are meant to support all low carbon technologies, and therefore all renewable technologies should be eligible for a contract at a feasible strike price. **Whilst there may be relatively little renewable energy available from exempt or novel renewables, the principle is important. Renewables also expect to be eligible for any subsidy given to new nuclear under the 'no subsidy' definition and as a point of principle.**

REA Confidence level resolution possible: high – it would be indefensible to give nuclear further public subsidy while excluding some renewable technologies from any level of support

Clarifying the costs & benefits of renewables investment:

Like many OECD countries the UK needs to replace large amounts of its ageing generation and network infrastructure. Investment must be incurred to maintain power supplies. The 2020 renewable energy targets anticipates 30% renewable electricity by 2020 and therefore allows timely and cost-effective updating of our electricity system. The estimated cost of meeting our *entire* renewable energy target (heat, power and transport) was £60 billion to 2030 under DECC's 'Central scenario' fossil fuel price projections. Given dramatic rises in conventional energy prices in the last two years these estimates are obsolete. Prices are now consistent with DECC's 'High scenario' for fossil prices. According to the Impact Assessment of the UK's Renewable Energy Strategy this reduces the additional cost of meeting our renewable energy target to £16 billion to 2030, far less than some of the figures bandied about in public debate. Renewable power added £20 to household energy bills in 2011 according to Ofgem. Average dual fuel energy bills have risen by over £200 in the past two years. Analysis by Ofgem & the Committee on Climate Change shows these bill increases were overwhelmingly due to fossil fuel price rises.

While the costs of renewable energy are frequently over-stated the subsidies received by fossil fuels are overlooked. The IEA estimates globally fossil fuels receive 6 times the subsidy of renewable energy and the UK has recently announced further major tax breaks for the oil and gas industries. Furthermore long-term analyses (including DECC's own 'Pathways Calculator') show a renewable energy pathway is not more expensive than business as usual.

Finally the many benefits of renewable energy investment are not systematically quantified in the UK. The REA and Innovas have quantified jobs and turnover across the renewable energy sector in our report Made in Britain. However, the UK needs a dedicated skills strategy and a stable policy framework to secure up to 400,000 jobs in this sector by 2020. Please sign cross-party EDM 487 'Renewable Energy Made in Britain' to show your support. For further information please contact Leonie Greene lgreene@r-e-a.net