REA Response to BEIS Review of the Capacity Market

Introduction

We fully support the inclusion of wind and solar in the Capacity Market, in addition to hybrid projects featuring energy storage combined with wind and solar. There is currently a lack of a level playing field in the mechanism, it does not consider the need to de-carbonise, and the UK must meet legally binding targets by 2020 for renewable energy which we are currently well behind our overall targets for. Over-achievement in the power sector would help meet the overarching 15% renewable energy target. The Committee on Climate Change has meanwhile stated that we have a 'Policy Gap' in the UK regarding how to meet our next Carbon Budget targets, and this must be addressed.

The need for more renewable electricity

The Government has stated there will be no new public support for renewables until 2025 at the earliest (unless cost reductions can be shown to reduce consumer bills), the Renewables Obligation (RO) has closed to new applications from any technology and the successor CfD scheme is designed to support only larger 'emerging technology' projects, being very complex and administratively burdensome. In addition, CfD support is sporadic, with only two auctions held since 2014, meaning companies are unable to plan investment accordingly, and only available for projects commissioning after 2021. The Renewable Heat Incentive (RHI) meanwhile closes to new projects in 2021 and there is no clarity beyond this date.

In parallel the electrification of transport will cause a large increase in the need for electricity capacity, which must be low-carbon to meet climate targets and air quality objectives. National Grid estimates that around 4GW of new power capacity will be necessary by 2030 to charge the Electric Vehicles on the road by that time.

While subsidy-free projects have been developed, these number only two at present and are very specific to unique local circumstances and conditions, which are in no way replicable at scale across the country at this stage. While isolated deployment of such projects will continue, this can be hugely accelerated by continued support from Government in the interim period, particularly given uncertainties over Brexit and the impact this is having on the sector.

Therefore there will be a continued need for more renewable power generation in the coming years and decades, and this must be delivered in the absence of supportive policy at present.

Value to the UK from renewables

It is very challenging to put a definitive value on the renewables sector to 'UK Plc' in terms of jobs and investment. Numerous reports, including the National Infrastructure

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Commission (NIC) in 2017, estimate the value of a more decarbonised, flexible energy system. The NIC report, provided by Imperial College, estimates an £8 billion per year saving to consumers by 2030 if sufficient flexibility technologies are implemented, and these are best deployed alongside renewables.

The REA and others estimate that around 9,000 jobs were lost in the solar sector alone after the last significant reform of the FiT scheme, in early 2016. According to the latest REA REView publication (REView 2018, here), over 127,000 people were employed in the renewables, EV and energy storage sectors in the UK in 2016/17. Further analysis revealed we could be missing out on a further 11,000 jobs and £19 billion of investment if we do not support the renewables sector.

In addition, there are a number of manufacturing sites for renewables and smart power applications in the UK, for example wind factories in Humberside, BIPV modules in Tyneside, and battery storage production in Luton, Hastings and Tyne and Wear.

Retain a reformed Capacity Market (Questions 1 & 2)

The Capacity Market (CM) is not perfect and is in need of reform. However a reformed Capacity Market should be retained as a way of deploying new renewable and energy storage assets. Any energy storage project for example delivers multiple benefits to the grid and system while supporting industrial strategy goals, and such projects rely on the Capacity Market for a revenue stream. In addition, renewable power technologies (including co-located storage and renewable projects) are vital to decarbonise the UK's energy system and deliver associated air quality and employment benefits, and such projects lack a route to market at present – one that the Capacity Market could help to provide.

Whether the costs of the scheme could be redistributed or reconsidered is debatable, for example the Renewable Heat Incentive is paid for by general taxation rather than via energy bills, and it has never been clear where the CM sits in terms of the previous Levy Control Framework (LCF) and successor renewable support levy.

Implement a level-playing field for all power technologies - Allow all renewables (solar and wind) to compete in the Capacity Market (Questions 5, 10, 18, 23 to 26)

In the interests of a level playing field in the energy market and greater capacity, wind and solar PV projects must be enabled to participate in the Capacity Market since they are the only two technologies currently barred from the scheme. Hybrid energy storage combined with wind and solar projects must also be included in the mechanism. A separate dedicated consultation process should determine the best way to set de-rating factors for all the above projects, learning lessons from the existing scheme. A side-effect of the de-rating factors could be to encourage the co-location of variable renewables with energy storage capacity, which would help deliver security of supply objectives.

We welcome the consultation proposals in this regard as they will enable the introduction of a level playing field and the increased electricity generation capacity necessary as we transition to a future decarbonised, energy system.

The 'double dipping' subsidy concerns previously preventing renewables form accessing the mechanism clearly no longer apply now that support for renewable

power has largely been cut, aside from any Pot 2 CfD auctions. The last few years have seen the closure of the Renewables Obligation, removal of LECs, impending closure of the Feed-in Tariff and negative grid charging changes that have particularly impacted renewables.

While much has been made of so-called 'subsidy free' renewables projects in recent years, these are still some way off deploying on a large scale and we are still only aware of one such operational project in the UK.
In reality, no power technology currently is built without some form of support in the UK, with conventional power plants built with Capacity Market support and not having to bear the full external costs of the fuels they use.

The recent Helm Review also flagged up the possibilities of wider reform of the Capacity Market to include renewables.

Direct participation of overseas capacity (Question 29)

The consultation notes that this will not be consulted on later this year however we do not consider it the best use of UK energy bill payer funds to support externally sited projects, especially when there should be more than enough UK capacity capable of being delivered to support the CM auction capacity requirements. We know that there is considerable capacity in the planning system and awarded grid connections to meet the requirements, provided it has a route to market – for example through the Capacity Market.

The Emissions Performance Standard (EPS) (Questions 34,35,36)

The EPS has fulfilled its role and is a vital element of the Capacity Market, and must be retained therefore.
It is a relatively simple way of ensuring no new public support is given to the most polluting forms of power, and has resulted in no new stations breaching the limits being commissioned since its introduction, therefore is working as intended and must be retained.

Conclusion

Renewables must be supported in the UK given the wider policy context, especially the closure of the Feed-in Tariff, Renewables Obligation, and lack of CfD Pot 1 auctions. The Capacity Market provides one such means of support and we therefore welcome the aims of this consultation.
Such support will deliver clean energy, but also jobs and investment as well as transitioning us to a more flexible energy system.

REA, September 2018