REA Response to BEIS Consultation on the Capacity Market, April 2019

Introduction

We support the proposal for wind and solar to be admitted to the auction mechanism. We also support the interim Summer 2019, and proposed T-3 auctions, to allow some stability for projects which pre-qualified for the auction, but the scheme is in need of reform in future auctions. While we have long standing and well established concerns regarding the Capacity Market as a support mechanism - on carbon and value for money grounds, the Government should also continue its efforts to unlock the ECJ suspension on the mechanism as soon as possible, to avoid projects facing very hard financial consequences from missed payments.

The Capacity Market does not adequately 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. Therefore including wind and solar projects, the only two technologies currently banned from bidding, is a step towards addressing these concerns.

Wind and solar projects essential for inclusion in the auction

We strongly support the proposals to include wind and solar projects in future Capacity Market auctions.

There is a fundamental lack of route to market to delivering new renewable capacity in the UK, but at the same time significant new capacity is required. 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 with the FiT having closed just last week and the CfD scheme support very sporadic, with only two auctions held since 2014, and only available for projects commissioning after 2021. The CfD is designed to support only larger 'emerging technology' projects, being very complex and administratively burdensome. 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 renewables projects have been developed, these number only two operational 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.

80 Strand,
London, WC2R 0DT
Tel: 020 7925 3570
http://www.r-e-a.net/

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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 other routes to market at present.

The Capacity Market (CM) is the main support currently available for energy storage projects - which help deliver the flexible benefits to the UK estimated at around £8 billion per year by various studies by 2030 – and existing CM accredited projects and pre-qualified energy storage projects face an uncertain situation at present, which the interim auction would partially address in the immediate term, alongside re-approval being granted for the mechanism by the EC.

As stated above, while it is not perfect and is in need of reform, 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.

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 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.

Conclusion

Wind and solar must be supported in the Capacity Market mechanism and we welcome the proposed inclusion following several years calling for this.

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 previous stated aim of including wind and solar and hybrid renewable-energy storage projects in the mechanism, which we call on to be introduced as soon as possible.

The interim summer 2019 auction should proceed and BEIS should continue its efforts to gain re-clearance for the policy as quickly as possible from the European Commission, but following this the CM must be reformed significantly to include a measure for ensuring decarbonisation and safeguarding value for money.

REA, April 2019