REA Response to BEIS Consultation on introducing GHG Limits in the Capacity Market

Introduction

We fully support the introduction of Greenhouse Gas (GHG) emission limits into the Capacity Market as proposed, regardless of the situation regarding membership of the EU.

There is currently not 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. Therefore the inclusion of wind and solar and hybrid projects featuring energy storage combined with wind and solar as announced has been a long standing policy ask for the REA and this can illustrate the benefits renewables can provide to the UK in terms of energy security, something which can be built upon further, for example by better incentivising renewable peaker plants, such as biogas / biomethane peakers.

Germany has introduced a support programme for example for Biogas powered peaker plants, and a similar scheme could be adopted in the UK. Our members believe there could also be scope for introducing longer term (T-X) contracts to incentivise longer term planning by developers.

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, principally Offshore wind, 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 on future support for renewable sources of heat.

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

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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 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.

A reformed Capacity Market

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.

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

The 'double dipping' subsidy concerns previously preventing renewables from 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 better incorporate renewables.

The addition of progressively lower GHG emission limits is a relatively simple way of ensuring no new public support is given to the most polluting forms of power, and has already effectively been in operation in some form in terms of the Emissions Performance Standard (EPS), therefore it is a welcome and necessary addition to the scheme.

Conclusion

We fully support the introduction of GHG limits in the Capacity Market, which should be used to progressively remove the highest carbon forms of generation from the system.
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 2019