10th October, 2018

Dear David,

Contract for Difference Scheme for Renewable Electricity Generation: Follow-up Consultation on Implementation, Contract Changes, and a Revised CHPQA Standard

This consultation comes at a transformative time for the energy sector. 2017 was a year of landmark milestones; our first coal-free day since the Industrial Revolution, technical strides being made in the electrification of transport and the dramatic cost reduction of a number of renewable energy sources. We responded to BEIS’s initial consultation on ‘Contracts for Difference (CfD): proposed amendments to the scheme’ and we welcome many of the policy outcomes noted in Part A and Part B of the Government response. Our earlier submission can be found here.

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK’s energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. Annually, the energy industry invests over £11bn, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

We welcome Claire Perry’s recent announcement that the next CfD Auction will open in May 2019, and that the Government intends to run subsequent auctions around every two years thereafter. In this context, we note and welcome government’s ambition to deliver 1-2 gigawatts of new offshore wind every year in the 2020s, depending on prices. This announcement is an important contribution in terms of providing the stable long term framework needed to promote long term investment.

Whilst we fully appreciate Government’s concerns regarding price cannibalisation and the associated impact this could have on the budget available to support the deployment of low-carbon generation, we have concerns that the proposals to change the reference prices used in the budget forecasts do not recognise the fact that the overall costs to consumers of the low carbon generation are fixed. Any increase in support costs is offset by a reduction in the wholesale price (as a result of the wind cannibalisation effect). We understand that the original design of the Levy Control Framework was intended to protect consumers from additional costs should the gas price decline (thereby making gas...
generation relatively more cost effective), however this safeguard does not apply where the reduction in the wholesale price is caused by the cannibalisation effect rather than a reduction in the gas price.

We would also note that by reducing the reference prices, BEIS would effectively be reducing the volumes of offshore wind procured in future CfD allocation rounds. Such a change challenges the ambition set out by energy minister in her recent speech. It would also act as a constraint on the size of projects likely to come forward which we believe could stifle the numerous innovations taking place in turbine development and connections. We believe that the new methodology is overly precautionary and whilst it reflects a valid concern to avoid underestimation of forecasts, there are unintended consequences of overly conservative projections. Due to a lack of transparency around reference pricing within the CfD valuation formula and the methodology proposed, developers have serious concerns that new build generation could be excessively constrained, which in turn could impact on meeting carbon budgets and the UK’s decarbonisation ambition leading to all the consequences of not meeting targets that the letter already highlights. Any changes to the reference price forecasts should be made in a transparent and fair manner with the engagement and consultation of industry.

Energy UK would welcome the opportunity to provide a forum for the Department to engage further with industry. The UK is the world leader in offshore wind deployment thanks to its unique geography, robust domestic supply chain and a supportive policy framework; changes to any one of these could undermine a continuation of such leadership.

Fundamentally, the amount we spend on low carbon generation must reflect our ambition to decarbonise at lowest cost. A focus on clean growth, including additional procurement of low carbon generation could allow us to progress towards our carbon targets in line with the Committee on Climate Change’s decarbonisation trajectory.

For more detail about the questions posed within the consultation document please refer to the responses submitted by our members. Should you have any questions regarding this consultation response then please do not hesitate to get in touch via the details below.

I can confirm that this response may be published on the Department’s website.

Yours sincerely,

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