

CfD Market Readiness Steering Board 3
Wednesday 31st July 2013 13:45 – 15:15
Minutes and actions

Attendees:

Chair:

Tim Warham – Energy Market Design, EMR, DECC

Board members:

Paul Barwell	STA
Andrew Buglass	RBS
Clare Dudeney	Energy UK
Gordon Edge	RUK
David Handley	RES
John Perkins	National Grid

DECC attendees:

Nick Skates

1.	Introduction		
<p>Tim Warham (Chair) welcomed Paul Barwell (STA) to the Steering Board. Paul Barwell replaces Paul McCartie (also of the STA), which was agreed by DECC following a request from the STA</p>			
2.	Update on working groups – progress update		
<p>The Chair noted that good progress had been made by both working groups which was the result of good engagement and excellent input from WG members. The Chair noted that both groups remain on track to produce final outputs by the end of the year.</p> <p>The Steering Board commented that outputs from the WGs should be circulated to all SB members as a matter of course. The Chair agreed and would ensure this happens.</p> <p><u>Working Group 1 – Sample PPA Contracts</u></p> <p>The Chair explained that a detailed Heads of Terms text (~45 pages) had been developed by the WG, which is only slightly less detailed than a typical PPA contract. The Chair also explained that it is the general recommendation of the WG to step back from this level of detail and publish a higher-level Heads of Terms text.</p> <p>The Steering Board considered that while there was merit in publishing a higher-level Heads of</p>			

Terms, the more detailed Heads of Terms should also be published given the time invested in its production. Furthermore, the Board recommended that the WG ‘flesh-out’ areas of ‘common understanding’ within the contract. The Chair explained that the WG will consider the draft contract in relation to the recently published CfD Heads of Terms and further detail on the CfD being published in August.

The Board considered the issue of negative pricing, specifically the fact that it wasn’t currently reflected in the detailed Heads of Terms text. The Board considered that negative pricing has significant implications for PPAs under the CfD regime and that the WG would be well placed to consider this in its deliberations. The Chair explained that one of the benefits of the CfD was that a price floor would not be required within a CfD PPA. The Board discussed the alignment of incentives and agreed that including a price floor would tend to cause a misalignment.

While the Board was wary about promoting a one-size-fits-all approach, as it is important for competition for variations between contracts, the Board noted that market participants would very likely make adjustments to whatever detailed contract was published. **ACTION: The Chair agreed to reconsider publishing the full document.**

The Board thought it would be helpful for industry if DECC set out, in the forthcoming August publication, its timetable for delivering the final outputs of the CfD market readiness process and its plans for stakeholder engagement in developing the Off-taker of Last Resort proposal. The Chair indicated that while it was not DECC’s intention to include an update in the August publication, we would seek to share this detail with stakeholders soon.

Working Group 2 – Code of Practice

The Chair described the proposed content of the ‘Code of Practice’. The Chair noted that the Code could more accurately be described as ‘best practice guidelines’ given that the WG considered that enforcement of a ‘code’ in the format proposed would likely be unworkable.

The Board commented that the ‘code’ appeared very generator-based and could be clearer in setting out what best practice looks like on the supplier side. It was recognised, however, that the section on ‘process and expectations of timing’ might be an appropriate section within which to address this. The Chair agreed to consider this point.

The Board discussed the content of a ‘PPA Directory’ and felt it would be useful if the Directory listed those offering PPAs, and the approximate terms being offered.

While the Board felt it would be helpful to list those market participants offering PPAs, it commented that off-takers may not be active in the market at a particular point in time for very good reasons, e.g. for strategic reasons. The Board therefore considered it important not to create any expectation that PPAs will in fact be offered or to ‘name and shame’ those not offering or entering into PPAs. The Board did think that the Directory presented an opportunity to showcase deals done.

The Board felt that there was a role for some degree of monitoring of what deals were being offered and completed. It was also felt that there might be a role for a complaints procedure but the Board recognised that this would have resource implications.

The Board agreed that it made sense to invite relevant trade associations to one of the forthcoming meetings of each WG.

3.	Update on Off-taker of Last Resort amendment and next steps for policy development		
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The Chair informed the Board that the Government had tabled amendments to the Energy Bill which would allow for the creation of an Off-taker of Last Resort (OLR) scheme. The Chair noted that DECC plans to launch the consultation on the OLR proposal later in the year. This will follow further design work on the OLR on which DECC proposes to use a combination of industry expertise (through an advisory group) and consultancy resource.

The Board considered the range of questions to be answered during the development of the OLR (see slides) and pointed out that the off-take side needs to be covered, e.g. the process within the scheme for determining which off-taker is allocated to a generator.

The Board asked whether the 2013 consultation would include the question of whether the introduction of the OLR is necessary. The Chair said that it would.

The Board asked for clarification on the timetable for secondary legislation. DECC confirmed that it plans to consult on secondary legislation / licence modifications early in 2014 (in addition to the 2013 consultation) which would enable regulations / licence modifications to be in place for the onset of the CfD regime.

The Board remarked that different back-stop PPAs may be needed for different technologies. The Board also remarked that the development of the OLR needed to consider the impact on the OLR of a systemic shock or 'macro' event. The Chair said that DECC would consider these points.

4.	5. Ongoing stakeholder engagement		
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The Chair described the proposal to establish an advisory group for the OLR. The Off-taker of Last Resort Advisory Group (OLR Advisory Group) would be made up of key stakeholders from across industry and report to the Board. The Board welcomed the establishment of such a group. It recommended the Group include representatives from each relevant technology. The Board noted that the Group could become quite sizeable. It agreed, however, that the group would not need a member from each of the large vertically integrated utilities. The Board noted the importance of engagement from the investor community and that the Low Carbon Finance Group were well placed to support the Group. The Chair agreed to engage with the LCFG in establishing the membership of OLR Advisory Group.

ACTION: It was further recommended by the Board, and agreed by the Chair, that OLR Advisory Group papers are circulated widely by DECC.

The Board agreed, in conclusion that the stakeholder plan was suitable.