

Minutes of EMR Contact Group meeting, 10 November 2011

Please see annex A for list of attendees.

1. Welcome and introductions (Jonathan Brearley, Director, Energy Markets and Networks, DECC)

Jonathan Brearley (the Chair) welcomed the attendees to the first EMR Contact Group meeting and invited attendees to introduce themselves.

2. Update on the EMR Programme, including progress on the Technical Update (Nick Skates, EMR Programme Office)

Nick Skates set out what will be included in the Technical Update to the EMR White Paper: The Update will respond to the consultation on the Capacity Mechanism and set out, at a high-level, the institutional arrangements for delivering the Feed-in Tariffs with Contracts for Difference (CfDs) and the Capacity Mechanism.

Nick Skates also set out the progress made on other parts of the EMR package. Slides of the presentation are attached for further information.

3. The Institutional Framework, including discussion/Q&A (Harriet Thompson, Head of Institutional Frameworks team, DECC)

Harriet Thompson set out what was said in the EMR White Paper on the institutional framework; the potential split of functions between Government and the delivery body; and the key considerations for DECC in designing the payment structures of the delivery body. Slides of the presentation are attached for further information.

The Chair asked for comments on the possible split of functions between the Government and delivery body.

The Group commented that:

- The test of the delivery body will be whether projects are bankable;
- Simplicity and ease of understanding is important given the Government is aiming to attract a new investor base, e.g. pension funds.

The Chair responded that initial thinking was that delivery plans could be a good way to give the institution sufficient operational independence which would help the bankability of projects.

The Group asked about what the legislation would say and commented that:

- The delivery body would impact on stakeholders and asked if we would consult;
- Government would need to have the discretion to intervene as appropriate;
- If the delivery body had the power to change the strike price this had the potential to create stranded assets for some projects with long build times;
- A clear statement was needed of the objectives of the delivery body and that this should include delivering its objectives at least cost;
- The delivery body should not look to have volumetric caps, as is the case with the Renewables Obligation (RO).

DECC responded that if the Government decided to take powers to delegate to the delivery body using delivery plans, it is likely that Government would want to sign-off those plans. The Chair took away an action to clarify whether under this proposed model there might be “in plan” tweaks or adjustments and what these might be.

The Group commented that:

- A five-year plan might not be right as different technologies have different development cycles;
- There needs to be transparency around how tariffs are set; and
- The delivery body should be able to trade-off demand- and supply-side response.

Harriet Thompson set out possible criteria for payment models or “how the money flows”.

The Group commented that:

- The payment model “should not distort competition” was preferable to a criterion of a payment model seeking to increase competition;
- DECC needs to arrive at a payment structure which is acceptable to both parties and doesn’t overlap with other instruments.

The Chair responded that DECC was still in the process of trying to develop a workable model.

4. Update on Contracts for Difference, including Q&A (Richard Sargeant, Head of Energy Market Design team, DECC)

Richard Sargeant updated the Group on the progress of CfD design. Slides of the presentation are attached for information.

The Group noted that suppliers might find it difficult to price long-term contracts in a CfD world, where a quote might vary in the region of +/- 20%.

Richard Sargeant responded that the Energy Markets Team in DECC will continue to work through the detail on CfD alongside stakeholders.

The Group also asked whether there would be a CfD for energy efficiency.

The Chair noted that further work was ongoing to examine the best way of supporting electrical energy efficiency measures.

5. Closing remarks and actions (Jonathan Brearley)

The Chair noted that the group would meet again in January.

Annex A - Attendees of 10 November EMR Contact Group meeting

1. Mark Fitchett, Electricity Procurement, INEOS ChlorVinyls.
2. Nick Gardiner, Director, Energy, Power & Infrastructure – Europe, BNP Paribas.
3. Peter Haslam, Public Policy Advisor, Nuclear Industry Association.
4. Robert Longden, Head of Regulatory Affairs, Mainstream Renewable Power.
5. David Love, Director of Regulation and Policy, Drax Power Ltd.
6. Doug Parr, Greenpeace.
7. Ed Reed, Cornwall Energy.
8. Mark Ripley, Regulatory Frameworks Manager, National Grid.
9. Simon Skillings, E3G.
10. Rupert Steele, Director of Regulation, Scottish Power.
11. Graeme Sweeney, Shell.
12. Andrew Wright, Senior Partner – Markets, Ofgem.

DECC attendees

13. Jonathan Brearley (Chair), Director, Energy Markets and Networks, DECC.
14. Richard Sargeant, Head of Energy Market Design Team, DECC.
15. Nick Skates, Head of EMR stakeholder engagement, DECC.
16. Harriet Thompson, Head of Institutional Frameworks Team, DECC.

Apologies

Dr. Louise Strong, Senior Policy Adviser – Energy, Which?