**IREGG response to CMA's recommendations on Contracts for Difference auctions**

## Summary

The Independent Renewable Energy Generators Group (IREGG) is a partnership of seven leading independent renewable power developers and generators including Airvolution, Banks Group, Fred.Olsen, Element Power, Infinergy, Infinis and RES.

The CfD was designed to provide long-term price stabilisation to low carbon plant, allowing investment to come forward at a lower cost of capital and therefore at a lower cost to consumers. The CfD auctions, use market-based competition between technologies to drive down costs and it was understood that the Government was committed to eventually moving to a technology neutral approach. It is vitally important that this mechanism supports technologies that deliver the best value for consumers and does not generate an adverse effect on competition. Blocking mature technologies from the CfD auctions will undermine market competition and eradicate incentives for more expensive technologies to reduce costs.

IREGG supports the CMA's recommendations on Contracts for Difference (CfD) auctions that go some way to removing the adverse effects on competition that are currently present in the energy market. In this response we will address the following recommendations from the CMA:

1. DECC should finalise its proposals for the allocation of technologies and budgets at least one year ahead of each CfD auction

2. DECC to undertake and consult on a clear and thorough assessment before allocating technologies between pots and the CfD budget to the different pots

IREGG welcomes the CMAs recognition that the absence of an obligation for DECC to regularly monitor the division of technologies between different CfD pots, and provide clear justification when deciding the allocation of the budget between pots has an adverse effect on competition.

We agree with the CMA's recommendation that a technology neutral auction should be DECC's starting point, when considering how to allocate CfDs, to ensure that funding is given to the projects with the lowest costs. However, IREGG is concerned these interventions alone do not go far enough to extinguish the causes of the adverse effect on competition in light of the pivotal role the CfD mechanism will play in the deployment of future renewable energy technologies.

## Points to address

1) **"DECC should finalise its proposals for the allocation of technologies and budgets at least one year ahead of each CfD auction"**

As renewable energy developers, we support the CMA's recommendation that DECC should finalise its proposed allocation of technologies and budgets, at least one year ahead of the CfD auction. This will go some way to providing much needed clarity and certainty for investors and developers. However, a requirement by the CMA for DECC to publish a long-term framework that clearly outlines the criteria that determines pot allocation, as well as a set timeline for future auctions, is just as necessary to provide investment stability for low-carbon generators. This timeline should include dates for consulting on the allocation of technologies and the specific CfD auction dates.

The development of all new energy generation projects can take several years. For example, it can take 7 – 8 years to turn an onshore wind feasibility study into a fully operational wind farm; offshore wind projects and other less established technologies are likely to have an even longer lead in time. Consequently investors in low-carbon technologies require long-term policy certainty. A fixed timeline for the CfD auction process would provide a clear investment signal and foster a competitive energy market, which is necessary to deliver the cheapest possible low-carbon energy for the benefit of consumers.

*IREGG urge the CMA to recommend to DECC that a fixed timeline is published for the remaining CfD auction rounds of this Parliament.*

2) **"DECC to undertake and consult on a clear and thorough assessment before allocating technologies between pots and the CfD budget to the different pots"**

IREGG is concerned that, despite the above recommendation potentially increasing investment certainty, DECC is not required to allocate funding for both Pot 1 and Pot 2 technology pots at each auction.

Currently DECC has the ability to allocate funding for a Pot 2 CfD auction for "emerging" technologies, without a corresponding Pot 1 auction for "established" technologies. Indeed the Government has only confirmed that it will allocate funding for Pot 2 technologies, such as offshore wind, in 2016.

Under the CfD framework, technologies are meant to progress from the "emerging technologies" pot, to the "established technologies" pot as the cost of development decreases. Solely running a Pot 2 auction for less established technologies does not provide the necessary incentive for these less established technologies to reduce costs sufficiently to move into the Pot 1 funding pot. The results of the first Pot 1 allocation round in 2014 demonstrate that the CfD auctions have the ability to deliver the cheapest low-carbon generation in the UK. Increasing competitive tensions in the next round will serve to further drive down costs, which can then be passed on to consumers. This will only be possible if sufficient competition remains between Pot 1 and Pot 2.

A report by the Green Alliance "Beyond subsidy: how the next levy control framework can cut carbon at least cost" highlights that technologies currently classified as "emerging", such as offshore wind and tidal, are being deployed in large-scale projects due to the high cost of offshore installation and grid infrastructure. In contrast "established" technologies, such as onshore wind, can deploy inexpensively at smaller scales. Green Alliance suggests that post-2020 DECC should hold infrequent, large CfD auctions for less-established Pot 2 technologies, and smaller more frequent auctions for Pot 1, to promote competition and motivate developers to reduce costs.

The implementation of small, regular CfD allocations will deliver stable and incremental deployment and limit the exposure of bill payers to the risks associated with large projects. Frequent auction rounds would also facilitate greater competition by allowing smaller independent developers to compete, as long time periods between auction rounds can add unnecessary costs to projects and deter investment. In short, the implementation of regular auction rounds, with a minimum amount of funding in Pot 1 and Pot 2, would allow the cheapest most deliverable projects to deploy faster, whilst providing certainty and future funding for immature technologies.

*IREGG ask that the CMA includes a further recommendation requiring DECC to provide a minimum amount of funding for Pot 1 CfD auctions at least as often as Pot 2 CfD technology auctions.*