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ELECTRICITY MARKET REFORM CONSULTATION

Preamble

West Coast Energy Ltd welcomes the opportunity to comment on the DECC Electricity Market Reform (EMR) Consultation. West Coast Energy have acted as developers and consultants to a number of major windfarm projects throughout Great Britain and have obtained consent for over 600MW of projects with a further 1000MW either going through planning or with a planning application being prepared. We have also been active participants in various electricity industry fora including the Transmission Arrangements for Distributed Generation (TADG), Transmission Access Standing Group (TASG) and in the Active Networks project team of the Distribution Working Group (DWG). We were also involved in the preparation of the new ENA connections guide for distributed generation. West Coast Energy will focus the majority of its comments on the impact of the proposed reforms on small scale distributed generation and in particular onshore windfarms in the range 1-100MW.

General Comments

By and large we support the response of Renewable UK to the EMR consultation, but with the following additions:-

The Context of the EMR Proposals

Electricity is different from most other markets because by its very nature it is a long term industry with 40 year lifetime investments in power stations and particularly networks. This is in contrast to general industry where a 15 year investment lifetime is more the average. This is important because decisions/investments made now can have long gestation times and result in generation projects with long lifetimes. It is also necessary to bear in mind the critical role electricity plays in modern society. Market failure is not really an option and the emphasis is very strongly on security of supply. Too much power entails some extra costs; too little could be disastrous.

We were disappointed in the lack of a vision for the electricity supply industry going forward to 2020 and beyond in the EMR consultation. The consultation notes the OFGEM Liquidity Review being carried out simultaneously but in reality the overall market arrangements of which liquidity is only one aspect, require examination before the EMR reforms are consulted on. The present market arrangements have encouraged vertical integration and have resulted in a 'Big Six' suppliers/ generator without the competitive supply market envisaged at the time of privatisation. Small generators, especially variable generators such as wind, have difficulties participating in the market because of balancing requirements etc. Serious consideration should be given as to whether the current BETTA market is fit for purpose and we note with interest the movement in Ireland to a 'Pool Type' system and suggest that consideration be given to reintroducing such a market in Great Britain. A vision of the future structure of the electricity supply industry will have to propose if not target the proportion of the amount of electricity to be generated from nuclear, renewable (broken down into hydro, offshore wind, onshore wind etc.), gas, coal etc. This may involve Government in a centralised planning role but given the long term nature and criticality of electricity in modern society s that cannot be avoided.

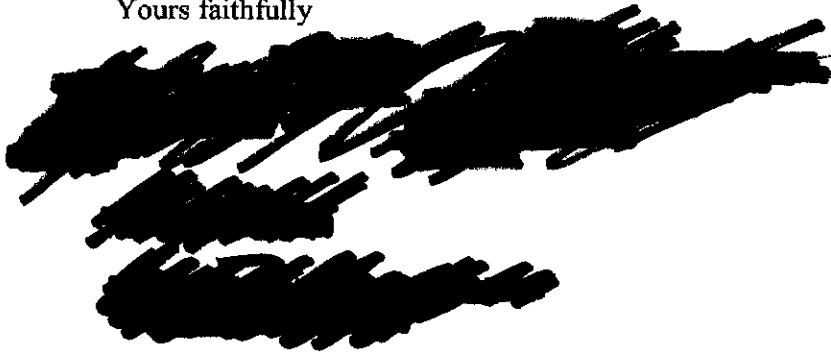
Lack of Detail

There are a lot of unanswered questions in the EMR consultation; mostly concerning the operation of a Feed in Tariff (FIT) with a Contract for Difference (CFD). These questions include:-

- The nature of the index price, price transparency is essential on all electricity transactions.
- Who will the counterparty to the CFD be; Banks (given their track record on securitisation and CFDs in the recent financial crisis this is unwise/unlikely)? Or perhaps the Government; either direct or via a new Quango. It is essential that a competitive market is developed for suppliers to purchase renewable energy and that the price for renewable energy purchased creates certainty for generators going forward.
- What will the duration of the CFDs be; is it for the life of the project, annually or say 5 years?
- It is highly unlikely CFDs will sit comfortably with small generators and the potential requirement to pay out monies does not sit comfortably with projects financed as separate companies or off balance sheet.'
- The interaction between the generator, PPA provider and CFD provider requires careful consideration. Is it really sensible not to have an obligation on suppliers to purchase renewable electricity as under the Renewables Obligation (RO)? (The NFFO contracts had the then Public Electricity Suppliers (PES) as guaranteed purchaser.)
- Will a Premium FIT have separate 'Premia' according to project technology and size?
- As in the Renewable UK response we are definitely against auctions to establish CFD prices. Auctions can be used to set price but cannot guarantee projects are constructed.
- Are auctions going to be subdivided by technology and/or size? Given the Government's desire for a significant proportion of nuclear generated electricity; how will the Government ensure nuclear power is a winner in the auction process?
- If these reforms are implemented there will be four renewable energy financial incentive schemes running simultaneously:- NFFO Contracts until 2017, the RO, Small Scale FITs and now Large Scale FITs. Should this not be rationalised by giving developers the right to terminate outstanding, un-built NFFO contracts?

In summary while West Coast Energy is supportive of the necessity for the EMR proposals, we are concerned about the lack of context for the EMR reforms in the overall structure of the Electricity Supply Industry particularly the oligopolistic nature of the generation/supply market and the ongoing liquidity review. We also find it difficult to comment on the proposed FIT with CFD model given the many unanswered questions about the model.

Yours faithfully

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