



Hampshire County Council

Environment Department

Elizabeth II Court West, The Castle
Winchester, Hampshire SO23 8UD

Tel: 0845 603 5638 (General Enquiries)

0845 603 5633 (Roads and Transport)

0845 603 5634 (Recycling Waste & Planning)

Textphone 0845 603 5625

Fax 01962 847055

www.hants.gov.uk

Electricity Market Reform Project
Department of Energy & Climate Change
4th Floor Area E
3 Whitehall Place
London
SW1A 2AW

My reference

Your reference

Date 24 February 2011

Dear Sirs

Electricity Market Reform Consultation Response

The County Council welcomes the opportunity to respond to this consultation as it comes at an important time in terms of developments in legislation, particularly the Green Deal and Renewable Heat Incentive, and at a time of evermore volatile oil prices.

We welcome the proposals outlined in the strategy consultation document and have both general and specific comments in relation to the questions raised, our response is enclosed with this letter.

Should there be any areas of clarity required in terms of our response please do not hesitate to contact the County Council officer named at the head of this letter.

Yours faithfully

[Redacted signature]

[Redacted signature]

Encl.



Certificate No FS 21845



Director of Environment

Stuart Jarvis BSc DipTP FCIHT MRTPI

Call charges apply. For information see www.hants.gov.uk

COVERING LETTER FOR ELECTRIC

Department of Energy and Climate Change: Consultation on Electricity Market Reform

Response on behalf of Hampshire County Council, prepared by:

[REDACTED] Environment Department
[REDACTED] Environment Department

With additional input from:

[REDACTED] Culture, Community and Business Services

Approved by: [REDACTED] Deputy Director Environment. 24th February 2011

General comments

Hampshire County Council welcomes the opportunity to comment on this consultation from the Department for Energy and Climate Change. It comes at an important time, both in terms of the review to existing mechanisms such as the Feed-in-Tariffs but also in terms of the imminent development of new mechanisms such as the Renewable Heat Incentive and the Green Deal.

The County Council welcomes this consultation as a fundamental component of the transition towards a more secure and low-carbon electricity market. With the price of oil evermore volatile it is vital that we seek new ways to decouple the wholesale electricity price from that of fossil fuels and promote investment in renewable energy on all scales to help limit the impact on consumers.

Whilst the County Council appreciate the importance of electricity market reform, we recognise that this is only one component in helping secure the future of the UK's energy supply. To this end, we support the notion that – parallel to electricity market reform – solutions need to continue to be developed which begin to remove barriers to investment in renewables such as those associated with planning, grid access and capacity, and supply chain development.

The Secretary of State's announcement that local authorities would be allowed to generate and supply renewable energy is an opportunity that the County Council are increasingly looking to take advantage of. We feel that this consultation has not recognised the potential role of local authorities in both generating and supplying electricity locally, and attracting new sources of investment into the electricity market. Further to this concern, we feel that the consultation fails to adequately address the challenges faced to all small-scale generators who are either active in, or prospective new entrants to, the UK electricity market.

Response to specific questions raised in the consultation document

Current Market Arrangements

- 1. Do you agree with the Government's assessment of the ability of the current market to support the investment in low-carbon generation needed to meet environmental targets?**

We agree.

- 2. Do you agree with the Government's assessment of the future risks to the UK's security of electricity supplies?**

We agree.

Options for Decarbonisation

Feed-in Tariffs

3. Do you agree with the Government's assessment of the pros and cons of each of the models of feed-in tariff (FIT)?

We largely agree with the pros and cons presented in the consultation however it is felt that this assessment is not entirely exhaustive. The pros and cons of each model seem particularly tailored to the 'Big 6' energy companies and therefore lack a thorough consideration of their impact on small generators. Particularly apparent is the lack of recognition given to the cost of administering the CfD models for small scale generators and local authorities wishing to enter the electricity market.

4. Do you agree with the Government's preferred policy of introducing a contract for difference based feed-in tariff (FIT with CfD)?

Whilst this model will provide the highest level of revenue certainty for low-carbon generation and may provide the best mechanism in terms of limiting impacts on consumer prices, we feel the administrative costs of implementation and management of predictability associated with the CfD model may prove to be a significant barrier to potential new entrant small scale generators.

As a Council looking to take advantage of new legislation allowing local authorities to sell renewable electricity we feel that managing the predictability of the wholesale price under the CfD model would require additional administrative resources. This is likely to increase the level of risk associated with projects and may present an additional barrier to market entry.

In order to maintain the benefits of the CfD model as set out in the consultation whilst continuing to promote the importance of diversity of supply and small-scale generation, the County Council propose the consideration of a dual-tariff system. This would allow generators with a capacity above a set threshold to be incentivised through the CfD model whilst allowing those with a lesser capacity to benefit from a less administratively-challenging model of FIT.

5. What do you see as the advantages and disadvantages of transferring different risks from the generator or the supplier to the Government? In particular, what are the implications of removing the (long-term) electricity price risk from generators under the CfD model?

No specific comments.

6. What are the efficient operational decisions that the price signal incentivises? How important are these for the market to function properly? How would they be affected by the proposed policy?

No specific comments.

7. Do you agree with the Government's assessment of the impact of the different models of FITs on the cost of capital for low-carbon generators?

We largely agree with the Government's assessment of the impact of the different models of FIT on the cost of capital for low-carbon generators however we feel there is a lack of consideration of how the proposed FIT models will affect the cost of capital for local authorities looking to sell electricity generated from renewables. This lack of consideration adds to the uncertainty of the role of local government in securing a low-carbon electricity supply.

- 8. What impact do you think the different models of FITs will have on the availability of finance for low-carbon electricity generation investments from both new investors and existing the investor base?**

We feel the consultation requires clarification as to what sort of investment the Government is hoping to attract: investment in small-scale renewables or large-scale capital investment?

The Government has frequently called on communities and local government to take greater responsibility for decarbonising our electricity supply and improving local energy security. For this to be realised the level of revenue certainty from low-carbon generation needs to be as predictable as possible. For this reason, we feel the Fixed FIT model will provide the most appropriate mechanism for attracting investment towards the smaller scales of electricity generation from both new investors and the existing investor base.

- 9. What impact do you think the different models of FITs will have on different types of generators (e.g. vertically integrated utilities, existing independent gas, wind or biomass generators and new entrant generators)? How would the different models impact on contract negotiations/relationships with electricity suppliers?**

No specific comments.

- 10. How important do you think greater liquidity in the wholesale market is to the effective operation of the FIT with CfD model? What reference price or index should be used?**

No specific comments.

- 11. Should the FIT be paid on availability or output?**

No specific comments.

Emissions Performance Standards

- 12. Do you agree with the Government's assessment of the impact of an emission performance standard on the decarbonisation of the electricity sector and on security of supply risk?**

No specific comments.

- 13. Which option do you consider most appropriate for the level of the EPS? What considerations should the Government take into account in designing derogations for projects forming part of the UK or EU demonstration programme?**

No specific comments.

- 14. Do you agree that the EPS should be aimed at new plant, and 'grandfathered' at the point of consent? How should the Government determine the economic life of a power station for the purposes of grandfathering?**

We agree that the EPS should be aimed at new plant, and those 'grandfathered' at the point consent subject to no major refits or maintenance works being undertaken which extend the life of 'grandfathered' plant.

- 15. Do you agree that the EPS should be extended to cover existing plant in the event they undergo significant life extensions or upgrades? How could the Government implement such an approach in practice?**

We agree. EPS should be imposed as a condition of extensions and upgrades being approved centrally.

- 16. Do you agree with the proposed review of the EPS, incorporated into the progress reports required under the Energy Act 2010?**

No specific comments.

- 17. How should biomass be treated for the purposes of meeting the EPS? What additional considerations should the Government take into account?**

In order to facilitate the transition to a secure and low-carbon electricity market and minimise the impact of a boom in intermittent generation technologies we feel that emissions associated with electricity generated from biomass should exempt for the purposes of meeting the EPS.

- 18. Do you agree the principle of exceptions to the EPS in the event of long-term or short-term energy shortfalls?**

No specific comments.

Options for Market Efficiency and Security of Supply

- 19. Do you agree with our assessment of the pros and cons of introducing a capacity mechanism?**

No specific comments.

- 20. Do you agree with the Government's preferred policy of introducing a capacity mechanism in addition to the improvements to the current market?**

No specific comments.

- 21. What do you think the impacts of introducing a targeted capacity mechanism will be on prices in the wholesale electricity market?**

No specific comments.

- 22. Do you agree with Government's preference for a the design of a capacity mechanism:**

- a) a central body holding the responsibility;
- b) volume based, not price based; and
- c) a targeted mechanism, rather than market-wide.

No specific comments.

- 23. What do you think the impact of introducing a capacity mechanism would be on incentives to invest in demand-side response, storage, interconnection and energy efficiency? Will the preferred package of options allow these technologies to play more of a role?**

No specific comments.

- 24. Which of the two models of targeted capacity mechanism would you prefer to see implemented:**
- a) Last-resort dispatch; or
 - b) Economic dispatch.

No specific comments.

- 25. Do you think there should be a locational element to capacity pricing?**

No specific comments.

Analysis of Packages

- 26. Do you agree with the Government's preferred package of options (carbon price support, feed-in tariff (CfD or premium), emission performance standard, peak capacity tender)? Why?**

We agree, although we would like to reemphasise the role of electricity market reform as only one component in a wider package of measures that are needed to remove barriers to investment in the low-carbon electricity generation market. Planning, grid access and capacity, and supply chain constraints all present significant barriers to investment that need tackling if the Government is to succeed in its aim to deliver secure, affordable and low-carbon energy.

- 27. What are your views on the alternative package that Government has described?**

No specific comments.

- 28. Will the proposed package of options have wider impacts on the electricity system that have not been identified in this document, for example on electricity networks?**

No specific comments.

- 29. How do you see the different elements of the preferred package interacting? Are these interactions different for other packages?**

No specific comments.

Implementation Issues

- 30. What do you think are the main implementation risks for the Government's preferred package? Are these risks different for the other packages being considered?**

In reference to our response to question 26, we feel that EMR is just one component of a wider-package of measures that need to be implemented in order to increase investment in electricity generation from renewables. There is a risk that in merely implementing the Government's preferred package of reforms other barriers to investment – such as those associated with planning, grid capacity and access, and supply chains – will continue to deter investment in the low-carbon electricity market.

- 31. Do you have views on the role that auctions or tenders can play in setting the price for a feed-in tariff, compared to administratively determined support levels?**
- a) Can auctions or tenders deliver competitive market prices that appropriately reflect the risks and uncertainties of new or emerging technologies?
 - b) Should auctions, tenders or the administrative approach to setting levels be technology neutral or technology specific?
 - c) How should the different costs of each technology be reflected? Should there be a single contract for difference on the electricity price for all low-carbon and a series of technology different premiums on top?
 - d) Are there other models government should consider?
 - e) Should prices be set for individual projects or for technologies?
 - f) Do you think there is sufficient competition amongst potential developers/sites to run effective auctions?
 - g) Could an auction contribute to preventing the feed-in tariff policy from incentivising an unsustainable level of deployment of any one particular technology? Are there other ways to mitigate against this risk?

a) No specific comments.

b) No specific comments.

c) We feel that a single CfD may over-incentivise technologies that present the fewest barriers to market entry such as we have seen with the increasing uptake of Solar Photovoltaic (PV) systems through the small-scale FITs (under 5MW installations). The consultation clearly sets out the benefits of encouraging diversity in generation technologies and we would therefore support the notion of providing additional incentives to non-intermittent technologies such as Anaerobic Digestion (AD) plant.

d) With reference to our answer for question 4, we would promote the consideration of a dual-tariff system allowing generators with a capacity above a set threshold to be incentivised through the CfD model whilst allowing those with a lesser capacity to benefit from a less administratively-challenging model of FIT.

e) We agree that prices should be set for individual technologies.

f) No specific comments.

g) No specific comments.

- 32. What changes do you think would be necessary to the institutional arrangements in the electricity sector to support these market reforms?**

We would like to see greater support and incentives for small-scale generators, in particular those local authorities wishing to enter into the market locally.

- 33. Do you have view on how market distortion and any other unintended consequences of a FIT or a targeted capacity mechanism can be minimised?**

No specific comments.

- 34. Do you agree with the Government's assessment of the risks of delays to planned investments while the preferred package is implemented?**

We agree.

- 35. Do you agree with the principles underpinning the transition of the Renewables Obligation into the new arrangements? Are there other strategies which you think could be used to avoid delays to planned investments?**

No specific comments.

- 36. We propose that accreditation under the RO would remain open until 31 March 2017. The Government's ambition to introduce the new feed-in tariff for low-carbon in 2013/14 (subject to Parliamentary time). Which of these options do you favour:**
- a) All new renewable electricity capacity accrediting before 1 April 2017 accredits under the RO;
 - b) All new renewable electricity capacity accrediting after the introduction of the low-carbon support mechanism but before 1 April 2017 should have a choice between accrediting under the RO or the new mechanism.

We would support all new renewable electricity capacity accrediting after the introduction of the low-carbon support mechanism but before 1 April 2017 having a choice between accrediting under the RO or the new mechanism.

- 37. Some technologies are not currently grandfathered under the RO. If the Government chooses not to grandfather some or all of these technologies, should we:**
- a) Carry out scheduled banding reviews (either separately or as part of the tariff setting for the new scheme)? How frequently should these be carried out?
 - b) Carry out an "early review" if evidence is provided of significant change in costs or other criteria as in legislation?
 - c) Should we move them out of the "vintaged" RO and into the new scheme, removing the potential need for scheduled banding reviews under the RO?

No specific comments.

- 38. Which option for calculating the Obligation post 2017 do you favour?**
- a) Continue using both target and headroom
 - b) Use Calculation B (Headroom) only from 2017
 - c) Fix the price of a ROC for existing and new generation

No specific comments.