gasgeneration@decc.gsi.gov.uk
Area 4E Department of Energy & Climate Change
3 Whitehall Place
London
SW1A 2AW

28th June 2012

Re: Gas generation strategy- call for evidence

Dear Sir or Madam,

SmartestEnergy welcomes the opportunity to respond to the call for evidence on the role of gas in the electricity market. SmartestEnergy is not a developer of gas-fired generation and so it is not possible for us to directly address some of the questions posed in the document. We would, however, like to offer some general views on the role of gas-fired generation in a decarbonising world.

SmartestEnergy does not favour one technology over another, believing instead that a mixture of energy sources is required to ensure continued uninterrupted supply in a low carbon society. We consider that whatever technology is used to generate energy it should ultimately be able to be self-supported and offer best value for consumers. At all times innovation must be encouraged and new entrants need to be able to enter the market to ensure competition and efficiency gains.

The Government should be mindful of the pitfalls of trying to “pick winners” in the energy market where technology is constantly evolving. We believe the market is the most effective way of ensuring the most economically sensible route is followed. We believe that over-intervention in the market would ruin the effective functioning of the market as price signals are distorted.

We do, however, acknowledge that in certain instances the market does not give out clear signals for investment as the social/environmental factors are not always accurately included in price. Subsidies may be justified to meet internationally binding agreements or to obtain a higher level of security of supply.

It appears that the government are considering further subsiding/incentivising gas-fired generation with the call for evidence serving to identify the form this support should take. As highlighted by the document itself the Emissions Performance Standard has been set at a level with gas generation in mind. We note with interest the following comments in DECC’s EMR Overview document published on 22nd May: “without reform to the electricity market we would increasingly rely on one type of generation, gas, which would leave us with less diversity – with energy security and affordability implications as we would be more exposed to price volatility as well as less able to meet our climate change objectives.”

If Government further incentivises gas-fired generation then it will have the desired effect of attracting new investors, though there needs to be careful consideration that the above concern does not become reality. We believe that the most suitable subsidy vehicle would be in the form of capacity payments and not a flexible FiT CfD which government are considering potentially introducing in the next decade. By making gas-fired generation available to the capacity market the government will be able to make use of the flexibility of this technology. However, gas-fired generation should not be able to qualify for both otherwise there is the risk that the UK becomes over-reliant on this technology. Extreme care needs to be taken to ensure that the comparable level of support is not over-inducing investment in one form than another and that the cost to consumers is kept to a minimum.

Should you wish to discuss any aspect of these issues further, please do not hesitate to contact me.

Yours sincerely,

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SmartestEnergy Limited.

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