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16 August 2012

Dear Sir/Madam,

A call for evidence on barriers to securing long-term contracts for independent renewable generation investment

Thank you for the opportunity to provide views on your call for evidence on long-term offtake contracts. This response is provided on behalf of National Grid Electricity Transmission plc (NGET) and is not confidential. National Grid owns and operates the high voltage electricity transmission system in England and Wales and, as National Electricity Transmission System Operator (NETSO) we operate the Scottish high voltage transmission system.

In the UK, our primary duties under the Electricity Act are to develop and maintain an efficient network and to facilitate competition in the generation and supply of electricity. Our activities include the residual balancing in real time of the electricity markets.

Summary

National Grid does not have any direct experience of the Power Purchase Agreement (PPA) market, we are however aware that both independent generators and suppliers have expressed concerns over the ability to secure PPA contracts on acceptable terms under the existing market arrangements. In the consultation document DECC notes that some independent generators have expressed concerns over the detrimental impact of EMR on the availability of bankable PPAs. As DECC develops its thinking on the issues with PPA availability, we believe it is an important to understand whether any issues arise from the general availability of PPAs or specifically from the changes being introduced under EMR. This understanding should help inform any interventions, ensuring that PPAs are available for independent generation covered by both the existing Renewables Obligation and under the EMR Contracts for Difference.

We believe that independent renewable generation has a role in supporting the delivery of the governments' renewable energy and de-carbonisation objectives. Should barriers to investment in this generation be identified then we would support further exploration of the options for intervention. Unless there was a demonstrable need for direct regulatory intervention our preference would be for market led initiatives and development of competition measures.

The remainder of this response in the Appendix provides our thoughts in relation to the specific questions asked within the consultation document on the options to achieve the Government's objectives (Questions 8-10). We have not answered questions 1-7 (on our experience of operating in the PPA market) or Annex A (for independent renewable developers) as neither apply to National Grid.

If you wish to discuss the content of this letter further or have any queries please contact John Perkins on 01926 656337 in the first instance.

Yours sincerely

Project Director, Electricity Market Reform

DECC – A call for evidence on barriers to securing long-term contracts for independent renewable generation investment

Question 1 - What are your views (costs, benefits and risks) on the potential options discussed in this call for evidence that may be necessary to achieve the Government's objectives??

The consultation lists three types of intervention that could be considered; market led initiatives, competition measures and regulatory measures.

We fully support market led initiatives as these are likely to be the lowest cost and with minimal impact on existing industry processes. To enable the industry to take these forward, we would encourage DECC to publish information on the Contracts for Difference as soon as it is able to do so.

As a general principle we would also support any competition measures which sought to increase transparency and efficiency of the market. However as acknowledged by DECC in the consultation, these actions would not necessarily resolve any specific PPA issues. DECC explains that encouraging the development of new independent aggregators would be an example of a measure specifically targeted at PPA issues. We agree with DECC that measures specifically targeted at PPA issues are required if the availability of bankable PPAs is to be addressed in the required timescales.

In the consultation reference is made to cash-out reform and the potential for more predictable costs of imbalance reducing the costs of managing the risks. It is worth noting that cash-out reform could result in more penal imbalance prices that might increase the costs of managing these risks on behalf of an intermittent generator.

We believe that more intrusive regulatory interventions should only be considered after the other options have been fully explored. Our answer to question 2 provides further information on our concerns over regulatory intervention.

Question 2 - What are your views of the potential for market distortions and possible impact on the wider market?

We do not advocate regulatory intervention, however, should such measures be deemed necessary we believe careful consideration is required to avoid any unintended market distortion.

With growth in the amount of renewable electricity generation connected to the network, there will be an increased likelihood of curtailment of intermittent generation to ensure the system remains stable and operable, particularly at times of lower demands.

Any regulatory intervention, such as the creation of an off-taker of last resort, would need to be carefully designed to avoid creating a financially un-manageable imbalance position for the off-taker and an increasingly unbalanced physical network. Both of which would be likely to increase the overall costs to the industry.

From a wider market point of view, the concept of an off-taker of last resort implies a right to generate without consideration of the need to contract with an equivalent demand, or to be exposed to cash out risk. Should a supplier of last resort be introduced for independent generators, this would need to be done in a way that didn't allow a precedent to be set for other generators.

Introduction of an off-taker of last resort could also be seen as a step back towards "pool" type arrangements and away from existing market arrangements. Removal of a generators obligation to balance, or be exposed to cash out, would also be a move away from the longer term aim of low carbon generation competing on an equal basis with existing conventional generation.

Question 3 - Can you identify and explain any other viable options (voluntary, competition based, regulatory or otherwise) that should be considered?

We do not have any suggestions for alternative models that could be considered by DECC. We note that in the consultation document, DECC mention the option for an incentive on suppliers to purchase low carbon power. We agree that such an approach would not guarantee increased interest from suppliers in PPAs as they may choose to invest in their own in house low carbon projects or to secure contracts from other large scale low carbon projects.