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Response by Regen SW to DECC's consultation document on Electricity Market Reform

10 March 2011

Regen SW

Regen SW is an independent not-for-profit organisation based in Exeter, with over 100 Members from business and local authorities. Regen SW works to enable business, local authorities, community groups and other organisations to deliver renewable energy and energy efficiency and to build a prosperous low-carbon economy in the south west of England. We do this by inspiring change, backing business, and preparing the ground.

Electricity Market Reform

Our interest in Electricity Market Reform is principally on how it will impact on the generation of renewable electricity and on the business objectives of our Members. We recognise that the proposed package of reforms is aimed at achieving several policy objectives, principally of course to facilitate the huge investment required for electricity system decarbonisation, as well as providing scope for new nuclear generation and preventing the construction of new coal-fired generation unless it has low carbon emissions.

We have chosen not to reply to all the questions posed by DECC but to confine ourselves to making the following specific high-level comments.

Key points

1. In the eight years of Regen SW's existence one refrain has been constant – that our businesses and investors need long term certainty and continuity of government policy in renewables. It is not clear to us that the Renewables Obligation has failed and must therefore be replaced by a package of proposals that is radical, complex and not fully worked through. In our view this approach is likely to introduce uncertainty into the market leading to delayed investment decisions. Previous electricity market mechanisms have proved troublesome to design in detail and these proposals are likely to be no exception. There is insufficient information in the consultation document to assess how some of the proposals would work in practice. In addition the EMR proposals must be viewed in context of the other reviews being undertaken, such as that by Ofgem of market liquidity, and carbon tax by HMT. This is worrying as the timetable to achieve a White Paper in late spring 2011 and primary legislation later this year is very tight.

2. The proposals aim for an approach that is applicable to all sizes of generation and all technologies but this is probably unachievable in practice. The changes to the market to facilitate new large scale low carbon generation such as nuclear and offshore wind may in fact work against medium sized renewable generation plant such as onshore wind, especially where such plant is not operated by a large utility. This is because of the additional uncertainty introduced by the proposed arrangements and the extra costs or lower revenue that may result by such generators being unable to participate fully in the wholesale market.

3. The removal of the obligation on suppliers removes one of the key drivers for increased deployment of renewables and will disadvantage existing medium sized renewable generators and constrain the entry of new generators. We suggest that providing priority despatch of renewables, as is common in continental Europe, would overcome this problem.

4. We can understand why a Contract for Differences approach in a Feed In Tariff should be attractive to government to guard against wholesale electricity prices rising strongly in real terms in the future. However the complexity of CfDs is legendary and we fear the proposal may prove to be impractical and will only introduce additional uncertainty. We suggest government should consider the alternative of a fixed, stepped FIT that reduces towards the wholesale electricity price over time, as used in Germany. Such a FIT could more easily be harmonised with the FIT for small generation and would allow existing RO contracts to be easily converted to the new FIT by avoiding lengthy transition periods.

5. The use of an auction mechanism for price discovery would appear to be unwise as there are possibilities for gaming and the auction transaction costs could probably only be borne by larger players.

Overall we would recommend a more gradual development of the existing market mechanisms rather than a radical reform and we are concerned that the proposed reforms will further delay implementation of renewable electricity generation and damage investor confidence, particularly at medium scale.

Yours sincerely

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