



Department
for Business
Innovation & Skills



Department
of Energy &
Climate Change

Electricity Market Reform

Eligibility for an exemption from
the costs of Contracts for
Difference – updated cost
estimates

AUGUST 2013

1. In examining the consultation currently open on eligibility for an exemption from the costs of Contracts for Difference (CfDs), a number of parties have asked for additional numbers to illustrate the Government's best estimate of the redistributive impact of the exemption. This document presents those additional numbers, as requested. This updated analysis also brings the data into line with the latest modelling for the draft Electricity Market Reform (EMR) Delivery Plan, which was published in the EMR impact assessment on 31 July 2013¹.
2. EMR is expected to reduce annual household electricity bills by an average of £63 (9%) over the period 2016 to 2030 (real 2012 prices), relative to achieving the same level of decarbonisation using existing policy instruments. Making the same comparison for businesses shows electricity bills are lower by an average of around 10% to 11% over the period 2016 to 2030. The costs presented here and in the consultation represent the costs of EMR without any renewable energy policies rather than the cost of continuing existing policy instruments.
3. The actual cost in future years, both of CfD payments themselves, and the exemption, are dependent on a number of variables, including: wholesale prices, the actual investment attracted into new generation capacity, realised CfD support costs, electricity demand and the final design and scope of the exemption. Although the agreed Levy Control Framework provides some constraint on total future energy and climate change policy costs, we cannot accurately predict the value of the exemption, nor its cost to non-exempt consumers far into the future. To reflect some of these uncertainties within the consultation document, the cost of the exemption in the consultation document was presented as an average over the period 2016-2020. Costs for specific years were not presented.
4. However, reflecting the approach taken in DECC's Prices and Bills policy impacts document, we now present the exemption cost in 2020 (Figure 2), alongside the average over the period 2016-2020 (Figure 1).² For the purposes of this document we additionally present costs for individual years from 2016 to 2020 (Figure 3). Exemption costs for individual years will be more sensitive to the uncertainties described above, in comparison to averaging over a number of years. Therefore, the numbers in Figure 3 should be interpreted with a greater degree of caution.
5. We have also chosen to show numbers up to 2020 to reflect the fact that the Levy Control Framework spending profile is still to be agreed beyond this date.
6. Overall, these cost estimates should be interpreted as an indicative estimate of the scale of the potential costs under a number of potential scenarios, not an exact forecast of the realised exemption values.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226020/emr_delivery_plan_ia.pdf

² Estimated impacts of energy and climate change policies on energy prices and bills: <https://www.gov.uk/policy-impacts-on-prices-and-bills>

Figure 1 Impact of options in pounds and percentage change, average for 2016-2020 (Real 2012 prices) – Draft Delivery Plan consistent analysis³

	Average price impact in pounds per MWh 2016-2020 (excl. VAT)	Average electricity bill impact 2016-2020 in pounds and as a percentage of final bill			
		Domestic consumer ⁴ (incl. VAT)	Medium-sized business user ⁵	Eligible company ⁶	Company eligible for the taper
EMR support cost (before exemption, excluding Capacity Market) ⁷	£5.20	£17.10 3.0%	£53,700 4.3%	£495,000 5.1%	
		Average additional electricity bill impact 2016-2020 in pounds and as a percentage change			
Option 1a: Compensation mirror	0.30 to 0.50	£1.10 to £1.70 0.2% to 0.3%	£3,400 to £5,300 0.3% to 0.4%	-£396,000 -3.8%	N/A
Option 1b: Reduced exemption level	0.30 to 0.40	£0.90 to £1.40 0.2% to 0.2%	£2,800 to £4,400 0.2% to 0.3%	-£331,000 -3.2%	N/A
Option 2a: Compensation +	0.70	£2.30 0.4%	£7,400 0.6%	-£396,000 -3.8%	N/A
Option 2b: Compensation + Taper	0.60	£2.10 0.4%	£6,700 0.5%	-£396,000 -3.8%	-£247,000 -2.4%

³ All price impacts and domestic consumer bill impacts rounded to the nearest 10p. Medium-sized business users bill impact rounded to nearest £100. Eligible EII company bill impact rounded to nearest £1,000.

⁴ Based on a household consuming 3.2 MWh of electricity after policies in 2020.

⁵ Based on consumption of 10,400 MWh of electricity after policies in 2020.

⁶ Eligible companies and companies eligible for the taper are described in the text of the main consultation document. Based on consumption from the grid of 95,200 MWh of electricity after policies in 2020.

⁷ The Consultation document presented EMR support costs *including* the Capacity Market. However, under the modelling presented in the Consultation document there were no Capacity Market costs until after 2020, effectively meaning the table presented the average costs of CfDs alone. In the modelling consistent with the Draft Delivery Plan Capacity Market costs do begin before 2020. To allow an easier comparison with the previous table, EMR support costs, *excluding* Capacity Market support costs are presented above, or in other words the support costs associated with CfDs only.

Figure 2 Impact of options in pounds and percentage change in 2020 (Real 2012 prices) - Draft Delivery Plan consistent analysis⁸

	Price impact in pounds per MWh 2020 (excl. VAT)	Electricity bill impact 2020 in pounds and as a percentage of final bill			
		Domestic consumer ⁹ (incl. VAT)	Medium-sized business user ¹⁰	Eligible company ¹¹	Company eligible for the taper
EMR support cost (before exemption, excluding Capacity Market) ¹²	£9.20	£29.20 5.3%	£94,000 7.5%	£869,000 8.7%	
		Average additional electricity bill impact 2020 in pounds and as a percentage change			
Option 1a: Compensation mirror	0.60 to 0.90	£1.90 to £2.90 0.3% to 0.5%	£6,000 to £9,300 0.4% to 0.7%	-£695,000 -6.2%	N/A
Option 1b: Reduced exemption level	0.50 to 0.80	£1.60 to £2.40 0.3% to 0.4%	£5,000 to £7,800 0.4% to 0.6%	-£582,000 -5.2%	N/A
Option 2a: Compensation +	1.30	£4.00 0.7%	£13,000 0.9%	-£695,000 -6.2%	N/A
Option 2b: Compensation + Taper	1.10	£3.70 0.6%	£11,800 0.8%	-£695,000 -6.2%	-£435,000 -3.9%

⁸ All price impacts and domestic consumer bill impacts rounded to the nearest 10p. Medium-sized business users bill impact rounded to nearest £100. Eligible EII company bill impact rounded to nearest £1,000.

⁹ Based on a household consuming 3.0 MWh of electricity after policies in 2020.

¹⁰ Based on consumption of 10,200 MWh of electricity after policies in 2020.

¹¹ Eligible companies and companies eligible for the taper are described in the text of the main consultation document. Based on consumption from the grid of 94,700 MWh of electricity after policies in 2020.

¹² The Consultation document presented EMR support costs *including* the Capacity Market. However, under the modelling presented in the Consultation document there were no Capacity Market costs until after 2020, effectively meaning the table presented the average costs of CfDs alone. In the modelling consistent with the Draft Delivery Plan Capacity Market costs do begin before 2020. To allow an easier comparison with the previous table, EMR support costs, *excluding* Capacity Market support costs are presented above, or in other words the support costs associated with CfDs only.

Figure 3 Annual impact of options in pounds and percentage change, price per megawatt hour and domestic bill impact for 2016 to 2020 (Real 2012 prices) - Draft Delivery Plan consistent analysis¹³

	Option 1a: Compensation mirror		Option 1b: Reduced exemption level		Option 2a: Compensation +		Option 2b: Compensation + Taper	
	Price impact in pounds per MWh 2020 (excl. VAT)	Electricity bill impact in pounds and as a percentage of final bill (incl. VAT)	Price impact in pounds per MWh 2020 (excl. VAT)	Electricity bill impact in pounds and as a percentage of final bill (incl. VAT)	Price impact in pounds per MWh 2020 (excl. VAT)	Electricity bill impact in pounds and as a percentage of final bill (incl. VAT)	Price impact in pounds per MWh 2020 (excl. VAT)	Electricity bill impact in pounds and as a percentage of final bill (incl. VAT)
2016	£0.10 to £0.10	£0.20 to £0.30 <i>0.0% to 0.0%</i>	£0.04 to £0.10	£0.20 to £0.20 <i>0.0% to 0.0%</i>	£0.10	£0.40 <i>0.1%</i>	£0.10	£0.40 <i>0.1%</i>
2017	£0.20 to £0.30	£0.60 to £0.90 <i>0.1% to 0.1%</i>	£0.10 to £0.20	£0.50 to £0.70 <i>0.1% to 0.1%</i>	£0.40	£1.20 <i>0.2%</i>	£0.30	£1.10 <i>0.2%</i>
2018	£0.40 to £0.50	£1.20 to £1.80 <i>0.2% to 0.3%</i>	£0.30 to £0.50	£1.00 to £1.50 <i>0.2% to 0.3%</i>	£0.80	£2.50 <i>0.4%</i>	£0.70	£2.30 <i>0.4%</i>
2019	£0.50 to £0.80	£1.60 to £2.50 <i>0.3% to 0.4%</i>	£0.40 to £0.60	£1.30 to £2.10 <i>0.2% to 0.3%</i>	£1.10	£3.50 <i>0.6%</i>	£1.00	£3.10 <i>0.5%</i>
2020	£0.60 to £0.90	£1.90 to £2.90 <i>0.3% to 0.5%</i>	£0.50 to £0.80	£1.60 to £2.40 <i>0.3% to 0.4%</i>	£1.30	£4.00 <i>0.7%</i>	£1.10	£3.70 <i>0.6%</i>
2016-2020 average	£0.30 to £0.50	£1.10 to £1.70 <i>0.2% to 0.3%</i>	£0.30 to £0.40	£0.90 to £1.40 <i>0.2% to 0.2%</i>	£0.70	£2.30 <i>0.4%</i>	£0.60	£2.10 <i>0.4%</i>

¹³ All price impacts rounded to the nearest 10p.

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