Department
of Energy &
Climate Change

EMR and FID Enabling for Renewables Evaluations: Government Response

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Introduction

Electricity Market Reform is designed to ensure the UK can attract the investment in electricity generation needed to have a secure, affordable supply of electricity towards the end of this decade and in the longer-term and to meet its decarbonisation and renewables targets in the most cost-effective way. The EMR programme was started under the previous Government and was completed under it, as planned.

Key deliverables from the EMR Programme are:

In February 2015, the first competitively allocated CfDs (Contracts for Difference), worth over £315m per year, were offered to renewable developers and in March 2015, 25 contracts were signed. This early move to competitive auctions has driven down the costs to consumers, resulting in the capacity delivered costing up to £105m less per year than it would have in the absence of competition.

The first Capacity Market (CM) Auction was run in December 2014, with 49.3GW of capacity contracts allocated which will help ensure there is a long-term solution to the country's electricity security of supply challenges.

As a transition to EMR, in April 2014, eight renewable electricity projects were awarded Investment Contracts (an early CfD) through the Final Investment Decision Enabling for Renewables process). The eight projects will provide up to £12 billion of private sector investment and will bring forward approximately 4.5GW of renewables capacity across offshore windfarms, coal to biomass conversion plants and a dedicated biomass plant with combined heat and power – around 14% of the UK's 2020 renewable energy target.

The Department sees significant value in independent evaluation in terms of understanding what has gone well and what could be done better on these schemes and lessons for the wider Department. The Department commissioned two evaluations, both of which commenced in October 2014 and concluded in June 2015, one covering the FID Enabling for Renewables process, and the other covering the first round of EMR delivery including the CfD and Capacity mechanism interventions. This document sets out the Government's response to both reports.

The Department also launched the Energy Demand Reduction in October 2014 as a pilot project within the EMR. This project has its own evaluation which commenced in October 2014 and will run alongside the pilot under 2019, and is not dealt with here.

These evaluation reports can be found on DECC's website:

https://www.gov.uk/decc

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Summary of response

The Department welcomes these two reports, which recognise the success of both the transitional FID Enabling for Renewables process and the enduring EMR interventions. Whilst both reports outline significant learning and will feed into the ongoing EMR regime, neither provides any evidence of the need for significant shift in policy or change in approach. It is notable that that the evaluators found there is a general appreciation among stakeholders that the Department and its delivery partners delivered a complex reform to a relatively short timescale.

The conclusion “that the first CfD auction in 2015 was a major accomplishment” which has provided “greater value for money than the Renewables Obligation” is welcomed. The Government also welcomes that the evaluation found that the principles underpinning the design of both the Capacity Market (CM) and the CfD auctions and what they were aiming to achieve were robust. The assessment of the FID Enabling for Renewables found evidence consistent with there being an investment hiatus and concludes that the procurement process was appropriate.

The evaluation does not recommend any significant changes to either CM or CfD mechanism, rather focusing on suggesting changes to streamline administrative processes and reviewing some specific parameters as well as monitoring performance, which will be a focus for coming years. Additionally there are some useful lessons for the Department on process and consultation, in particular on transparency and providing a long-term line of sight with regard to budget setting and technology mix.

The Government is committed to ongoing monitoring, evaluation and benefits realisation for the EMR programme and FID Enabling for Renewables. These reports, which were commissioned at an early stage of delivery in the policy cycle, represent the first of a number of stages of evaluation planned throughout the delivery period of the EMR instruments. These two reports capture lessons from initial stages of the programme and will support communication and implementation of this learning.

Contracts for Difference

Operation

1. The Government is committed to monitoring and evaluating the CfD regime. This will ensure its benefits are being realised. The Department is currently assessing the outcomes of the first allocation round and prioritising areas of the CfD system where modifications may be needed, across a wide range of policies within the framework. This includes addressing internal analysis, stakeholder feedback received to date and considerations raised by this external evaluation.
2. The Department appreciates investors' desire for stability of the current structures and processes, as expressed in the report, and for structural visibility on the long-term commitments to renewables and clarity around the future of the CfD allocation rounds.
3. The Government recognises the importance of long term visibility for industry and remains committed to renewal of our ageing energy infrastructure, maintaining a secure energy supply, and meeting our environmental commitments as cost-effectively as possible. In the autumn, the Government will provide more information about the Levy Control Framework (LCF) and its plans in respect for future CfD allocation.
4. The importance of maintaining stability and confidence in the CfD regime does not prevent us from continuing to look for ways to improve and enhance the CfD contract in order to ensure it remains a commercially attractive policy instrument to generators and investors alike. The Government aims to provide stakeholders with as much visibility of future changes to the CfD contract as possible in order to ensure they are familiar with it in advance of any allocation round and are also given sufficient opportunity to comment on proposals and participate in the policy design process.
5. The Department acknowledges the report's recommendations in relation to expected cost of capital benefits and attractiveness to a wider range of investors; project pipeline; managing allocation risk, and decrease the risk of speculative/opportunistic behaviours in the allocation process.
6. The report also recommends stability in the high-level auction design to support investor confidence, but that some of its more detailed features could be simplified. The evaluation specifically refers to reducing complexity of flexible bids.
7. The Government recognises the importance of maintaining auction design stability for investors to enable participants to build their understanding and familiarity of the rules. This can help remove barriers to participation due to auction complexity, encourage

participation, and foster greater competition within the auction, which ultimately is the driver of value-for-money for consumers.

8. It should be noted, however, that the choice of design stems from the objectives set for the auction. There may be reasons for this design to evolve over time as these objectives change, or for example to maintain high levels of competition between projects and technologies as technology costs evolve.

9. The Department is pleased that the evaluation is supportive of flexible bids as these can help to deliver greater efficiency in the auction and help to reduce allocation risk for participants. It is acknowledged that the current rules on flexible bids are relatively complex and are exploring options to ensure these deliver more efficient outcomes and are simpler in terms of formulating bids. Any amendments will be communicated early with the help of our delivery partners.

10. The evaluation recommended that the Department review the frequency of allocation rounds, for example for quick lead-time technologies like solar and to manage the burden on smaller firms.

11. The frequency of allocation rounds was an area of interest to investors who engaged in the evaluation. The Department will continue to review its approach in this area while options for the LCF, strike prices and other factors that impact on the willingness of market participants to invest in project development are developed.

12. The report made several recommendations in relation to the qualification process, including that the Department should review the grid connection offer requirement, including whether greater flexibility could be appropriate to avoid barriers to participation for smaller generators. The report also recommends DECC consider how it could introduce a limited degree of discretion into the eligibility assessment to avoid the potential for projects to be over penalised for minor indiscretions and publishing the scores awarded to the supply chain plans.

13. The Department is grateful for the recommendations provided by the evaluation and will seek to explore options that may resolve the concerns identified and consider options for addressing them where appropriate.

14. At this time the Department does not believe that there is adequate evidence to support the case for changes to grid connection eligibility criteria, but will keep this under review.

15. The Department does not consider that it would be appropriate or fair to introduce discretion to what is an absolute test of eligibility. Introducing such discretion would increase the risk of challenge to decisions and would consequently delay the round and increase uncertainty for all participants.

16. Supply chain plans for successful applicants will be published. It is not our intention to publish details of the scoring to third parties on the grounds of commercial confidentiality. The Department will publish updated guidance on the supply chain plan process before any future CfD round and would encourage stakeholders to look at this.

17. The report made several recommendations regarding monitoring. The evaluators recommend regular monitoring and communication of non-delivery risk to deal with concerns regarding it creating uncertainty for the market.
18. The report also recommends monitoring market developments and evolution of the regime; the ability of budget and overall policy to provide a healthy level of competition, including the desired technology diversity, and how conditions for access to financing and route to market agreements evolve with the objective to identify barriers to investments and/or benefits realised by investors that should be transferred to the final consumers. It also recommended that the Department should monitor whether the choice of setting the Target Commissioning Date very close to the Delivery Year is a strategic behaviour that may lead to sub-optimal budget allocation and management.
19. The Government accepts these recommendations and will continue to monitor the UK electricity market and the short and long term performance of the CfD in delivering its objectives. The evaluation report identifies a number of interesting areas for further consideration and The Department will consider how best to incorporate them in our work.
20. The report proposes a number of recommendations to reinforce some of the measures against speculative or disruptive behaviour. These include having a separate qualification process from the allocation round; relaxing the rules governing the access to data managed by National Grid during the allocation process in favour of transparency and detection of potential speculative behaviours, and considering the introduction of an actual financial penalty that attaches a ‘cost’ to the use of strategic bids. It also suggests introducing an element of progressiveness in terms of timing and size of milestones commitments with the objective of facilitating the fast recycling of capital into future rounds; and reviewing the valuation formula used in the clearing price algorithm to address positive contributions to the available budget from bids that are result from a non-legitimate or opportunistic strategy.
21. The Government agrees speculative bids are undesirable as they can distort auction outcomes, lead to unsigned contracts, leave budget unspent, and increase allocation risk. This benefits neither auction participants, nor consumers.
22. The current allocation and CfD contract design include a number of features designed to deter speculative bidding, and encourage development:
    - meeting the qualification criteria, including demonstrating that the project is in receipt of planning permission and a grid connection agreement;
    - a penalty for non-signature, which excludes projects from taking part in another allocation round for at least 13 months; and,
    - potential for a termination of the contract associated with failure to meet the Milestone Stone Delivery Date
23. The Department is currently reviewing the first allocation round to assess the performance of the auction and is also considering whether the right balance in respect of deterring speculative bids and incentivising delivery has been struck.

24. The evaluation recommended an increase in the level of transparency of a number of processes such as the future CfD budget where information is not commercially sensitive or compromises the functioning of the auction. The report also recommended avoiding changes to the budget while the allocation round is live. There was an additional suggestion that the policy decision narrative should be communicated to participants in a consolidated form.

25. Our regulations, developed in consultation with industry, constrain budget revisions to give certainty to participants. The Department is transparent in notifying applicants of any changes to budgets as set out in regulations.

26. The Department agrees that there is scope to improve the quality of communication to the market by more clearly sign-posting existing information for a given allocation round.

27. With respect to the circulation of information and communication protocols, the report makes recommendations that the Department should encourage National Grid and the LCCC to continue to engage with potential participants to future CfD rounds. It also recommends that the communication protocols between the National Grid and stakeholders during the allocation process should be tightened, and the treatment of confidential information related to the allocation process by National Grid and what is disclosed to the Government and the public should be clarified.

28. The Department welcomes the evaluator's points on this area and agree that National Grid and the LCCC should maintain a high level of knowledge dissemination and engagement with potential participants to future CfD rounds. The Department will engage in dialogue with National Grid and LCCC on these other points.

Design

29. In looking at the investiblility of the CfD, the evaluation recommended the Department assess whether the CfD Contract proves itself as suitable for various financing structures and project deliverability during the construction phase. The report also suggests that the Department should look to identify if there are any investment hiatus risks with new investments once the RO-led pipeline dries out. It also recommends the Department should assess the evolution of strike prices over multiple rounds and the actual deliverability of contracted capacity in order to determine whether project efficiencies, innovation and cost reductions are facilitated by the regime and take them into account.

30. In partnership with the LCCC, the Department is closely monitoring the progress towards contract milestones of CfD-holders in order to gauge the types of financing structures that are being used and the overall deliverability of projects. It will be necessary to undertake regular reviews as the first set of allocated contracts pass critical milestones and to evaluate whether the existing terms continue to deliver against the regime's objectives.

31. In support of advice and decisions around future CfD budget allocation and strike prices, analysis will be undertaken across a range of potential fossil fuel and wholesale price scenarios, to ensure their robustness to various future states of the world. These scenarios are updated annually and subject to a rigorous peer review process. While lower wholesale electricity prices have resulted in an increase in projected costs under the LCF, this is expected to help reduce bills overall and offset the increase in LCF spend, which accounts for a much smaller proportion of the energy bill.
32. The conclusions that can be drawn on the basis of one round only may be limited. The Department is also implementing a monitoring and benefits realisation plan to assess progress against objectives in the longer term.
33. The Department acknowledges that the report points out that stakeholders believe that elements of the CfD process (especially budget setting) could be more transparent and that the design over-emphasised gaming risk. The report also states that stakeholders saw the decision to move to competition as very rapid.
34. The evaluation recommends that the Department puts in place a long term plan of the desired technology mix as auctions are not technology neutral i.e. different budget pots, to ensure that any technology differentiation is consistent with the Government goals. Work is now underway to set out the next stages in our long-term commitment to move to a low carbon economy, moving from demand-led to competition-led schemes, and giving the renewables industry greater certainty over future support.
35. The report also recommends taking a more consistent and more transparent approach to pot allocation maxima and minima policy decisions based on an evaluation of all technologies against a single set of metrics, including that consideration of the options for valuing reliable capacity to recognise its contribution towards meeting security of supply objectives. The report considers this to be a long-term methodology to increase future visibility over policy-making. The Department appreciates the report's finding about providing a clear rationale and robust mechanism for change; however, the evaluators acknowledgement of the Government's requirements for flexibility is also welcome.
36. The Department will keep decisions both regarding which technologies will be within which pots, and which technology should be subject to minima or maxima, under review. In doing so it balances the benefits of offering developers as much certainty as possible with considerations regarding the promotion of competitive tension to maximise value for money outcomes for consumers.
37. Safeguarding security of supply is a key objective of Electricity Market Reform. However, as the EMR consultation and the subsequent EMR White Paper made clear the Government seeks to deliver this objective through the Capacity Market. From the outset Ministers have always intended that the valuation of reliable capacity occur within the Capacity Market and not within the CfD allocation mechanisms. Consequently it would not be appropriate to consider valuing reliable capacity within the CfD.
38. The Department is currently assessing the outcomes of the first allocation round and prioritising areas of the CfD system where modifications may be needed, across a wide range of policies within the framework. Where appropriate this includes incorporating

relevant recommendation(s) from the outcome of the Competition Market Authority investigation into the energy market, addressing internal analysis, stakeholder feedback received to date and considerations raised by this external evaluation.

39. The report recommends introducing a separation between the application and appeal process from the auction itself and a rolling application process.

40. The CfD scheme has a clear allocation process that attracted a large number of eligible applicants, was significantly oversubscribed and led to a strong set of auction outcomes. Overall the Government is satisfied that its current approach is robust and has appropriate appeals mechanics and options for commencing the allocation round in the event of prolonged delays arising from unresolved appeals.

41. The Department is currently assessing the outcomes of the first allocation round and prioritising areas of the CfD system where modifications may be needed, across a wide range of policies within the framework. This includes addressing internal analysis, stakeholder feedback received to date and considerations raised this external evaluation.

42. When evaluating the use of Administrative Strike Prices (ASPs), the evaluation concluded that there is a need to focus on competition. The report recommends that the Department focuses future technology modelling (deployment and associated cost outcomes) on budget rather than ASP decisions. It also suggests that the Department should gain a good understanding of the future project pipeline, as this will be critical to ensuring budgets create competitive tension; and that ASPs should be set in a more straightforward way in future, the methodology for which would need to be simple, transparent and consulted on with industry.

43. The Department is already focused on competition to deliver a more sustainable approach to future low-carbon electricity investment and to deliver value for money. The analysis of the first CfD allocation round confirms that a competitive auction was delivered. Contracts were offered below the administrative strike price, showing the value of competition for driving value for money for consumers and resulting in the capacity costing up to £105m per year (for 15 years) less than it would have in the absence of competition.

44. The Department regularly updates and monitors the underlying modelling assumptions for the electricity sector (both generation costs and scheme uptake/future deployment), to ensure they are up-to-date and reflect reality as closely as possible. The Department is undertaking a comprehensive review of all technology assumptions for electricity generation. The Department will be publishing the outputs of this through our updated Generation Costs report, later this year. Further details in relation to current LCF period will be published in due course.

Capacity Market

Process

45. As with the CfD, the report recommends maintaining stability to allow the system to bed-in and for the overarching framework and design of the Capacity Market to remain stable wherever possible. The broad fundamentals of the Capacity Market should be retained to allow experience to develop.

46. The Department is committed to establishing a stable and predictable cycle for running the Capacity Market auctions. The Department aims to work with industry and interested parties to improve the process; reviewing and making incremental improvements, whilst providing the certainty and clarity required in advance of each auction. The Department aims to seek the views of stakeholders on potential improvements on a two-yearly cycle, where amendments are intended to clarify or resolve issues in the first instance. It is envisaged this will be a two-yearly cycle due to the parliamentary process required to make changes to regulations and the lead time to implement systems changes. This means that regulatory amendments proposed following the 2015 auction will be consulted on in the autumn of 2016 and any resulting regulatory changes to be in force prior to the opening of prequalification for the 2017 auction.

47. The evaluation also recommended that full texts of the Capacity Market Rules and Regulations should be maintained and made accessible to stakeholders, to remove an administrative burden for stakeholders. It was also recommended that a watch list of potential substantive changes could be established.

48. The Department produced an informal consolidated set of Rules which were published in June 2015. Ofgem made further changes to the Rules and also published a set of informal consolidated Rules in July. The Regulations are published and maintained on the official www.legislation.gov.uk website.

49. Based on experience from the first round the evaluation recommends seeking to remove any information that is not needed and address areas of duplication in the prequalification information requirements. The report also recommends that data or information that is unchanged from one auction to the next could be retained as standing data and that the Departments should consider requesting more information from new projects as part of prequalification.

50. Detailed arrangements for the prequalification process are primarily the responsibility of National Grid in their capacity as Delivery Body. The Department has sought the views of National Grid and Ofgem to help inform its response in this area.

51. National Grid and Ofgem agree that there is continuing opportunity to refine prequalification information requirements and consider that they have already actively engaged with this suggestion. A number of changes were made before the 2015 auction which should streamline the prequalification process, including removal of unnecessary information and

duplicated declarations. Ofgem will run a process annually to consider changes. The department considers that the continued promotion of the rule change consultation process is important, but that changing fundamental aspects of the Rules and Regulations is a complex issue that could cause undesirable repercussions at this stage.

52. In order to address minor issues with prequalification information, the evaluators made a recommendation that the appeals process should be more interactive. The Department acknowledges that this would be advantageous for the applicants in this process, however this needs to be weighed against the effects that a more interactive application process would have on the policy design element of the Capacity Market as well as the Delivery Body and Regulatory Body. The current non-interactive approach adopted was designed to incentivise applicants to fill in the form properly and to allow a distinct appeals process. A more interactive process which allowed multiple attempts might create the incentive for applicants to submit an incomplete application and then use the review and appeals process to fill in any gaps that the Delivery Body identifies. This creates additional work for the Delivery Body and will inevitably slow down the end process for all stakeholders. Ofgem’s view is that a more interactive process is likely to mean the prequalification process would take longer which would not be consistent with the overall timetable for capacity mechanism auctions. Whilst failing to attach a single document can be seen as excusable, there is difficulty in defining the limit at which an applicant should be failed and not allowed to rectify their application further. National Grid believes that the current zero-tolerance approach has been based on absence ways to address the above issues, and that this is not a decision to be left to the discretion of the Delivery Body.

53. There is also the concern that if corrections are allowed to be made through the Tier 1 review process, then the review process effectively becomes an extended multiple-opportunity application process. This may create additional work for Ofgem who would then be the first true appeal process, rather than the Tier 2 review process they currently provide.

54. National Grid also acknowledges the report’s recommendation that there should be a continued commitment to training in preparation for future auctions. It is understood that there will be many new entrants to the process for the next T-4 Auction, especially when taking into account the Transitional Arrangements Auction. With this in mind, National Grid have arranged stakeholder events, training material and screen casts for new entrants, as well as increasing the number of one-to-one information sessions with participants in order to provide participants with help through the prequalification process and entering the auction. An EMR Delivery team has been developed as part of National Grid to ensure the delivery of training and preparation events for industry on an annual basis. These events are focused on ensuring that stakeholders are fully informed about the requirements for participation in the Capacity Market process. Stakeholder events will continue to be run annually to ensure participants are thoroughly prepared for the annual delivery cycle. There are concerns that these events may be wrongly regarded as a replacement for industry participants taking sufficient time to properly review the Rules and Regulations for their own understanding. It is National Grid’s view that some work could be done to further promote the possibility of entry into the Capacity Market for applicants that are still unaware of its operation. Though this task may not fall easily within National Grid’s current remit as the

Delivery Body, it is something that National Grid feels they could be able to assist with. The Department welcomes this suggestion from the Delivery Body as part of its position on the Evaluation's recommendations and it is noted that Ofgem recently published its decision on funding and incentives for National Grid's EMR delivery body roles which addresses these activities.

55. The Department acknowledges the recommendation that the process around the release of auction results should be formalised. The necessity for a formalisation of the process for auction results release was realised following the previous auction. A number of poorly-communicated, last minute changes were made to the reporting process that caused confusion and a lack of clear process. As a result of this experience, there have already been rule changes to increase the transparency of information to the industry. This year there will be communication from the Delivery Body to address the formal process for auction results release.

56. This year a variety of information will be made available to the public alongside its release to participants who are logged into the Auction System. Information included in this release will include mid-round information and the auction clearing point which will give an indication of the range of clearing prices and capacity cleared. Actual clearing price and clearing quantity will be made available to the public soon after the auction prior to markets opening.

Design

57. The report raises the point that the basis for setting the Net CONE and Price Cap could have had a more transparent supporting methodology and there is a case for defining the methodologies behind the parameters in the Rules and Regulations.

58. The Department recognises the need to provide greater transparency around the setting of these parameters, and it is publishing a note alongside the current consultation[1] that summarises the process for setting Capacity Market parameters as well as the evidence that is used for this purpose. Given the variety of evidence sources that will be drawn on and the need to maintain some flexibility in what will necessarily be a dynamic environment, the Department is not proposing to establish the methodology as part of the Rules and Regulations, which can take a considerable time to amend, but it will ensure that any changes to the fundamental methodology are published and communicated to stakeholders to maintain the transparency of demand curve pricing parameters.

59. The report suggests that, in light of evidence from several future auctions, the Department may wish to assess the anti-gaming measures. In the event that there is an indication of functioning competition, the report suggests some relaxation of some of the anti-gaming measures could be allowed.

60. The Department agrees that this is an important issue to consider as a longer-term focus. As part of the legal framework, there will be a 5-year review of the Capacity Market

[1] Consultation on Capacity Market supplementary design proposals and changes to the Rules and Regulations

mechanism, and the Department believes that a full review of anti-gaming measures is an important component to include in this. In the meantime, the Auction Monitor Report presented to National Grid and Ofgem's Annual Report on the Operation of the Capacity Market both provide useful information, and the Department continues to scrutinise the auction process and to obtain feedback from participants and other stakeholders after each auction.

61. The evaluation concludes that the Department should continue to invite the Demand Side Response (DSR) community to supply evidence in relation to the implications of 1 year only agreements on DSR deployment and the potential effects of longer-term agreements on this, as well as assessment of delivery risk issues associated with longer-term agreements. This will allow an evidence-based review of this issue.

62. The Department is grateful for the evidence received on this point, but notes that this has only been of a limited nature. Views and evidence from the DSR sector to help inform consideration of auction design issues, including agreement lengths and the reliability of units delivering over the longer term, continue to be welcomed. The Department has commissioned research on the capacities and costs of the DSR sector, which will be relevant to the question of the specific support-needs of the sector.

63. The evaluation concluded that there is a need for a review of the arrangements for qualifying for refurbishment status, including whether there is any ongoing need for the category. In particular they note that the capital expenditure threshold is imprecise and historical expenditure can qualify as eligible spending.

64. The Department has already taken action on this and in the current consultation[2] it is consulting on both the ongoing requirement for the Refurbishing CMU category, and the specific eligibility criteria in respect of a Refurbishing CMU so long as these agreements remain available, in particular the definition of an improvements programme and maintenance works, with a view to ensuring the best value for consumers whilst maintaining a fair and simple Capacity Market mechanism.

Operation

65. As with the CfD, the report made recommendations regarding monitoring, focusing on non-delivery risk. It is relevant that Ofgem already have monitoring policies in place, including specifically looking at the Capacity Market. This analysis is used both in the production of an annual report, which is made public, and when determining whether there have been breaches of the Rules or Regulations (and where appropriate broader legislation such as the Competition Act). Ofgem opened investigations into several companies for submitting false declarations earlier this year. The evaluators also found that there is a need for regular communication of non-delivery risk (e.g. through a publicly available dashboard) to provide transparency to the market.

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[2] Consultation on Capacity Market supplementary design proposals and changes to the Rules and Regulations

66. The Department acknowledges some stakeholders' concerns with respect to the robustness of the delivery incentives for new-build plants, though any amendments should consider the volume of potential new build capacity, the liquidity of the year-ahead auction, the benefits of greater assurance and potentially raising barriers to entry which restrict auction participation.

67. The Department has therefore now consulted on a package of proposals to focus additional financial checks on new-build units in excess of 400MW, whose size would be such that their failure to deliver would have a material impact on our security of supply. This would provide additional reassurance that new build projects which are successful in the auction have a high degree of certainty of being able to achieve financial closure at the auction's clearing price. These checks include introducing a pre-auction check of financing status and declaration of the minimum auction bids for which they have financial backing. Post-auction financing checks are also proposed, with projects failing to meet the necessary requirements having to post increased levels of credit cover.

68. In addition the Department proposes disqualifying projects and responsible directors from participating in subsequent auctions for several years where their agreements are terminated for lack of progress. The Department also intends to increase the frequency with which providers report their progress, up until they achieve their financial completion milestone, in order to provide Government with additional oversight as to project status.

69. As the recommendation notes, there may be limits to the amount of information that can be made publicly available given commercial confidentiality, but the Department will continue to consider what information can be published to ensure transparency, whether in the Annual Update and/or in respect of the assumptions that underpin decisions on the target capacity for future auctions.

70. With regards to engines in the Capacity Market, the report recommended that further analysis is needed to enhance understanding of the underlying characteristics of engine options and their potential impact on emissions and costs to consumers in providing security of supply.

71. The Department acknowledges that there is uncertainty surrounding the characteristics of engine technologies and their implications for emissions. Whilst recognising the evidence in the market regarding peaking plants is thin, the Department does include peaking plants explicitly in the Dynamic Dispatch Model (DDM). The DDM is a comprehensive fully integrated power market model covering the GB power market over the medium to long term. The model enables analysis of electricity dispatch from GB power generators and investment decisions in generating capacity from 2010 through to 2050. This model allows analysis comparing the impact of different policy decisions on generation, capacity, costs, prices, security of supply, and carbon emissions. The Electricity Generation Cost Update is publicly available report that the Department publishes, detailing the costs and technical specifications for different generation technologies that is used in the analysis. A 'levelised cost' is calculated for each technology, which shows the average costs over the lifetime of the plant per MWh of electricity generated. The report discusses how cost information is used in electricity market modelling and illustrates some of the cost estimates for specific

technologies; this includes an explicit estimate of engine costs and some details about this calculation.

FID Enabling for Renewables

Recognising the positive impact of Final Investment Decision Enabling for Renewables

72. The Department welcomes this evaluation report which recognises that there was a need for the transitional FID Enabling for Renewables and that there was evidence of conditions which had the potential to create investment hiatus in the renewable electricity sector ahead of the full implementation of the enduring regime. There is also emerging evidence that the FID Enabling for Renewables process has benefitted the supply chain by supporting development of innovative products and approaches in both biomass and offshore wind technology industries. The report confirms that overall the procurement process in place to deliver FID Enabling for Renewables was appropriate and well communicated to stakeholders.

Acknowledging key findings

73. There are a number of findings which indicate how the Department might improve its approach were it to carry out such a process again. These relate to: developing a clearer audit trail of key decisions, providing transparency in the process for stakeholders as early as possible and developing more effective staff resource planning and management for similar projects. Partly as a result of this a Transactions Team has been created in DECC's Commercial Directorate to ensure that the expertise and skills to manage similar projects are available in the future. The department is also actively looking at developing DECC's agility, to work in a more flexible way to ensure that DECC is able to deliver its priority activities, projects and programmes and maximise how we use available resources. These findings will also be considered in the continued implementation of the Electricity Market Reform enduring regime and will be shared with other project teams in the Department.
74. The Department considers, however, that some of the issues identified in the findings were unavoidable, or relate to perceptions from some stakeholders which were inevitable. These issues are considered further below.
75. The report suggested that the process should have been focused on a limited number of technologies which were most at risk of investment hiatus, however the view of the Department is that it was appropriate to open the scheme to the same technologies that are eligible for the Renewables Obligation. Further, that the assessment of projects in Phase I before they qualified to participate in the project was an effective way of eliminating projects that did not meet the criteria of the scheme. In addition, the Government wanted to support a diverse range of technologies (which met the criteria) in line with the approach set out in the EMR Delivery Plan.
76. Additionally, whilst it would have been beneficial to have more parameters, such as affordability, set out at the start of the process, the timeframe to implement a transitional scheme meant that the broader policy was still be developed. Waiting for this to be confirmed would have ultimately impacted on the ability to deliver the benefits of the FID Enabling for Renewables process.

77. The evaluation report also sets out that some stakeholders had concerns over the proportion of Levy Control Framework (LCF) budget allocated to FID Enabling for Renewables projects and the impact this had on the funds remaining to deliver the enduring regime and that was available for competitive allocation. The report identifies the challenges in allocating LCF budget to different schemes.
78. The Department recognises that the proportion of LCF budget left available for the enduring regime was lower than forecast when the FID Enabling for Renewables budget was set. This is in part due to lower wholesale prices and higher costs of the Renewables Obligation than was originally anticipated. The Department also considers that the FID Enabling for Renewables process ultimately enabled price competition to happen sooner than it would have otherwise been able to through introducing and testing the CfD with the market.
79. The Department is further developing the existing framework for monitoring LCF spend to ensure more regular reviews of the underlying modelling assumptions (both generation costs and scheme uptake/future deployment) to ensure they reflect reality as closely as possible.
80. Overall, the Department remains of the view that the process averted investment hiatus in the renewable electricity sector, the design of the process was appropriate and was fully in line with market expectations and commercial advice (internal and external) about what was achievable at the time and it provided proof of concept for the CfD.

Preparing to monitor benefits and costs of FID Enabling for Renewables looking forward

81. Several recommendations relate to future monitoring of costs and benefits of FID Enabling for Renewables to ensure these are realised. The Department appreciates the importance of these and is already putting in place plans to ensure that benefits of FID Enabling for Renewables are appropriately measured. An ongoing programme for evaluation on the FID Enabling for Renewables and other EMR interventions is planned which includes this evaluation which has just completed, planning for longer evaluation including consideration of long term evaluation goals this financial year, and evaluation with planned assessment of long term benefits in later years.

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