REA response to Ofgem consultation on the Energy Bill Price cap, derogations for green tariffs

The Renewable Energy Association (REA) is pleased to submit this response to the above consultation. The REA represents renewable electricity, heat and transport, as well as Electric Vehicle companies and Energy Storage. Members encompass a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are around 550 corporate members of the REA, making it the largest renewable energy trade association in the UK. Our subsidiary RECC has around 2,000 small scale renewables installers.

Support for Derogation for both electricity and gas from the energy bill price cap

In summary, regarding green tariffs, we strongly support the proposed derogation, for the following reasons:

- Green Electricity tariffs support more renewable generation through supporting a more competitive PPA market, which in turn leads to better pricing and service for generators and providing a route to market for generators (particularly for smaller generators, in some supplier cases).
- This will only become increasingly the case as the FiT closes in April 2019, and the RO is closed already (the CfD mechanism does not support wind, solar, and a range of other technologies). Therefore green suppliers are increasingly important as a route to market for new renewable power generation.
- Green gas tariffs are equally important, but the green gas market is still in its early days, so although suppliers are able to offer genuinely 100% PPA-backed electricity, gas is more reliant upon the certificate system at present.

Possible impact of non-derogation illustrated by removal of LECS

Levy Exemption Certificates (LECs) were removed in the summer of 2015, at less than a month's notice. They supplied roughly 5-6% of a typical ROC power project's income. If you consider the GGCS offering a net benefit of c.£2.50-3 to generators, this is roughly equivalent to a similar proportion of revenue for an RHI project at the £56/MWh rate.

The survey found that 78% saw the removal of LECS as very negative to their projects and around 60% were considering scrapping future projects entirely.

The respondents were representing around 5GW of potential new capacity, so a significant number of projects. Details of the industry reaction to this change are attached with this consultation as Annex 1 (see in particular from page two onwards).

We believe this is relevant as renewables deployment across a range of technologies has stalled since this decision, for a number of reasons mostly related to policy change, but with this as a contributing factor.

Many projects are now operating on very thin margins due to increased grid connection costs, and reduced policy support revenues, and so any addition or loss of revenue will make a significant difference to project viability.

Benefits for 'subsidy-free' renewable power projects
There is a pipeline of around 1.25GW of 'subsidy-free' solar PV projects which could be able to build out with a suitable 'offtaker', many of which would be green suppliers buying their output.

Industry figures (rough calculations) indicate that a significant delay in roll-out of unsubsidised renewables currently assumed in the 2020s – leads to increased costs either in the Capacity Market or wholesale markets and suggest a 10GW capacity gap for say 5 years from 2025, which would cost £750m per annum. In addition, the CCC and others have highlighted the level of increased renewable investment needed to meet our carbon targets, with the NIC recommending 50% renewable energy generation by 2030.

Summary

The REA strongly supports the derogation of both electricity and gas green tariffs from the Energy bill price cap. Such tariffs provide clear added benefits to the renewables industry and aid extra deployment which would not be possible without them.

We would be happy to discuss any of the points above further.

REA, September 2018

Enc. Annex 1 – industry survey findings on Removal of LECs, Summer 2015