



Assured Energy Outlook

Issue 31 – April 2019

European Commission confirms Capacity Market investigation

The European Commission confirmed that it would be undertaking a full investigation of the Capacity Market (CM), the scheme which guarantees the UK's security of supply.

The Department for Business, Energy and Industrial Strategy (BEIS) said in an update on 20 March that European Commissioner for Competition Margrethe Vestager sent a letter to Foreign Secretary Jeremy Hunt announcing the investigation.

Vestager said that the investigation would focus on whether the CM is sufficiently open to all relevant capacity providers, especially those providing demand-side response (DSR). This is a form of flexibility which enables electricity consumers such as businesses to earn extra revenue through selling electricity generated onsite (via rooftop solar or another form of generation) or to take advantage of cheaper electricity through changing their consumption behaviour. This enables the balancing of the electricity grid without significant expansion of infrastructure.

The investigation will focus on whether the CM treats DSR operators and conventional generators unfairly concerning the contract lengths offered, Vestager said. It will also look at whether the CM's cost recovery method fails to sufficiently incentivise consumers to reduce their consumption during demand peaks.

In the update, BEIS said it welcomed the EC's opening conclusion that the CM "contributes to an objective of common interest and is necessary". BEIS added: "We are confident that the CM is the most appropriate way to deliver secure electricity supply at least cost to consumers, and that the investigation will determine that it is fully compliant with State aid rules upon a full review of the evidence."

Government urged to reallocate FiT tariff band funds and introduce SEG

The Renewable Energy Association (REA) released a statement on 21 March calling on the government to reallocate spare capacity within the Feed-in Tariff (FiT) scheme and introduce the proposed replacement for it, the Smart Export Guarantee (SEG), "as soon as possible" after the end of March. The FiT is a subsidy that pays small-scale generators, such as businesses with solar panels, for exporting their power to the grid. The government is currently considering how the SEG will work following a consultation that ended at the beginning of March. Ofgem had announced that the >50kW rooftop solar PV FiT band had been breached by 16MW and would close. The REA said that other bands still hold 450MW of free capacity and urged the government to reallocate.

National Grid ESO finds "near-term uncertainty" for demand-side flexibility

National Grid Electricity System Operator (ESO) published its *Demand Side Flexibility Annual Report 2018*, finding that policy and regulatory developments are helping to enable a more flexible energy system, but that "near-term uncertainty" is making the business proposition for demand-side flexibility (DSF) more complex. DSF includes DSR.

The report found that DSF participation has continued to grow and that new opportunities are emerging due to markets being more accessible to smaller flexibility providers. On overall participation in DSF, ESO said it had seen an increase of 100% of new units in 2018, equating to an average of 10 new units entering the Ancillary Services markets per month.

MPs told that government needs to increase low carbon generation

Representatives from the UK Energy Research Centre (UKERC), the Renewable Energy Association (REA) and the Nuclear Industry Association (NIA) told MPs in the Parliamentary Science and Technology Committee that the government must do more to increase low carbon generation.

During an evidence session held on 2 April, Professor Keith Bell of the University of Strathclyde and Co-Director of UKERC said that the UK's fourth and fifth carbon budgets were "entirely credible and achievable". However, Dr Robert Gross of Imperial College London and Co-Director of UKERC was not as optimistic, saying that the UK would need to double its roughly 40GW of renewables capacity by 2030 to hit the targets. Additionally, the UK would most likely require at least one more nuclear power plant or would need to implement renewables even further and introduce carbon capture, usage and storage.

NIA Chief Executive Tom Greatrex said there was an urgent need to build new stations due to the length of time needed to finish construction on them.

Energy regulator introduces tougher rules for new energy suppliers

Ofgem, the energy regulator, has announced its final proposals for the conditions required to allow new entrants into the energy supply market in a bid to reduce the number of supplier failures, of which there have been several over the past year. In the 11 April update, Ofgem said that the new tests will be rolled out from June 2019. Companies looking to enter the market will need to demonstrate they can adequately fund their operations for their first year, outline how they expect to comply with key regulatory and market obligations and show their intentions to provide a proper level of customer service. Additionally, directors and major shareholders will also have to show they are 'fit and proper' to hold a licence. Ofgem also said it will consult on new proposals in the summer with the aim of raising standards for existing suppliers. Trade association Energy UK said that consumers would benefit from "increased choice and service, and aren't left picking up the tab when suppliers with unsustainable business models fails".

National Grid ESO says GB electricity system will be zero carbon by 2025

National Grid Electricity System Operator (ESO) announced it will be able to fully operate the GB electricity system with zero carbon by 2025.

In the 1 April announcement, National Grid ESO Director Fintan Slye said that zero carbon operation by 2025 would require a "fundamental shift" in how the system was designed to operate, integrating large-scale offshore wind and domestic scale solar panels while increasing demand-side participation.

He added: "Operating a zero carbon electricity system in 2025, whenever there is sufficient renewable generation, is a major stepping stone to full decarbonisation of the entire electricity system, enabling new technologies and removing barriers to ever increasing levels of renewables."

He added that National Grid ESO will identify the systems and products needed to run a zero carbon network and design the "new competitive marketplaces" needed to source these from both new and existing companies.

In other news

- New statistics published by the government on 28 March showed that, between Q4 2017 and Q4 2018, average non-domestic electricity prices in cash terms excluding the Climate Change Levy rose by 9.6%. Prices for all non-domestic consumer bands increased over the same period, with the increases ranging from 0.9% for the Very Large band to 16% for the Small/Medium band.
- The government also released statistics on the same day showing that renewable electricity capacity at the end of 2018 was 44.4GW – representing an increase of 9.7% on a year earlier when it was 3.9GW. Wind and solar generation saw a 14% increase, whereas coal, gas and nuclear generation all fell, which resulted in an overall fall in electricity generation of 1.4%.

Talk to us

For more information about our services please call **0330 221 9899** or email info@assured.energy

Consultus Assured Energy Limited, Consultus House, Sheene Road, Leicester, LE4 1BF