

# Funding Renewables

**THE CARBON  
CATALYSTS  
GROUP**

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The joint problems of an impending energy gap and a demanding renewable energy target are resolved by investment. Government intends to facilitate that investment via a scheme ambitiously entitled Electricity Market Reform (EMR).

Investments in renewables fell in 2010; following government tinkering with the feed-in tariff they surely fell this year, too. Nuclear power is something that will happen a decade away; it won't deal with the energy gap. Carbon capture and storage is still only nascent technology. Coal plant is being squeezed out of the picture in the short term. In that context, reform of the electricity market to attract funding of renewable generation is urgent.

EMR doesn't achieve that. It doesn't aim to reform the market, it aims only to adjust it. Nor does it provide any single measure that the finance or energy markets support. The most consistently repeated criticism, of all the measures in question, is that they introduce regulatory risk. It may be added that they also don't achieve their purpose.

The recent report of the Energy and Climate Change Select Committee on EMR is an impressive piece of work. It takes account of and reports a large range of views, incorporates them and draws conclusions involving them. Its main conclusions – those of its large array of witnesses – are pretty damning. There are four 'pillars' of EMR. Not one passes muster.

Too-Narrow Subsidy The government's preferred subsidy for low-carbon energy, a feed-in tariff with an associated contract for difference, will work for nuclear plant. But it won't work for wind, or storage, or CCS, or small generators. Government needs to admit that this is an option for nuclear power and that something different is needed for other low-carbon

generation.

Wrong Carbon Price Support CPS is to come into effect in 2013 – yet will have no impact on investment until 2018 so, until then, it is merely an energy tax and contributes nothing to resolution of the investment problem. After then, despite its cost, its usefulness will be limited since the cost of carbon is only a relatively small part of the price of electricity, too little to affect peaking plant and with not much effect on most other plant. Added to which the changeability of tax bands means that it's politically risky. It's at the wrong level at the wrong time and involves regulatory risk.

Pointless Emissions Performance Emission limits for coal plant are proposed by EMR. Since coal plant is already subject to stringent obligations, it's hard to see what difference an EPS can make. And since it appears to allow for change, it creates fundamental uncertainty about government policy. The proposal is "pointless" and "half-baked".

Premature Capacity Mechanism This proposal is vague. It is also premature since it won't be needed until about 2020 when there is sufficient wind to create intermittency. And it is unclear that the intermittency issues cannot be dealt with by modifying the balancing mechanism, using interconnectors, energy efficiency, smart meters/grids, storage, demand-side management, etc.

So we have a possible energy policy that is wrong, pointless, half-baked, beside the point – and which, the ECC report makes clear, fails to address a significant number of important issues. How are we to deal with that? How are developers to raise funds and financiers to fund projects? Go to the Energy & Utility Forum conference Funding Renewables on 16<sup>th</sup> June sponsored by us and find out (<http://www.fundingrenewables.co.uk/>)