Welcome to The e-POWER Bulletin!

The e-POWER Bulletin aims to provide a unique focus, giving you - the generators - just what you need to know when selling your renewable power. No more, no less. In this issue we take a look at:

- the impacts of Brexit, including the establishment of the Department of Business, Energy and Industrial Strategy (BEIS);
- e-POWER's REMIT service;
- trends in wholesale power prices;
- the latest developments in the plans to change embedded benefits;
- analysis of the recent e-POWER auction results; and
- the latest e-ROC auction results.

Whether you're a prospective or existing e-POWER user, the aim of this newsletter is to meet your needs. So if it doesn't hit the spot or you've got ideas for future content, I would love to hear from you.

Thanks for reading,

Stuart Stephens

Energy sector weighs up Brexit impact

The energy sector has spent much of the last two months scrutinising the implications of the UK's vote, on 23 June, to leave the European Union (EU). Though energy and climate policy was not a defining issue of the referendum campaign, both sides of the debate recognised that Brexit could have important long-term consequences for the UK's approach to tackling the so-called "trilemma".

For its part, the government—despite its change in personnel—has been keen to emphasise stability. While market analysts confirmed that the vote helped to push British wholesale prices up to nine-month highs in late-June, this was not because of any immediate changes to the rules and regulations governing the industry. Any such changes will only be determined by the discussions that must now establish the future relationship between the UK and the EU, with a number of models under consideration.

The overarching objectives of the UK's energy policy will, the government says, remain unaffected by Brexit. While, for example, it is now possible that the UK will extricate itself from the long-term environmental commitments established by the bloc, ambitious decarbonisation objectives are in any case enshrined in UK law under Climate Change Act 2008. Consequently, it would take a vote of repeal by the UK Parliament for the nation to abandon its commitment to the low-carbon transition, and political support for emissions reduction remains overwhelming.

Near-term impacts

Some commentators have, however, suggested that while the policy framework will initially be unaffected by the Brexit vote, the cost of certain programmes could be raised by the increased near-term uncertainty. In a short report issued on 8 July, consultancy Cornwall Energy argued that the government's capacity market scheme, which is aiming to secure power supplies over the coming winters, could become more expensive. It suggested that investors bidding into the competitive process would seek higher levels of government subsidy as they would be concerned that Brexit could result in an economic downturn, in turn lowering electricity demand and impacting on the profitability of power plants. A similar impact, the report said, could be seen in the Contracts for Difference (CfD) renewables subsidy scheme, with project investors placing higher bids in order to guard against uncertainty.

But the most consequential immediate impact of the Brexit vote was the resignation of David Cameron, who was replaced as prime minister on 12 July by Theresa May. The following day, May confirmed that the Department of Energy and Climate Change (DECC)—established in 2008 by the then Labour government of Gordon Brown—would be abolished. Its responsibilities were absorbed into a new Department of Business, Energy, and Industrial Strategy, led by Greg Clark. Some stakeholders within the renewables industry expressed initial concern about DECC's abolition, amid fears that it represented a downgrading of ambition on climate change action. However, the appointment of Clark was widely welcomed; he served as shadow energy secretary when the 2008 legislation was passing through Parliament, and has consistently spoken in favour of measures to lower emissions.

Clark will be supported at the department by climate change and industry minister Nick Hurd. Hurd's brief includes the UK's carbon budgets, climate science, and the low-carbon economy—including matters related to privatising the Green Investment Bank. Meanwhile, matters of energy policy will be overseen by Baroness Neville-Rolfe, who since the 2015 election has served at the Department for Culture, Media and Sport.

What next?

With Parliament currently in its summer recess, the new department has had little opportunity thus far to make an impression on the UK's energy policy framework. It did, however, make a surprise intervention on 28 July following EDF's announcement of a Final Investment Decision (FID) on Hinkley Point C. It had widely been anticipated that the government would sign the subsidy contract that it had agreed for the plant with EDF; instead, Greg Clark confirmed that the deal would be reviewed, with a final decision announced in the autumn. It remains unclear whether the government's pause on the deal simply reflects a cautious approach, or is an indication of genuine concern about the cost-effectiveness of new nuclear power projects.

Further indications of the new government's approach will come in other important policy documents that are expected to be issued shortly. In particular, BEIS is expected to outline its plans for phasing coal off the system by 2025, set out more detail of its approach to improving system flexibility and unveil an emissions reduction plan. Importantly for renewable generators, it is also expected to outline the spending cap on low-carbon electricity subsidies into the next decade.

e-POWER offers dedicated REMIT service

In December 2014 the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) was officially brought into force, following the publication of the Implementing Acts. This European legislation, designed to detect and eliminate market abuse, places an obligation on all market participants to report details of transactions within the energy market and to publish details of any insider information.

Broadly speaking, any party entering into a PPA with a capacity of over 10MW is required to report details of that transaction, including the price, quantity and date of the trade. In addition, there is an on-going obligation to report details of the monthly invoiced volumes arising from that PPA.

We have an obligation to report under REMIT as counterparty to the legacy NFFO and SRO PPAs. This reporting role was subsequently extended to customers who use the e-POWER auction to sell their power directly to electricity suppliers. REMIT reporting now forms part of the comprehensive service offered to these customers, which also includes billing and settlements and monthly reporting to Ofgem for the claim of ROCs and REGOs.

After being approached by a number of parties operating within the electricity market, e-POWER now offer a dedicated REMIT reporting service through their nominated RRM (Registered Reporting Mechanism); EFETnet. Although parties still have an obligation to register with Ofgem for the purpose of REMIT, e-POWER administer the transaction reporting, which includes submitting details of the PPA (referred to as a Table 2 trade) and the subsequent monthly trades (referred to as Table 1 executions).

If you would like to find out more about e-POWER's REMIT reporting service please contact Jenny Nel at jenny.nel@epowerauctions.co.uk.

Wholesale power prices continue to rise

Seasonal power prices are 1.3% higher when compared with prices on 15 June 2016, the issue date of the last e-POWER bulletin. Gains have been influenced by rises in gas and coal prices over the last three months.

In contrast to other commodities, Brent crude oil is now 6.6% lower when compared to 15 June. Prices have fallen from their near eight-month high of $52.2/bl in early June as a consequence of growing concerns about oversupply in the market and uncertainty surrounding global events.

Seasonal price trends

Despite a fall in oil prices, seasonal gas contracts were broadly unchanged. Prices initially responded to Centrica's announcement of an extended the closure at the Rough gas storage site until spring 2017, but later fell on lower demand projections and an oversupplied short-term market. Coal prices are 10.6% higher, with recent gains attributable to reduced Chinese production.

As a result of the rise in coal prices and some gas contracts, most seasonal power contracts climbed over the summer months. Winter 16 increased by 3.2% to £45.2/MWh, with prices peaking at £48.3/MWh on 18 July, the highest price since March 2015. Summer 17 power rose 1.2% to £38.3/MWh—the contract followed similar gains in its gas counterpart.

National Grid consults on proposals to reform embedded benefits

National Grid has issued consultations jointly for two CUSC modification proposals that seek to change the transmission charging arrangements for embedded generation.

CMP264 *Embedded Generation Triad Avoidance Standstill* would remove all netting of output for new embedded generators (those commissioned after 30 June 2017) until Ofgem has completed its review of embedded benefits, and implemented any changes. CMP265 *Gross Charging of TNUoS for HH Demand Where Embedded Generation is in the Capacity Market* would remove the netting of output from embedded generators that have a contract in the capacity market such that, from April 2020, they would no longer receive the TNUoS demand residual amount.

Alternative modification proposals are also being considered, with responses requested by 24 August. The consultations followed the publication of an open letter by Ofgem in which it set out its concerns over escalating embedded benefits. The regulator explained that, currently, smaller, sub-100MW generators help suppliers to avoid a proportion of increasingly expensive transmission network use of system (TNUoS) charges, which suppliers tend to share with the generator. But Ofgem is concerned that these embedded benefits are distorting the level playing field between generators and pushing up costs for consumers. It is seeking views on its position by 23 September.

e-POWER July 2016 auction

The NFPA held its latest **e-POWER auction** on 12 July 2016. The auction included 32 commercial projects and accounted for 150.6MW of capacity. This was e-POWER's largest auction this year. Cornwall Energy has conducted full analysis on the auction, which can be found on the e-POWER website.

Average prices in the July 2016 auction were equivalent to £/MWh values seen in previous auctions. Prices stabilised as a fall in average value retention was offset by a sharp rise in wholesale power prices over the last six months. Overall, average value retention was 94.5%, lower than previous seasonal auctions. This compares with 96.4% in summer 16, 98.3% in summer 15 and 97.9% in summer 14. Overall, 19 suppliers participated in the auction, consistent with the numbers seen in previous seasonal auctions. 11 suppliers bid on projects in the auction with average bids per contract at 8.2.

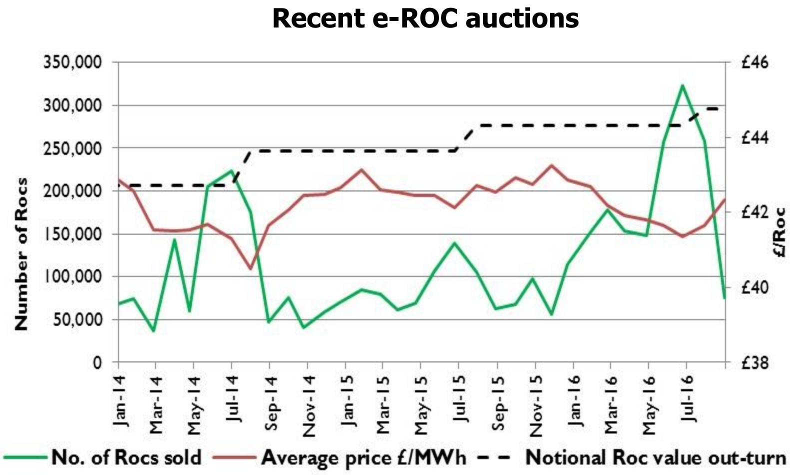
A notable trend in the July 2016 auction was the split in value retention between non-intermittent and intermittent sites, and lower average value retention reflected the technology mix of the sites in the auction. Over half of auctioned sites were onshore wind or solar PV and they achieved average value retention of 93.9% and 89.2% respectively, while AD and landfill gas sites achieved average retention of 105.1% and 96.7%.

Four of the six solar PV sites in the auction were very small-scale in nature (below 100kW). These sites achieved average value retention of 85%, whereas the two larger solar PV sites, at 1.2MW and 3.7MW respectively, achieved average value retention of 97.5%. AD projects continued to achieve higher values due to their ability to generate over peak periods. Additionally, the projects may haven been sought after by suppliers in the auction as their market value is above that of the higher administered FiT export rate and therefore more desirable under a commercial agreement. Overall, because of continued volatility in wholesale power prices, with winter 16 prices ranging from £36/MWh to £48/MWh since the January 2016 auction, generators continued to be diverse in their approach to contract length. This trend continues to reflect the wider PPA market in which generators are seeking more flexibility in their short-term PPAs.

e-POWER held a further auction for eight solar PV projects on 22 August 2016. Close to 50 bids were recorded from five suppliers. **The next e-POWER auction will be held on 30 September 2016.**

Prices up at latest e-ROC auction

The latest e-ROC auction was held on 31 August 2016 with 75,296 Rocs sold, up 20% on August 2015. Average prices rose £0.69/Roc on last month to £42.34/Roc with the auction including CP14 and CP15 Rocs. Auction prices remained low compared to the relevant buy-out prices, as market commentators continued to forecast oversupply for CP14. The extent of oversupply is expected to lead to record levels of banking into CP15, pushing the market for that compliance period closer to oversupply and lowering recycle values accordingly. The next e-ROC auction will be held on 30 September 2016.



Other industry news in brief

Renewables generation hits record level in 2015

New government figures have shown that renewables accounted for a record share of the power generation mix in 2015.

The annual *Dukes* report showed that last year just under 25% of electricity demand was met from renewables - the highest level yet and up around five percentage points year-on-year. Coal's share of the mix dropped to just 22%, while gas met 30% of power demand.

Low-carbon sources - which includes nuclear power - contributed 46% of the mix overall, a record high.

Lightsource connects first CfD solar project

Lightsource Renewable Energy has announced the connection of the first contracts for difference (CfD) solar farm, with £8.7mn of funding from the Royal Bank of Scotland.

Connected on 30 June, the Charity Farm installation has a capacity of 11.94MW, and was one of five solar projects to win a CfD in the first allocation round last year. Power supplied by the project will be purchased by Axpo UK in a deal worth £7.5mn over seven years.

Scottish government challenges offshore wind ruling

The Scottish government has confirmed that it will lodge an appeal, against last month's ruling, by the Court of Session, against four planned windfarm developments in the outer Firths of Forth and Tay.

In his ruling, Lord Stewart had said that the Scottish government had failed properly to consult with the RSPB over the projects' impacts on sea birds, while significant concerns were also raised by Scottish Natural Heritage and the Joint Nature Conservation Committee. Further appeals against Lord Stewart's ruling have been lodged by developers Mainstream Renewable Power and Inch Cape.

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