the best price for your power

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 priorities set out by the new Conservative government and the responsibilities of its ministers;
- recent e-POWER and e-ROC auction results;
- insight on wholesale power prices and the PPA market in general;
- the impact on renewables generators of CMP227 and CMP239 and how the changes, if approved, could impact embedded benefits; and
- the solar feed-in-tariff rate cuts set to take effect from 1 July 2015.

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

Conservative government takes the reins

The unexpected election victory for the Conservative Party has left the onshore wind sector anxious after the party went to the polls with a promise to "halt the spread" of new developments. The Queen's speech did little to mitigate these concerns.

Ending support for wind

Speaking at the state Opening of Parliament on 27 May the Queen outlined the government's legislative agenda for the forthcoming parliamentary session. In all, 27 Bills were presented, including an Energy Bill to increase the UK's energy security.

Most notably the Queen's Speech mentioned that the government will soon bring forward its proposals for ending new subsidies for onshore wind. Despite the Department of Energy and Climate Change's (DECC's) most recent survey finding 65% of the public favours onshore wind, in their manifesto the Conservatives claimed the technology lacked public support and was unable to provide the firm capacity that a stable energy system required.

DECC is expected to provide further details on this measure shortly. It has pledged to consult with the devolved administrations on changes to onshore wind subsidy regimes.

Outcry

The announcement has received mixed responses.

Scotland's first minister Nicola Sturgeon called for reassurance from the new UK government that it will not change subsidy arrangements without agreement from Scottish ministers.

RenewableUK chief executive Maria McCaffery said: "Singling out one of the most popular and lowest cost forms of energy technology for different treatment in the planning system sends a worrying message to investors across the energy sector".

Devolving powers

The new Energy Bill is expected to remove the need for the secretary of state's consent for any large onshore wind farms (over 50MW).

This would devolve powers out of Whitehall by transferring the existing consenting powers, in relation to onshore wind, to local planning authorities.

This will mean that in future the primary decision maker for onshore wind consents in England and Wales will be the local planning authority. These changes will be supported by changes to the national planning policy framework to give effect to the manifesto commitment that local communities should have the final say on planning applications for wind farms.

It is not clear whether a developer could appeal to national planning inspectors or the secretary of state if the local community rejects its plans.

These changes would not impact on the planning regimes in Scotland and Northern Ireland.

Boosting security

The Energy Bill is also to include measures aimed at increasing energy security and boosting domestic oil and gas production, including giving the Oil and Gas Authority the powers to become a robust, independent regulator and enable it to maximise the economic recovery of oil and gas from UK waters.

Ministers appointed

Prime minister David Cameron has also confirmed his ministerial appointments (see right for a list of those involved in energy).

Energy and environment ministers – roles and responsibilities

Amber Rudd, energy and climate change secretary

- Overall strategy on energy, consumer and climate change policy
- International Climate Change negotiations
- Energy bills and the Competition and Markets Authority (CMA) energy market investigation
- Key decisions on major programmes and new policy in DECC

Andrea Leadsom, minister of state

- Electricity and gas markets
- New energy infrastructure
- Energy security
- Oil and Gas policy, including shale gas
- Nuclear safety and regulation, The Nuclear Decommissioning Authority and Geological Disposal Facility
- New nuclear, Carbon Capture and Storage (CCS) and renewables
- International energy

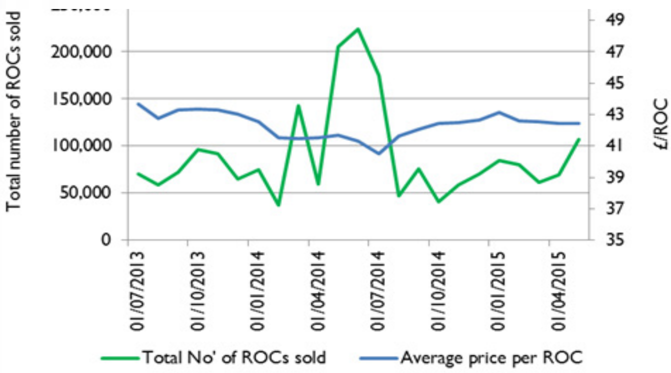
Lord Bourne of Aberystwyth, parliamentary under secretary of state for energy and climate change

- Heat, including Renewable Heat Incentive (RHI)
- Smart meters
- Energy efficiency and fuel poverty
- Climate science and innovation
- Planning
- Transparency
- Support to the secretary of state on international climate change

Latest auction results

Over 100,000 ROCs sold in latest auction

e-ROC price chart



The latest monthly e-ROC auction, held on 22 May, saw the sale of 106,611 Rocs—an increase of 53% on last month. Almost 700 bids were placed in the auction by 10 different bidders. While forecasters are still predicting an oversupply of Rocs in CP13, the average price hardly moved from last month's auction, down just 1p to £42.44.

The next auction will be held on 24 June.

600MW auctioned through e-POWER

The latest monthly e-POWER auction also took place on 22 May. 13MW of power was sold in the auction, with momentum continuing to grow for monthly auctions outside of the established twice yearly auctions in January and July.

In total, e-POWER has run six monthly auctions, in which 140MW of capacity has been sold, with 30 PPAs signed for technologies including energy from waste, PV, hydro, wind, AD and landfill gas. Adding in the PPAs auctioned in the larger January and July auctions e-POWER now accounts for approaching 600MW of installed capacity.

The next e-POWER auction will be held on 7 July 2015.

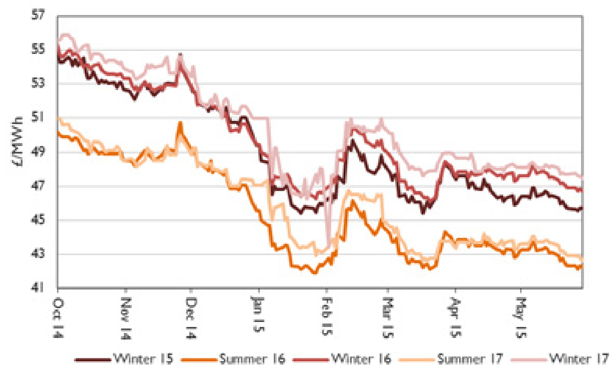
Gas price falls pull down power prices

Seasonal power contracts averaged falls of 0.8% in May as the power market continued to follow trends seen in gas.

A comfortable supply picture in the short-term gas market fed through into long-term contracts and influenced falls in power. Both gas and power markets remain comfortably supplied for the summer months, which is expected to reduce prices further. Notably, National Grid is forecasting its lowest ever peak summer power demand. GB power prices have also been influenced by a fall in coal prices, which are now at new five year lows, and a stalling in the oil price recovery. Oil prices halted their resurgence in the second half of May, dropping 6.3% to $63/bl.

As a result of these market changes, the annual October contract dropped 1.3% to average £44.5/MWh, 16% below its level a year earlier. The winter 15 contract fell 1.3% to average £46.2/MWh, while summer 16 power was down 1.3% to average £42.9/MWh.

Seasonal price trends



PPA market competition rising

The market for Power Purchase Agreements (PPAs) is showing increasing signs of liquidity and competition, according to the latest quarterly update of Cornwall Energy's Green Power Forecast report. The report highlighted how a rush of solar projects coming to market had incentivised increased activity in the short-term PPA market and value retention remained high as a result. The report also indicated how this could be a sign of things to come for the RO market more broadly, with a similar rush for other technologies expected before RO closure in 2017.

The report expanded its analysis to CfD projects and found that the market was developing at a pace, although was still in its early stages. Many offtakers with Roc or FiT offerings were seen to be developing similar offerings for CfDs. However, compared to these markets there is significantly less competition and liquidity because of the small number of projects needing PPAs.

Of note, typical value retention for Roc and FiT projects entering e-POWER auctions is towards the upper end of other methods namely; below 1 year PPAs, 1 to 3 year PPAs fixed and flexible PPAs and 10-15 year PPAs.

Embedded benefits

There have been developments recently for the CUSC (Connection and Use of System Code) modifications CMP227 and CMP239 which could impact embedded benefits arrangements for generators.

Firstly CMP227, which aims to reduce the share of TNUoS paid by generators from 23% to 15% continues to progress. National Grid has been conducting analysis which shows the change in generation and distribution split could result in lower wholesale prices and capacity market subsidies.

After an original consultation response to the CUSC panel was requested on 24 September 2014, extensions were made until 29 May 2015. The CUSC panel is expected to report to Ofgem with its findings in the near future.

This CUSC modification (Grandfathering Arrangements for the Small Generator Discount) seeks to retain the small generator discount for those generators that are currently eligible and for those that would become eligible up to 31 March 2016 when the discount is due to lapse in the transmission licence.

This follows National Grid's move to let the time limited small generators discount lapse at this date. On 24 April 2015, the CUSC Panel agreed that the Workgroup had met its terms of reference and that CMP239 should now proceed to consultation. This closed on 21 May with findings expected to be reported by the panel in the near future.

ROC and LEC update

Electricity generator Drax has urged the Competition and Markets Authority to investigate the ROC market.

According to the company the current "flawed market design" of the ROC market is liable to result in deep discounting of the value of ROCs. This is due to the potential oversupply of ROCs resulting from a headroom calculation inaccuracy (in some circumstances), as well as the asymmetry in supply and demand bargaining power owing to the existence of the buy-out price mechanism.

FiT and CfD FiT update

Ofgem has confirmed that the solar feed-in-tariff (FiT) rates for all systems up to 10kW and all systems above 50kW will be cut from 1 July 2015. Tariff cuts for other technology types took effect on 1 April.

On 20 May the Low Carbon Contracts Company announced that Dudgeon Offshore Wind had successfully passed a significant contractual milestone under the Contract for Difference (CfD), after the company made a commitment to invest in the project.

The Low Carbon Contracts Company also published the CFD Register and supporting Q&A. On 26 May DECC published CfD guidance on supply chain plans for projects over 300MW which secured CfD contracts.

On 2 June Ofgem published a factsheet answering some frequently asked questions around the benefits available for community energy and school installations under the FiT scheme. A more general factsheet on the scheme was published the same day.

Other industry news in brief

Solar capacity rising

The UK's overall solar PV capacity at the end of March stood at just over 5.7GW, according to government figures. Published on 30 April the figures showed a 6.4% increase in solar PV capacity on February's levels, driven largely by a 2.3% increase in capacity installed under FiTs.

Green investment peaks

Analysis by PwC has found that investment in UK renewables has reached a new peak, but meeting EU 2020 targets will remain a challenge. The company published a report on the State of the Renewable Industry on 14 May. It said that UK renewables investment since 2010 would exceed £50bn by the end of 2015, with record levels of investment achieved last year. But meeting the UK's 2020 targets would require a further £48bn of investment over the course of the next Parliament, and the power sector could be required to cover a shortfall from the heat and transport sectors.

Networks for the future

The regulator published an open letter on 13 May that outlines the design of electricity distribution networks looking towards the future. The letter is intended to raise awareness of the network companies' decision to review Engineering Recommendation (ER) P2 in light of smart grid developments.

TNUoS forecast issued

National Grid issued its first update to its forecasts of transmission network use of system (TNUoS) tariffs for 2016-17 on 11 May.

Its forecast for allowed revenue for 2016-17 has increased by £105mn to allow for under-recovery in 2014-15. It has also reduced the demand charging base to reflect the continuing growth in embedded generation.

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