The fourth Capacity Market auction – held to secure generation capacity for winter 2017/18 – has cleared between £5 and 10/kW/Yr. The final sum will be confirmed this evening. This price is the lowest of any previous capacity market auction and at least £12 lower than the previous auction held last year (£22.50 per kW per year).

Differing from previous auctions this one was only offering 1 year contracts and was only confirmed in March 2016. It was announced to address concerns over the tight supply margins for the upcoming winter, given the level of recent coal plant closures.

The level of capacity being sought for delivery in 2017/18 totalled 51.1GW. This was an increase of nearly 2GW from the first Capacity Market auction for 2018/19 delivery and 5GW more than was secured in 2015 for delivery in 2019/20.

In comparison to previous auctions there was a much lower amount of excess capacity available. Initially there was 6GW compared to 19GW from the 2020/21 auction held in December. This auction was only able to offer 1 year contracts, given the narrow timescale before delivery. This compared to 15 year contracts offered in the previous auction. As a result only established plant could bid in, rather than new build developments or refurbishments.

The nature of the capacity that obtained a Capacity Market contract will be confirmed soon by the EMR delivery body.
Scottish Power urge coal ban from Capacity Market

Energy firm Scottish Power and green energy group RenewableUK have called for coal-fired power stations to be banned from entering the UK’s Capacity Market auction.

The Capacity Market is designed to ensure the UK has sufficient electricity supplies available for the years ahead. Generators bid into the auction and receive subsidy payments in exchange for guaranteeing availability of supply when called on by National Grid, during times of system stress. The most recent Capacity Market auction is taking place this week and will provide capacity for the 2017/18 winter season. The latest T-4 auction in December 2016 awarded contracts to 52GW of capacity, of which coal-fired power stations made up more than 11%.

However, both energy companies argue there is an “obvious paradox” for the UK Government to offer coal-fired power stations subsidy contracts to generate, while also honouring its commitment to close such stations by 2025. The firms have called on coal power stations to be banned from entering the scheme, claiming it is “counterproductive” to fund generation of a plant which the Government wishes to close down. The company has proposed emission restrictions to be put in place for qualifying plant, which would stop the most carbon-intensive coal plants from being able to enter the auction.

“As coal has to be replaced by 2025, we think that the government should now consider introducing an emissions restriction as part of the qualifying criteria for the next auction in December and any subsequent such auctions,” said Keith Anderson, the chief corporate officer of Scottish Power.

However, the call has been met with opposition. Uniper, a new company taking charge of E.ON’s fossil fuel operations, rejected the idea of a ban. It pointed to the reduction of coal-fired generation awarded subsidy contracts in the Capacity Market as signs that the phased closure is already underway. SSE, operators of the Fiddler’s Ferry coal plant in Cheshire also argued a ban was not required.

UK lagging behind EU on renewable energy targets

A report by the European Commission showed that the EU is on track to meet renewable energy targets ahead of 2020. However, the UK itself has struggled to grow its use of renewables in the heat and transport sectors. While renewables now meet 20% of UK’s electricity needs, this share falls to just 8.2% of total energy demand, once the heat and transport sectors are included. As a consequence, the UK was reported as one of three countries required to increase its use of imported energy to meet demand. The report found 22 member states reduced its net import dependency over the last 10 years. However, the UK, alongside Denmark and Poland found its imports increased markedly, an issue blamed on declining domestic fossil fuel production.

All European Union members were found to have met 16.4% of energy consumption from renewable sources in 2015. This represented healthy progress towards a target of 20% by 2020. In comparison, the UK was found to be little over half way towards meeting its target, under the EU’s Renewable Energy Directive, of 15% of total energy consumption provided by renewables.

The report also highlighted improvements in the decarbonisation of the EU’s economy. EU greenhouse gas emissions fell by 22% since 1990 while the combined GDP of the bloc rose 50%.

“[The EU] is presently one of the most greenhouse gas-efficient major economies, and is set to
become the most greenhouse gas-efficient economy in the G20 through the implementation of the 2030 climate and energy targets,” the report stated. The commission also called for greater connectivity between Europe’s electricity systems, believing closer ties will improve security of supply and integration of renewables.

Moorside nuclear project in doubt over Toshiba review

Doubt has been cast over the future of the UK’s £10 billion Moorside nuclear development in the UK after the company behind the project announced a review of its investment.

Japanese giant Toshiba, who has a 60% stake in the Moorside development company NuGen, confirmed it will be “reviewing the future of nuclear businesses outside of Japan”. The firm revealed last month it is facing several billion dollars in losses following the purchase of CBA&I Stone & Webster. The American construction company has suffered a series of delays and cost overruns on four nuclear power plant projects in the United States. A Toshiba spokesman was only able to confirm that the review is going ahead, adding “nothing has been decided at this time, including the impact on our Moorside nuclear project.

The 3.8GW nuclear power station was expected to bring 21,000 jobs to the local Cumbria region. Prime Minister Theresa May confirmed this week that the government is “committed” to ensuring the development goes ahead. The Moorside project is one of several planned for the UK, including Hinkley Point C which has had well-documented struggles. Further new developments at Sizewell and Wylfa are also under planning consideration.

Scottish Government launches fracking consultation

The Scottish Government has announced the start of a four-month consultation on the use of fracking within Scotland. The debate will run until the end of May and Parliament has launched a dedicated website www.talkingfracking.scot for the issue, as well as commissioning several research projects. The Government will then make a recommendation to MSPs before a vote on the topic by the end of 2017.

Scotland placed a moratorium on unconventional oil and gas extraction in January 2015 – preventing the development of shale oil and gas. The Parliament also passed a motion in support of banning the technique last summer. However, the practice has been approved elsewhere in the UK by councils in Lancashire and North Yorkshire in the last year.

The consultation describes the issue for Scotland as “complex and controversial”. Studies have shown large areas of Scotland could contain large quantities of shale gas and oil. However, this is predominantly located in the populous central belt, disrupting significant numbers of homes and businesses. Green campaigners have long argued against the use of fracking on the grounds of its risk to health, communities and the local environment.

Plans for energy supplier loyalty programmes

Npower and EDF Energy have revealed to MPs on the Business and Energy Select Committee that they will consider the introduction of loyalty schemes for their current customers. The move comes after

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repeated pressure from the Business and Energy Secretary, Greg Clark, who urged rewards for customers on long-term standard variable tariffs, as opposed to simply encouraging customers to consistently switch between suppliers.

Analysis from the Competition and Markets Authority (CMA) found up to 10 million customers have been on standard variable tariffs for at least three years. It found 56% of consumers had either never switched supplier or were unaware if they had done so. The introduction of a loyalty programme from two of the UK’s largest energy companies would be aimed at encouraging customers to stay with them. Npower also confirmed it could include a free boiler service to its loyal customers.

Energy regulator Ofgem announced plans this week to test more effective means of encouraging customers to switch supplier, as part of recommendations provided by the CMA. As part of the new plans suppliers will be required to tell long-standing customers when they could benefit from a cheaper contract elsewhere. Under current regulations suppliers must show their own cheapest tariffs available but not less expensive deals from rival companies. Ofgem will also trial different names for the standard tariff. Such amendments are expected to get underway later this year and could impact tens of thousands of consumers.

Regulatory Round Up

Ofgem changes rules to promote customer engagement

The UK energy regulator, Ofgem, is setting out its plans to encourage greater engagement by both businesses and domestic customers. In a number of consultations released this week, Ofgem is aiming to bring a sharper focus on consumer outcomes which suppliers are expected to achieve.

This move from Ofgem comes as a result of the Competition and Markets Authority (CMA) recommendation that the energy regulator no longer relies on multi-year projects and narrow regulations to protect consumers. Instead, the focus should be on prescriptive rules and principles.

Changes to Standards of conduct for suppliers

The supply licence is an important framework for protection of both domestic and micro-businesses. Ofgem has recognised that under the current wording of the standards, microbusinesses receive fewer protections under consumer law than domestic consumers. This is due to the way the Fairness Test is defined, favouring the interest of the supplier rather than the customer according to Ofgem’s consultation. Therefore the regulator is proposing to change the definition, bringing more balance to the term. Interested parties are invited to respond to the consultation by 13 March.

Trial to help customers strike a better deal

Ofgem also announced they are looking at how to deliver CMA’s remedy to help customers get a better deal from the market. As a result, Ofgem is inviting suppliers to take part in a trial to find out the best ways to help disengaged customers (starting by this summer). The trial will cover issues such as:

- changing information received by customers at the end of a fixed deal
- the way information is presented on bills for domestic customers
- improving communication between suppliers and customers – highlighting the cheapest deals

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across the whole market and changing the name of standard tariffs, for example, to 'out of contract' tariffs

Helping consumers make informed choices

The energy regulator is trying to remove unnecessary regulatory burden so as to make information less misleading. They have released a series of consultations on the removal of detailed rules relating to sales and marketing activities within the domestic market. Changes being made concern the addition of clearer information tools. The five principles proposed are aimed at promoting the comparison of tariffs as well as fair and responsible sales and marketing practices. Ofgem want to make domestic consumers more proactive, and be provided with information to make decisions about their energy services. The closing date for response to the consultation is 6 March.