

Position paper - Future of the Levy Control Framework

February 2017

Background

The LCF (as announced in 2012) was designed to control the costs of supporting low carbon electricity paid for through consumers' energy bills and to provide forward visibility of the scale of Government's commitment to supporting low carbon generation. It set an annual budget for projected costs of all the Government's low carbon electricity levy-funded schemes until 2020/21, rising to £7.6 billion in 2020/21 (2011/12 prices). The Framework includes expenditure associated with the costs of 'Contracts for Difference' (CfD) scheme, the 'Renewables Obligation' (RO) scheme, and the 'Feed in Tariff Scheme' (FiTs), as well as early CfDs awarded under the 'Final Investment Decision Enabling for Renewables' (FIDeR) process. The latest estimates – as published by the OBR at the 2016 Autumn Statement - is that the projected future spend will be £8.4 billion in 2020/21.

By setting the LCF to 2020/21, Government provided significant foresight of its commitment to investment in low carbon generation, which was highly valuable in supporting the transition associated with Electricity Market Reform, including the development of supply chains, long lead projects and ensuring investor confidence. Consequently, supporting longer term cost reduction by clearly setting out the future commitment of Government. It is important that a stable and transparent framework continues out to the mid-2020s.

Following the introduction of the LCF Government made several changes to demand led support mechanisms such as the Renewables Obligation (RO) and the Feed-in Tariff (FiT) to manage costs. The Government has faced a number of challenges in estimating the take-up of resources under the LCF including forecasting both load factors and the wholesale price as well as take-up under demand-led schemes such as the small-scale FiTs scheme as well as the fact that the LCF was only designed to limit the costs to consumers from low carbon support mechanisms with no other policy costs included in the cap.

However, with the controls implemented regarding the small-scale FiTs scheme (which is due to close in 2019), and the closure of the RO as well as the introduction of competitively allocated CfDs, the Government will now have direct control over the amount of funding available for new low carbon generation in the 2020s. The value of the LCF as a cost control measure beyond 2021 is, therefore, somewhat questionable. The funding available in CfD allocation rounds and timing of allocation rounds, combined with details of any bespoke CfDs, will be the key information required to deliver and control spending on low carbon generation.

Objectives going forward

There are two main objectives that the Government needs to consider regarding a framework or approach towards long-term investment in new low carbon generation technologies and the funding of these programmes. The two objectives are:

- a) Enhancing transparency regarding the cost of low carbon generation and providing a control of those costs and
- b) Providing future visibility of the Government's investment commitment for new low carbon generation, including both mature and innovative technologies.

a) Transparency and control:

As the LCF is now limited to low carbon generation support schemes only, there remains a disparate pot of money and no view on either the cumulative or net impact on consumers. Therefore an assessment of this kind is essential to illustrate the impacts of energy policy on consumer bills. We therefore consider that:

- A report detailing the total cost to consumers of energy policies, either through the regular publication of BEIS's 'energy prices and bills' report or through the OBR, is required.
- Reporting policy costs on a net and gross basis is important to inform customers of the overall impact different policies are having on bills.

b) Future visibility of long-term investment commitment:

To provide an appropriate investment framework for developers of new low carbon generation we consider that:

- The LCF should be withdrawn with a CfD allocation round budget established to give a clarity to industry regarding future funding for low carbon generation. This should be set out well in advance of allocation rounds, with a clear timetable set out for the running of allocation rounds for each technology pot.
- This forward commitment needs to be consistent with planning under the Government's Emissions Reduction Plan for delivering upon legally binding carbon budgets. This approach will allow a sustainable supply chain to develop, allow developers to factor in their development lead times and ultimately minimise the costs of developing low carbon generation.

The process by which the Committee on Climate Change provides advice to the Government on Carbon Budgets may present an opportunity to define the amount of low carbon capacity that would need to be procured through CfDs. It would then be up to Government to set out how this will be met with funding allocated accordingly. In any event, visibility around funding commitments for planned CfD auctions needs to occur with at least four year ahead visibility.

Should you require further information or clarity on the issues outlined in this paper then please contact:

Kyle Martin

Senior Policy Manager, Generation
Energy UK
Charles House
5-11 Regent Street
London SW1Y 4LR

Tel: 02077471834

Kyle.martin@energy-uk.org.uk
www.energy-uk.org.uk