

# Detailed Position paper - Future of the Levy Control Framework

June 2017

## New set of controls

At the Spring Budget the Chancellor of the Exchequer announced that the Levy Control Framework (LCF) would be replaced by a new set of controls. Energy UK had already supported the replacement of the LCF<sup>1</sup> stating that 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) Providing future visibility of the Government's investment commitment for new low carbon generation, including both mature and innovative technologies; and
- b) Enhancing transparency regarding the cost of low carbon generation.

Energy UK's detailed asks for the new set of controls are set out below.

## **Investment management**

The new set of controls should provide a long term investment framework for investors and developers of new low carbon generation assets. The control should be built around providing visibility and certainty of future funding to allow for a sufficient pipeline of projects to be brought forward. Contracts for Difference (CfD) will be allocated through competitive auctions that result in least cost options being taken forward to decarbonise the GB electricity system.

To encourage the development of a project pipeline, developers will need confidence that the Government is committed to decarbonisation of electricity generation and that support will be available to achieve this objective. Some of the key elements required for the new set of controls are set out below.

## Investment framework

- The volume of low carbon electricity to be procured through the CfD allocation rounds should be linked to the legally binding decarbonisation objectives of the Climate Change Act 2008.
- Because Carbon Budgets are set on the basis of net carbon accounting, they do not directly reflect the progress of decarbonisation in the power sector. If the UK is no longer part of the ETS post-Brexit we would expect the Committee on Climate Change to account for carbon emission on a gross basis.
- Government should set out the required volume (TWh) of new low carbon electricity generation required in the medium/long term in the Clean Growth Plan, based on the advice of the Committee on Climate Change.
- We suggest that the total low carbon procurement volumes needed to meet each Carbon Budget should be set out as far in advance as possible. The Government should also publish indicative procurement volumes 4 years ahead of allocation rounds to allow developers sufficient time to prepare projects for the allocation round.
- Final procurement volumes should be set at least 1 year ahead of the allocation round
- A clear administrative strike price trajectory for all technologies is also needed.

This will provide a robust, predictable long term framework which Government can use to show its long term commitment to low carbon electricity investment, enabling future cost reduction and benefiting the UK consumer in the long term.

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<sup>1</sup> [http://www.energy-uk.org.uk/publication.html?task=file\\_download&id=6071](http://www.energy-uk.org.uk/publication.html?task=file_download&id=6071)

## CfD allocation rounds

- It is preferable to have rolling allocation rounds led by volume and a clear timetable of when these will take place which will reduce the risk associated with delays in the contract allocation process and ensure a robust supply chain is maintained.
- Allocation rounds should have a minimum volume available to avoid constraining the size of project able to participate.
- We support full implementation of the Competition and Markets Authority recommendations and industry would support working with BEIS to ensure these are implemented efficiently. The recommendations are:
  - BEIS undertake, and disclose the outcome of, a clear and thorough impact assessment before awarding any CfD outside the CfD auction mechanism.
  - BEIS undertake and consult on a clear and through assessment of the appropriate allocation of technologies and CfD budgets/volumes between pots.
- To enable decarbonisation of electricity generation to be achieved at least cost a route to market needs to be provided for all technologies.
- There should be a move towards technology neutral auctions, subject to satisfactory management of key differences between technologies (e.g. size, delivery timescales, and reference price).
  - Minima and Maxima can be applied to manage deployment of technologies
  - A whole systems cost approach should be considered when reviewing technology impacts on the power system

## **Transparency and reporting of policy cost**

A clear and transparent set of controls are important to enable the industry to reliably forecast the impact of policy costs and to provide confidence that the impacts on consumer bills have been fully considered. It is essential that householders and businesses have a clear and forward looking understanding of the policy costs which they are paying through their gas and electricity bills.

This information should cover all policy costs which are recovered through energy bills and should not be limited to low carbon generation support costs; for example the Energy Company Obligation (ECO) and the Capacity Market are not covered by the LCF. The clarity on policy costs recovered in energy bills could be delivered through:

- A report detailing the total cost to consumers of energy policies, through the annual publication of BEIS's 'Energy Prices and Bills' report verified by OBR.
- Reporting policy costs on a net<sup>2</sup> and gross basis is important to inform customers of the overall impact different policies are having on bills. This should cover the costs and benefits of all energy policy and be published for both gas and electricity.
- The information should be split by customer type so that it is clear and transparent who is paying for all costs.

Energy UK recommends that Government publishes an annual policy statement and report that sets out the details contained within this note. This will provide greater certainty for investors in terms of the timing of announcements and provide consumer groups and other stakeholders with greater clarity with regards to cost implications.

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<sup>2</sup> Net reporting should deduct benefits from the cost of the policy. For example – reporting should include reductions in the wholesale price of electricity, reduced level of consumption and efficiencies to market arrangements resulting from any policy.