

Cornwall Development Company

Response to Electricity Market Reform Consultation

1. Introduction

Cornwall Development Company (CDC) is charged with delivering low carbon economic priorities and solutions on behalf of Cornwall Council. The Council's Economic White Paper sets out the ambition to develop:

*"A confident, resilient Cornwall that is a leader in innovative business and low carbon technologies"*¹

Cornwall is currently a net importer of energy, with an annual energy deficit in excess of £579m. Cornwall has access to an abundant potential range of natural resources including

- Offshore wind and wave resources
- Onshore Wind
- Solar
- Geothermal (Shallow and Deep)
- Biomass (natural and waste)

The potential from such resources supports Cornwall's strategic ambition to deliver innovative businesses and low carbon technologies, the delivery of which will increasingly enable the County to close the current gap between energy import and energy self sufficiency.

CDC's principal interest in responding to this consultation is to ensure a supportive policy and regulatory environment is created that facilitates targeted and proportionate support mechanisms. The purpose will be to ensure a functioning market which supports the growth of decentralised low carbon energy production and stimulate investor confidence through 'transparent, long term and certain mechanisms'²

2. Electricity Market Reform

The consultation document sets out proposals to reform the UK's electricity market and to facilitate the necessary long term investment required to meet the UK's energy policy commitments³, which alone are estimated to require over £200 Billion between now and 2020⁴. EMR outlines four proposals:

1. **Carbon Price Support** = Increasing the cost of fossil fuel generation, making lower-carbon power more attractive
2. **Feed-in Tariffs** = Provide certainty of revenue for low carbon generators, encouraging investment in low carbon technology
3. **Capacity Payments** = Targeted payments to encourage security of supply, encouraging construction of flexible reserves
4. **Emissions Performance Standard** = Emissions Performance standard to reinforce reductions in carbon intensive power stations, promoting Carbon Capture and Storage

The reforms are intended to strike a balance between future consumer costs, whilst providing new and existing investors confidence to raise investments.

¹ <http://www.cornwall.gov.uk/default.aspx?page=21961>

² Deutsche Bank Group, DB Climate Change Advisors, http://www.dbcca.com/dbcca/EN/media/Global_Climate_Change_Policy_Tracker_Exec_Summary.pdf

³ UK's self imposed 4th Carbon Budget, Conform to EU Renewable Energy Directive 2009

⁴ 'Unlocking investment to deliver Britain's low carbon future' Report by the Green Investment Bank Commission

3. Electricity Market Reform Response

A recent survey⁵ by Regen SW identified Cornwall as the best performing County in the South West for both renewable electricity and renewable heat. There is currently 57.8MW of renewable electricity capacity and 14.29MWth of renewable heat capacity installed within Cornwall produced through a diverse range of technologies.⁶

The recently Commissioned 'Offshore Renewable Resource Assessment and Development' (ORAD) Report concluded that the marine renewable resource suitable for commercial utilisation in the South-West is capable of delivering a total of 9220 Mega Watts (MW) by 2035⁷.

However Cornwall also has first hand experience of the impact of confused policy signals. Following the implementation of the 'Feed In Tariff', the County's preferential geographic positioning with respect to solar irradiation and a proactive approach to planning and economic development support, Cornwall has become the focus of significant interest in Solar PV development. However, due to the unfortunate confusion over the specific focus and use of FiT, which has culminated in the recently announced FIT review, investor confidence has been dramatically 'dented'.

Understanding the Government's objective is to reform the electricity market arrangements to attract new long term investment, whilst recognising the unintended consequences of the current FIT arrangements, we would make the following comments in the context of the questions raised within the EMR consultation document (Pages 9-10).⁸:

Feed in Tariffs: the current consultation document does not provide enough detail to determine the advantage of one tariff over another. However we would endorse the views of the Renewable Energy Association (REA) that either P-FIT or CfD could be made to work. The manner in which they would work and necessary supporting conditions must be made explicit at an early stage.

Considering the range and types of available renewable energy generation within Cornwall and the propensity towards early entry technologies, we would support the views of the UK Energy Research Centre that FIT's should be technology differentiated to take account of technical maturity. However, the framework for achieving this must be designed appropriately if perverse activity is to be consequently avoided. Any changes must ensure that the level of support for each technology is appropriate.

4. Conclusion

With respect to Cornwall's notable potential for renewable energy generation and its positive impact on economic delivery within the County, we welcome the Coalition's commitment to Electricity Market Reform. However, we would strongly caution that reform is approached carefully and coherently to ensure consistency and avoid unintended consequences. If this is not the case, the results could have further significant and detrimental impact on the consistent delivery of low carbon economic development within Cornwall.

⁵ Regen SW, 2009 'Survey of renewable electricity and heat projects in South West England

⁶ Cornwall Council Renewable and Low Carbon Energy –Consultation Draft SPD
http://consult.cornwall.gov.uk/portal/planning/renewable_energy_spd/renewable_and_low_carbon_spd?pointId=1236076643041#section-1236076643041

⁷ Offshore Renewable Resource and Development – South West Economic Impact Assessment, SWRDA, November 2010

⁸ Electricity Market Reform Consultation Document ,
<http://www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx>