

email

Matt Coyne
DECC
4th floor area C
3 Whitehall Place
London SW1A 2AW

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Dear Matt

Call for evidence on barriers to securing long-term contracts for independent renewable generation investment (DECC ref 12D/260)

We welcome the publication of this call for evidence, and in particular welcome the Government's desire to hear the views of independent developers considering investment in other (non-renewable) technologies.

Horizon Nuclear Power ("Horizon") is a 50:50 joint venture between E.ON and RWE, formed in January 2009. On 29 March 2012 E.ON and RWE announced that they no longer intended to pursue nuclear new build in the UK, and that they were seeking new ownership for Horizon. Whilst at the time of this submission the sale process is still in progress, Horizon remains a going concern with plans in development to deliver around 6GW of new nuclear capacity at Wylfa and Oldbury.

At this stage of project development, Horizon does not have any Power Purchase Agreements (PPAs) and does not expect to be generating any electricity until the early 2020s. If our developments at Wylfa and Oldbury go ahead, Horizon will become a substantial, potentially independent, power producer in the UK and therefore the expected availability and structure of PPAs in the future, is an issue of interest.

Under the current Electricity Market Reform (EMR) proposals a nuclear generator has three price-related variables that can affect his revenue: the project strike price¹; the market reference price; and the price he sells his electricity for (achieved price). We believe that the future availability and structure of PPAs could impact on both the market reference price and a generator's achieved price.

¹ It is not appropriate to comment on the process for setting the project strike price in this response

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A key issue for an IPP is whether electricity sale prices achieved through a PPA feature in determining the reference price, and if so, how. The call for evidence suggests that large suppliers would be incentivised to offer PPAs that were linked to the CFD reference price. If this were the case then, potentially, a significant part of the market could be trading at prices that were set by a much smaller part of the market. It is clear that there could be wider market risks with such an outcome. Furthermore, it is unclear what drivers there would be for suppliers to continue to trade in the OTC and exchange markets that the CFD Draft Operational Framework² identifies as the reference price setting source, which could further dilute the proportion of actual-trades to derived-trades in the market.

It is also worth noting that if companies were to offer PPAs that were, or ended up being, at prices beneath the market reference price (MRP), then a generator entering such a PPA will, for the generation covered by that PPA, not achieve his strike price.

The call for evidence states that the CFD works "by stabilising revenues for generators at a fixed price level known as the 'strike price'"³. In reality, there are two mechanisms by which an IPP's revenue could be stabilised at the strike price: it can trade its generation in a liquid market that provides the ability to sell its electricity, on average, at the market reference price; or it can enter a PPA which is set, each year, at the market reference price for that year. Both of these are key options to an IPP as they will help to maximise the generators opportunity to achieve the reference price. The Government and Ofgem should take steps to ensure that these options are open to IPPs throughout the life of the CFDs.

At this stage we cannot comment on the options presented in the table entitled "high-level options to address issues in the PPA market". However, it is important to highlight that the language has a bias towards intermittent generation: the 'Competition Measures' option describes increased liquidity in the day ahead market, which is only relevant (under current proposals) to intermittent generation; and the 'Regulatory Measures' option refers to an obligation to offer PPAs to renewable developers. DECC must ensure that any options explored should consider independent developers of non-renewable technologies and not simply focus on renewable generation.

Please don't hesitate to get in touch using the details above if I can be of any further assistance.

Yours sincerely,

Head of Commercial Development, Horizon Nuclear Power

Copies to: , DECC Office of Nuclear Development
, DECC Commercial Team

² Electricity Market Reform: Policy Overview, Annex B, page 41 (paragraph D.i.18)

³ Paragraph 5.1

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