

Stakes are high in showdown for Britain's future energy strategy

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It is high noon for Britain's fledgling energy policy. Years of failed interventions, arbitrary green targets and damaging subsidies will come to a head in this week's capacity auction, when we will either see investors commit to [building desperately needed new power plants or simply walk away.](#)

The stakes could not be higher, for the Government and for those policymakers who believed they had designed a credible strategy to keep the lights on.

How have we got here and why does so much in this sector now hang on a complicated and little-known auction process?

The overriding issue remains the urgent need to replace old coal-fired power stations, which have served the UK since the 1960s, with new plants that burn natural gas to generate electricity. At this stage, we can forget Hinkley C, as it will not be ready in time.

These gas-fired power stations, known as CCGTs, can be built relatively quickly, are much cheaper than new nuclear plants, and are 50pc cleaner than coal; however, they are years behind schedule, because of a failure by government to deliver the right investment landscape.

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The previous coalition government told Parliament in 2012 that it wanted to see the construction of up to 28 new CCGTs and would provide further market incentives for those already generating.

These would be delivered through a new policy tool called the capacity market, which was designed to guarantee that sufficient and reliable electricity supplies would always be available in the future. It provides payments to power stations such as those powered by gas and coal.

Electricity generators bid into a capacity auction to supply power. If they win a contract they then pledge their availability to provide electricity when needed in the future.

The auction price is designed to encourage investment in new power stations and strengthen the economic case for existing ones. The key in this auction is the price it delivers; the lower the price, the poorer the case for new investment and plant retention.

In recent auctions, the price has been too low. The price the next auction delivers, and the new build it encourages, is now critical to the survival of the Government's energy policies. The reasons for the low price in the past can be firmly laid at the door of ministers and Whitehall.

Increasing the auction price to encourage investors to retain and build new CCGTs has become the key for UK energy security. It is intervention in its crudest form, but this is the framework that Parliament backed in the Energy Act 2013, finally consigning the liberalised electricity market designed by Lady Thatcher and Cecil Parkinson to history. It must now work.

Contradictions have been a constantly damaging theme of recent policy. Last year, the then Energy Secretary called for all of Britain's coal-fired power stations to be gone within 10 years, but naively failed to realise this would mean many would choose to close far sooner than thought.

Since then they have fallen like dominoes, in the hope they can secure a panic subsidy from government. This tactic has worked, and thus increased the need to get replacement gas plants commissioned and built quickly.

But in a recent Commons written answer, the Government admitted that only one, relatively small, new CCGT was being built, near Manchester.

One problem the Government has now pledged to address is that CCGTs were undercut in previous auctions by existing coal plants, which it wants phased out, and by small (and hugely polluting) standby diesel generators.

It was hoped that new pollution limits would rein in these small plants, which have been able to secure large payments for generating electricity over very brief periods when supplies are tight. But it still looks like they will qualify for some capacity in the next auction, and this hurts the case for new large CCGT plants.

The most damaging blow to encouraging a higher auction price has been the panicked subsidy lifelines given to coal plants over the past 12 months, after they had already announced their closure.

Numerous coal plants across the north of England and Wales were handed up to £150m of subsidy to operate as reserves this winter, known as the "supplementary balancing reserve" (SBR).

Alongside propping up old coal generators stands the policy ambition to import more foreign electricity. National Grid is keen to increase flows through new undersea cables, known as interconnectors, undermining further the investment case for existing and new CCGT power stations in Britain.

A new interconnector with France or the Netherlands will not guarantee the constant flow of cheap electricity to the UK when it is always needed. Indeed, the outages suffered by French nuclear power plants in recent weeks has meant very little electricity has been available to import, and this has led to higher electricity prices at home. More interconnectors will also require surcharges to finance their build and extensive infrastructure.

The Government needs to give three clear signals to nervous investors in advance of this week's auction.

It needs to dismiss any talk of more (SBR) subsidy for old coal plants; it must make clear its desire not to see any more small-scale diesel generation securing capacity; and it should acknowledge the limitations of interconnectors and instead come down in favour of large new power plants at home in the national interest.

This is even more significant in the light of Brexit; the competitive sterling rate makes investment in new UK power plant build very attractive. This is why failure to win investors this week would be all the more alarming.

There is a great opportunity to boost our national energy security at a time when Brexit talks are looming. If three or four large new CCGTs can be secured, then we can move forward knowing we have an energy sector that can attract investors and keep the lights on. Crucially it can help to deliver the industrial and business growth that the UK will need to achieve after Brexit.

Ministers desperately need this week's capacity auction to deliver the new power plants Britain requires. If it fails then emergency measures will be necessary. The stakes could not be higher.

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