



The Energy Bill

December 2012

Allowing new entrants to the market: supporting independent and community generation

It is widely accepted that competition in the electricity market has not been an unmitigated success. The existence of a handful of very large utilities has been part of the problem, owing to highly complex market rules governing entry to the market, and which have been a significant barrier to new companies.

While the Government has set its face against the much simpler Fixed Feed in Tariff that has been used widely in other countries to great effect in deploying renewable energy and diversifying the market, the issue of smaller entrants has to be addressed. The Energy and Climate Change committee found that smaller and independent generators would be “squeezed out” under contracts for difference.¹

There are three key reasons:

- CfDs end the existing guarantee that renewable energy will be bought. Both Renewables Obligation and Feed-in Tariffs require energy companies to buy the electricity produced.
- CfDs create near insurmountable hurdles to small investors and independent generators, such as a need to post collateral of many tens of millions of pounds, pay imbalance fees and fees for trading services and to set up a trading arm involving extra specialist staff.
- CfDs introduce huge trading uncertainties for renewable energy generators, creating an even greater level of uncertainty over what price they will receive for the electricity than under the Renewable Obligation, increasing the cost of financing.

At the very least the complex CfD model should be applied only to large scale projects which will require a large company and all of the resources they have, while projects of a scale undertaken by independent generators and community developers in the past– up to 100MW – should be financed via the Feed in Tariff system so that they are open to a much wider range of companies.²

An alternative would be a green power auction as proposed by some of the independent generators which would allow market competition in the green energy market whilst having a bankable revenue stream.

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¹ [Energy and Climate Change Committee, Draft Energy Bill: Pre-Legislative Scrutiny, July 2012](#)

² University of Birmingham, 'A Proven Solution: How to grow renewables with a fixed feed-in tariff', December 2012