



Department
of Energy &
Climate Change

Electricity Market Reform: Amendment to Contracts for Difference (Definition of Eligible Generator) Regulations

Consultation on a proposed amendment to enable
retrofit Carbon Capture and Storage projects to be
eligible for a Contract for Difference

October 2015

URN 15D/483

Department of Energy and Climate Change

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London

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The consultation can be found on DECC's website:

<https://www.gov.uk/decc>

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General information

Purpose of this consultation:

The purpose of this consultation is for the Department of Energy and Climate Change to gather views on a proposed amendment to the Contracts for Difference (Definition of Eligible Generator) Regulations 2014 to specify that retrofit Carbon Capture and Storage (CCS) projects, involving the connection of an existing power station to a complete CCS system, are eligible for a Contract for Difference (CfD).

Issued: 4th November 2015

Respond by: 2nd December 2015

Enquiries to:

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Consultation reference: URN 15D/483 Electricity Market Reform: Amendment to Contracts for Difference (Definition of Eligible Generator) Regulations

Territorial extent:

This consultation applies to England, Scotland, Wales and Northern Ireland.

How to respond:

Your response will be most useful if it is framed in direct response to the question posed, though further comments and evidence are also welcome. Electronic responses should be sent to the email address above.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/>

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

Consultation question

Consultation question

1. Do you have any comments on the proposal that the definition of an eligible generator under The Contracts for Difference (Definition of Eligible Generator) Regulations 2014 should be amended in order to specify that retrofit Carbon Capture and Storage (CCS) projects, involving the connection of an existing power station to a complete CCS system, are eligible for a Contract for Difference?

Introduction

Electricity Market Reform (EMR)

1. The UK electricity market faces a number of challenges, with the rapid closure of existing capacity as older, more polluting plant go offline, alongside the growth of our economy and increasing electrification of our heat and transport systems. Around £100 billion of private sector investment is needed by 2020 to replace and upgrade the UK's electricity infrastructure¹.
2. The UK electricity sector is in the process of transition to one in which low carbon generation can compete with conventional, fossil-fuel generation, in order to build a cleaner, more sustainable energy mix. This will enable the UK to:
 - decarbonise electricity generation;
 - ensure security of electricity supply;
 - minimise the cost of electricity to consumers.
3. Attracting the investment required to transform the UK's electricity market will also stimulate the economy, support the growth of UK supply chains and boost the jobs market.

Contracts for Difference (CfDs)

4. CfDs are a mechanism for bringing forward investment in low carbon generation. They provide long-term price stabilisation to low carbon plant, allowing investment to come forward at a lower cost of capital and therefore at a lower cost to consumers.
5. A CfD is a private law contract between a low carbon electricity generator and the Low Carbon Contracts Company (LCCC), a Government-owned counterparty body. A CfD holder is paid the difference between the 'strike price', a price for electricity reflecting the cost of investing in a particular low carbon technology, and the 'reference price', a measure of the average market price for electricity in the GB market. A CfD provides greater price stability to electricity generators by reducing their exposure to volatile wholesale prices, whilst protecting consumers from paying for higher support costs when electricity prices are high. In this way, CfDs are intended to provide efficient long-term support for low carbon generation.

¹ <https://www.gov.uk/government/publications/delivering-uk-energy-investment-2014>

6. The payments made to generators are calculated and paid out by the LCCC. The cost of CfDs are met by consumers via the supplier obligation; a levy on electricity suppliers.
7. Full background and details on how CfDs operate can be found on the Government website².

Carbon Capture and Storage Commercialisation Competition

8. Carbon Capture and Storage (CCS) is a potentially important technology for the decarbonisation of electricity generation and industrial processes, and is expected to play a key role in the reformed electricity market. The previous government's 2012 [CCS Roadmap](#)³ set out a range of government interventions and funding to support CCS development in the UK, including the CCS Commercialisation Competition.
9. The UK CCS Commercialisation Competition makes available up to £1 billion capital funding, alongside the possibility of operational funding through a CfD, to support the design, construction and operation of the UK's first commercial-scale CCS projects. This is intended to:
 - generate learning that will help to drive down the costs of CCS;
 - test and build familiarity with the CCS specific regulatory framework;
 - encourage industry to develop suitable CCS business models;
 - contribute to the development of early infrastructure for carbon dioxide transport and storage.
10. Two projects are currently being supported to undertake detailed engineering, planning and financial work to finalise and de-risk aspects of these proposals ahead of taking final investment decisions. One of these projects involves the construction of a new, purpose-designed power station and CCS system to collect and permanently store carbon dioxide that would otherwise be emitted to the atmosphere. The other involves retrofitting a CCS system to an existing power station.
11. The projects that are part of the CCS Competition could, subject to the developers taking a final investment decision to proceed to construction and operation, and the Government taking a final investment decision to provide financial support (which might be provided to one, both or neither project), be the first CCS projects supported through a CfD.

CCS Commercialisation Competition CfDs

12. The terms of any CfDs allocated through the CCS Competition are subject to bilateral negotiation between the Secretary of State and the project developers, and it is intended

² <https://www.gov.uk/government/collections/electricity-market-reform-contracts-for-difference>

³ <https://www.gov.uk/government/publications/the-ccs-roadmap>

that the Secretary of State will use powers under section 10 of the Energy Act 2013 to direct the LCCC to offer a bespoke CfD to any project which is successful in the CCS Competition.

13. Such a direction under section 10 of the Energy Act 2013 can only be made in respect of a person qualifying as an “eligible generator”. Competition negotiations have proceeded in parallel with the implementation of reforms to the electricity market. Subsequent to the Energy Act 2013 receiving Royal Assent in December 2013, five statutory instruments entered into force in August 2014, forming the implementing secondary legislation for CfDs. These include [The Contracts for Difference \(Definition of Eligible Generator\) Regulations 2014](#)⁴ (the “Regulations”), which set out the requirements a person must fulfil in order to be an “eligible generator”, and therefore be eligible for a CfD.

Purpose of this consultation

14. The policy intent is that CfDs should be available to CCS projects in the CCS Competition irrespective of whether or not they are based on new or existing power stations. However, under the terms of the existing Regulations, a power station that retrofits a CCS system is ineligible for a CfD.
15. This consultation seeks views on the Government’s proposal to amend the Regulations in order to enable retrofit CCS projects to be eligible for a CfD, to bring the CfD legislation in line with the original policy intention. Subject to Parliamentary approval, the intention is to make this change on a timescale that would facilitate all possible outcomes of the CCS Competition, but the amendment to provide for retrofit CCS projects would be of general application and would not be limited to projects that are part of the CCS Competition. It is not believed that the proposed change has any significant policy or cost implications, so an Impact Assessment has not been included as part of this consultation. The purpose of this consultation is to gather views on this proposal and the principles that will guide the preparation of these changes.

⁴ <http://www.legislation.gov.uk/ukxi/2014/2010/made>

Proposal

Carbon Capture and Storage policy background

16. The policy framework set out in the previous government's 2012 [CCS Roadmap](#)⁵ and 2014 [Next Steps in CCS: Policy Scoping Document](#)⁶ envisaged that both new build and retrofit Carbon Capture and Storage (CCS) projects would be eligible for Contracts for Difference (CfDs). This position was set out in the CCS Commercialisation Competition's *Invitation to Participate in Discussions* (April 2012), which invited bids for both new build generation plant and existing plant to be retrofitted with CCS technology.
17. Given the number of emissions intensive plant already in place within the UK, and either in place or under construction internationally, it is essential that CCS technologies are developed globally for application to both new build and existing infrastructure.

Contracts for Difference (Definition of Eligible Generator) Regulations

18. Schedule 1 to the [Regulations](#)⁷ sets out a list of eligible generating station types. In order for a person to qualify as an eligible generator, and therefore be eligible for a CfD, the Regulations state that they must intend to either establish an eligible generating station, or alter an eligible generating station in order to increase its capacity by 5MW or more.
19. In the case of CCS retrofit projects, the generating station has already been established, and carrying out works to retrofit an existing generating station with CCS technology would not qualify as establishing an eligible generating station. Therefore, CCS retrofit projects are not currently eligible for a CfD.

Proposed Amendment

20. The Government proposes to amend the Regulations in order to specify that retrofit CCS projects are eligible for a CfD. This would include instances where an existing generating station, or part of it, is to be connected to a complete CCS system. The proposed amendment would ensure that existing CCS policy is correctly and expressly reflected in the CfD legislation.

⁵ <https://www.gov.uk/government/publications/the-ccs-roadmap>

⁶ <https://www.gov.uk/government/publications/ccs-policy-scoping-document>

⁷ <http://www.legislation.gov.uk/ukxi/2014/2010/made>

Consultation question

1. Do you have any comments on the proposal that the definition of an eligible generator under The Contracts for Difference (Definition of Eligible Generator) Regulations 2014 should be amended in order to specify that retrofit Carbon Capture and Storage (CCS) projects, involving the connection of an existing power station to a complete CCS system, are eligible for a Contract for Difference?

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