

Citizens Advice Call for Evidence

Energy Innovation Policy

Citizens Advice is beginning a major new research project, investigating how to improve decisions about which energy technologies to back and how to manage financial support.

Why are we carrying out this work?

Citizens Advice is the statutory body responsible for representing consumers' interests in the energy sector.

The demonstration and deployment of new, currently immature energy generation technologies is funded through levies on consumer energy bills. The total amount that can be spent is capped by the Levy Control Framework ("LCF"). To date, current and previous governments have tried to use this funding framework to stimulate a wide range of different low carbon generation technologies - an "all of the above" approach that tries to fund all technologies, and rule nothing out.

This Parliament will see a 77% increase in the size of the increase of the LCF.¹ Despite this, some commentators are already warning that the funding the LCF provides for new low carbon generation projects has already been exhausted, or is close to running out, due to pre-committed spend.² Both the National Audit Office and the Competition and Markets Authority have warned that the approach that has been taken to providing stimulus for new technologies may not be delivering value for money.³ Over three quarters of the available funding for future CfD allocation rounds is for the least established (currently, the most expensive) low carbon generation technologies.⁴ The Government is also continuing to consider awarding project specific CfDs outside of the competitive allocation process, for example in relation to tidal lagoons.

¹ The Levy Control Framework will increase from £4.3bn in 2015/16 to £7.6bn in 2020/21 (both figures in 2011/12 prices).

² For example, on 12 May, Policy Exchange warned that DECC may have already committed the entire LCF budget out to 2020 assuming no further changes in policy (<http://tinyurl.com/oygfzzz>). On 11 May, Cornwall Energy reported that *'we expect that just 14.5% of the LCF budget will be devoted to the CfD regime in 2020-21 [...] pre-committed spend on non-competitive schemes under the LCF has notably reduced the potential future spend on the CfD'* (Energy Spectrum Issue 472, £).

³ See 'Early contracts for renewable electricity,' National Audit Office, 27 June 2014 (<http://tinyurl.com/lx6wey8>) and 'Energy market investigation: updated issues statement,' Competition and Markets Authority, 18 February 2014 (<http://tinyurl.com/orp6bcd>)

⁴ See 'Draft budget notice for CfD allocation round 1,' DECC, 29 September 2014 (<http://tinyurl.com/p28e6q5>).

It is clear that the Government is making calculated gambles both in terms of the range of technologies that it supports and in the scale of stimulus that it provides to them. But it is less clear to the outside observer what the basis of that calculation is. Are we trying to ensure that all low carbon generation technologies reach maturity, or only some? How are we determining the balance of funding between more mature technologies and less mature ones? If support for technologies is not indefinite, what are the trigger points that would determine the release, or termination, of further support? Over what timescale are assessments of lowest-cost pathways to be judged? How are, or should, factors outside the energy trilemma, such as job creation, affecting energy investment priorities?

Without clear answers to these from ministers and officials, policy may not deliver the cost-effective decarbonisation that consumers need.

What do we hope to achieve?

This call for evidence will inform a new report, to be published by Citizens Advice in the second half of 2015. We intend to develop principles that current and future governments can use to inform their technology choice decisions. Those principles will put value for consumers' money at the heart of UK climate policy.

Which questions are we trying to answer?

We want to explore how to ensure that consumers get the best possible value for money from the investment they are making in new generation. So, we wish to consider

- Do we need to bring every technology to fruition in order to meet our carbon targets, or can we get there with a narrower range?
- Is it reasonable to expect consumers to bear the full cost of bringing all prospective energy technologies to maturity?
- Is it realistic to expect that all the technologies that consumers are being asked to pay for will reach maturity?
- What processes should be in place to filter out winners from losers?
- When should those processes take effect?
- Are there other countries/organisations that have rules or policies about the conditions for ending, reducing or transferring support ('stop-loss policies') for/from energy technologies which are not improving rapidly enough? What can the UK learn from other attempts at stop-loss policies?

- Are there examples from other areas of policy (i.e. outside energy policy) where stop-loss policies have been successfully implemented, either in the UK or overseas?

How can you contribute?

We welcome thoughts, ideas and case-studies from individuals and organisations who wish to contribute to this most important debate. You can make a submission to our Call for Evidence by emailing simon.moore@citizensadvice.org.uk. The closing date for submissions is 3 July 2015.