Revaluating the future route to market for low carbon technologies

This is the second in a series of blog posts from NextEnergy Capital, outlining an array of policy proposals which we believe would, if implemented, herald in the low carbon energy transition and deliver a subsidy free and effective low carbon economy. In this second blog, we will examine how to create a level playing field for low carbon technologies enabling them to compete more effectively.

The introduction and use of Contracts for Difference (CfDs) have significantly contributed to the UK's decarbonisation efforts. This is widely reflected in the UK's ever increasing renewable capacity, which is being deployed at an ever decreasing cost.

So, with the CfD regime having served its purpose in bringing low carbon technologies to market, the problem we now face is the unintended consequences that this regime presents. Typically favouring large, centralised, carbon-emitting generation, the CfD regime is no longer fit for purpose and no longer provides a framework for low carbon technologies to compete on a level playing field.

Curtailing the use of CfDs for 'proven technologies' – including solar and wind, but more importantly for carbon-emitting technologies, such as gas – may provide the solution we need. In their place, Government sponsored long term power purchase agreements (PPAs) could pave the way for the deployment of a new wave of low carbon energy generation. And the role of CFDs can be increasingly focused on new technologies that need help but also works to extend skills and private investment in new and potentially valuable future technologies.

PPAs currently provided by energy supply companies are fixed for shorter periods of three years and are typically met by high carbon emitters, including diesel generators. Long term PPAs would enable low carbon technologies to compete more effectively and successful, as a natural reverse auction would effectively ensure that the lowest possible price comes out on top.

As well as boosting competition in the market, this policy reset would also allow us to refocus how CfDs are used: to support and deliver emerging technologies – as they once did for renewables – or energy projects so large that the market cannot realistically deliver them alone.

In our first blog in this series, we laid out how a new 'polluter pays' carbon pricing mechanism would create the incentive for large suppliers and generators to adopt low carbon technologies. Critical as this incentive may be, on its own it is not enough. The market needs to provide opportunities for companies to invest in a broad range of low carbon options. Long term PPAs would enable this by providing a unified regulatory framework that captures the dual need for a constant energy supply at the right price, and an energy market where all technologies truly do compete on a level playing field.

As the costs of renewable technologies continue to fall, reassessing how we provide an effective route to market remains essential for the UK as we continue our transition to a low carbon economy.

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