

BIEE Lecture

ENERGY POLICY AFTER THE ELECTION

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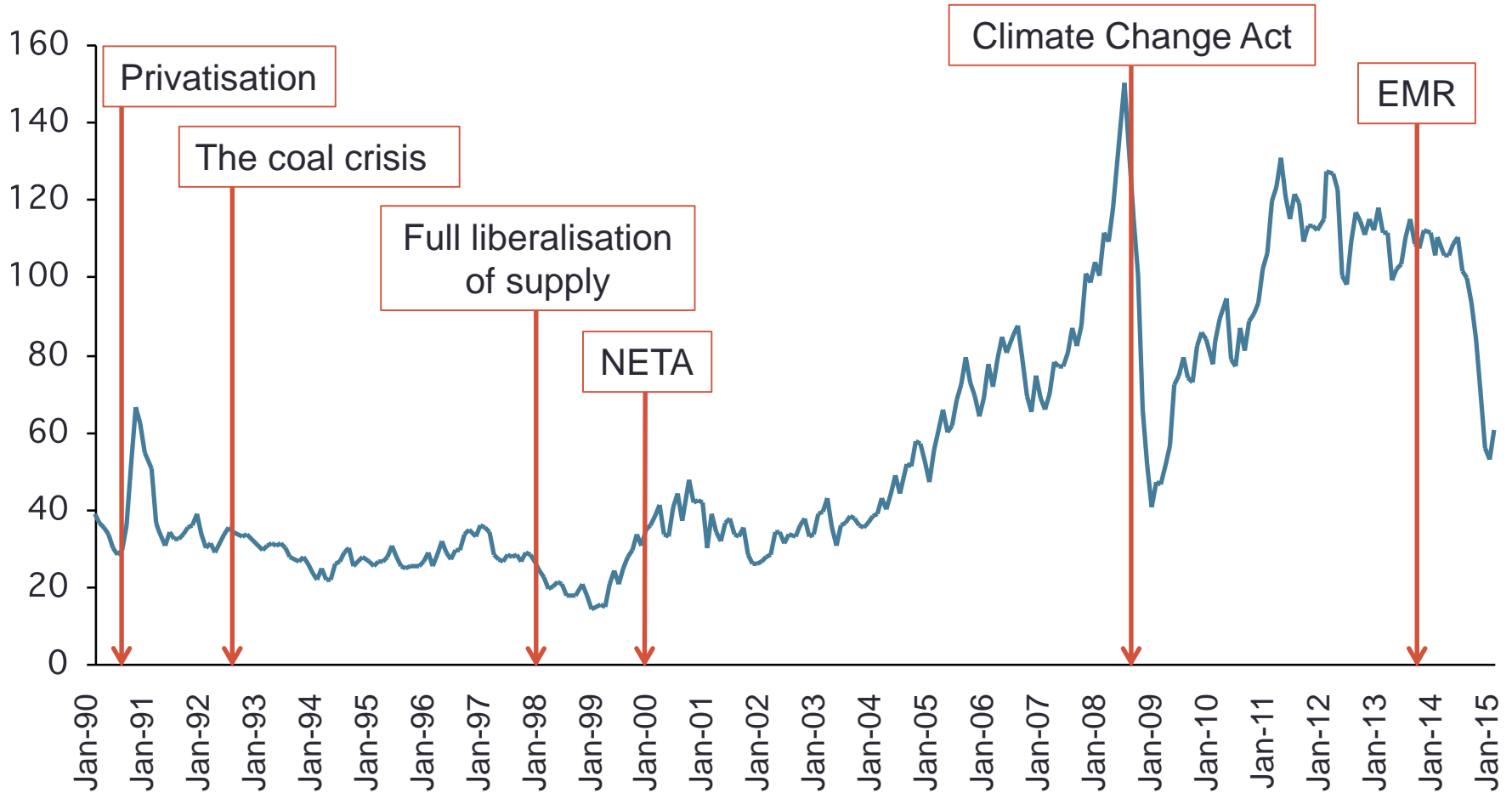
Agenda

- Understanding the past
- Focusing on fundamentals
- Identifying the key challenges
- Priorities now

Understanding the Past

US\$/Barrel
(2014)

Brent crude oil price



Notes: The real prices are calculated from adjusting the nominal prices for CPI (including all items) in United States, with January 2014 as base month.

The Radicalism of EMR

- Fixed-price Feed-in-Tariffs
- Fixed-price capacity contracts
- Renewables banding and separate technology FiTs
- Capacity banding and separate capacity auctions

Fundamental Shift in the Economic and Financial Model

- From liberalisation + competition → single buyer model
- From the wholesale market → fixed revenues
- From variable prices → long-term contracts

With Fundamental Changes in Technology

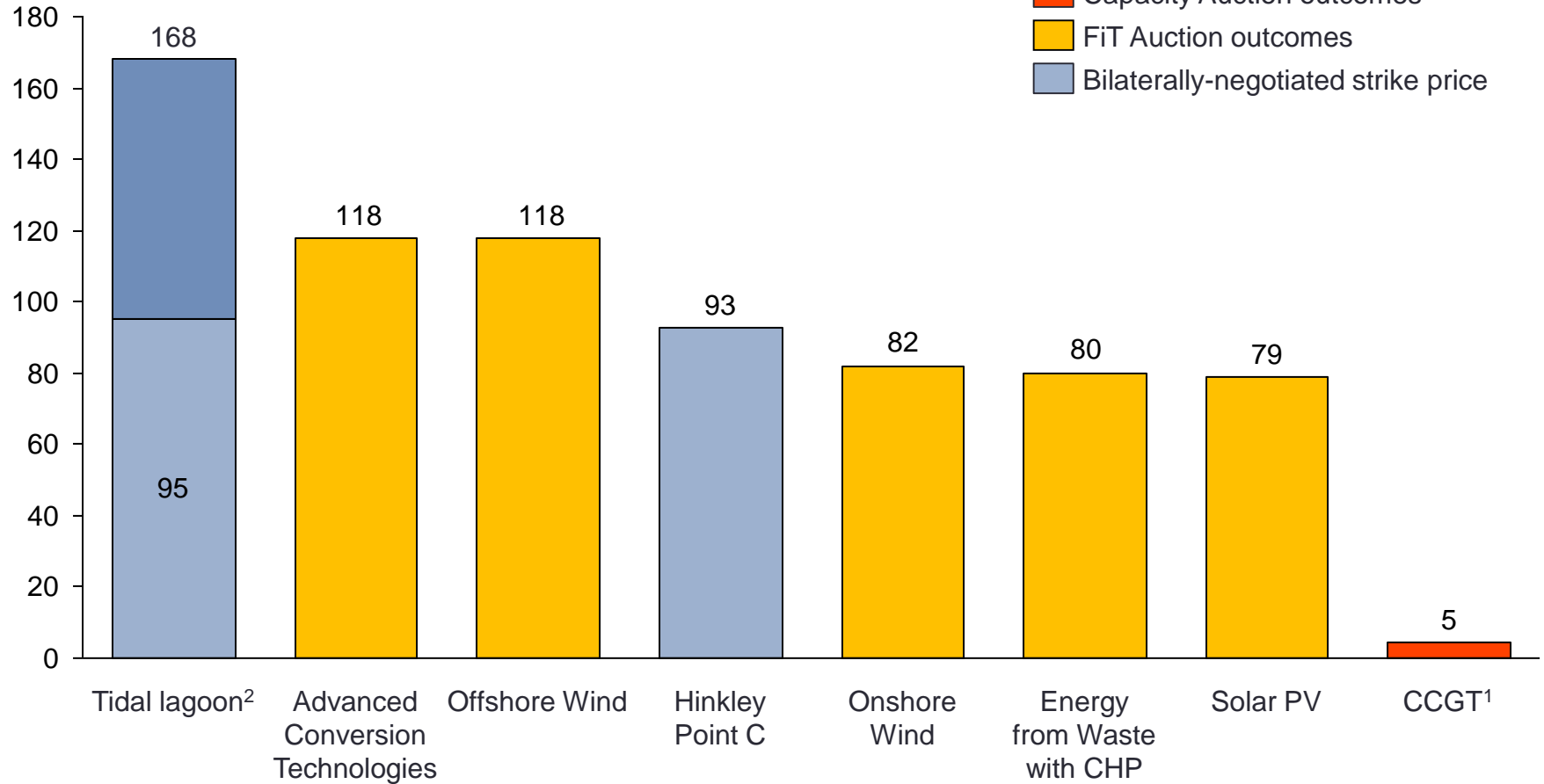
- Zero marginal cost renewables
- Zero marginal cost nuclear
- Storage and batteries
- Smart meters and grids

➔ Economics of the Internet

The FiT Outcomes

Subsidy cost
(£/MWh, 2012)

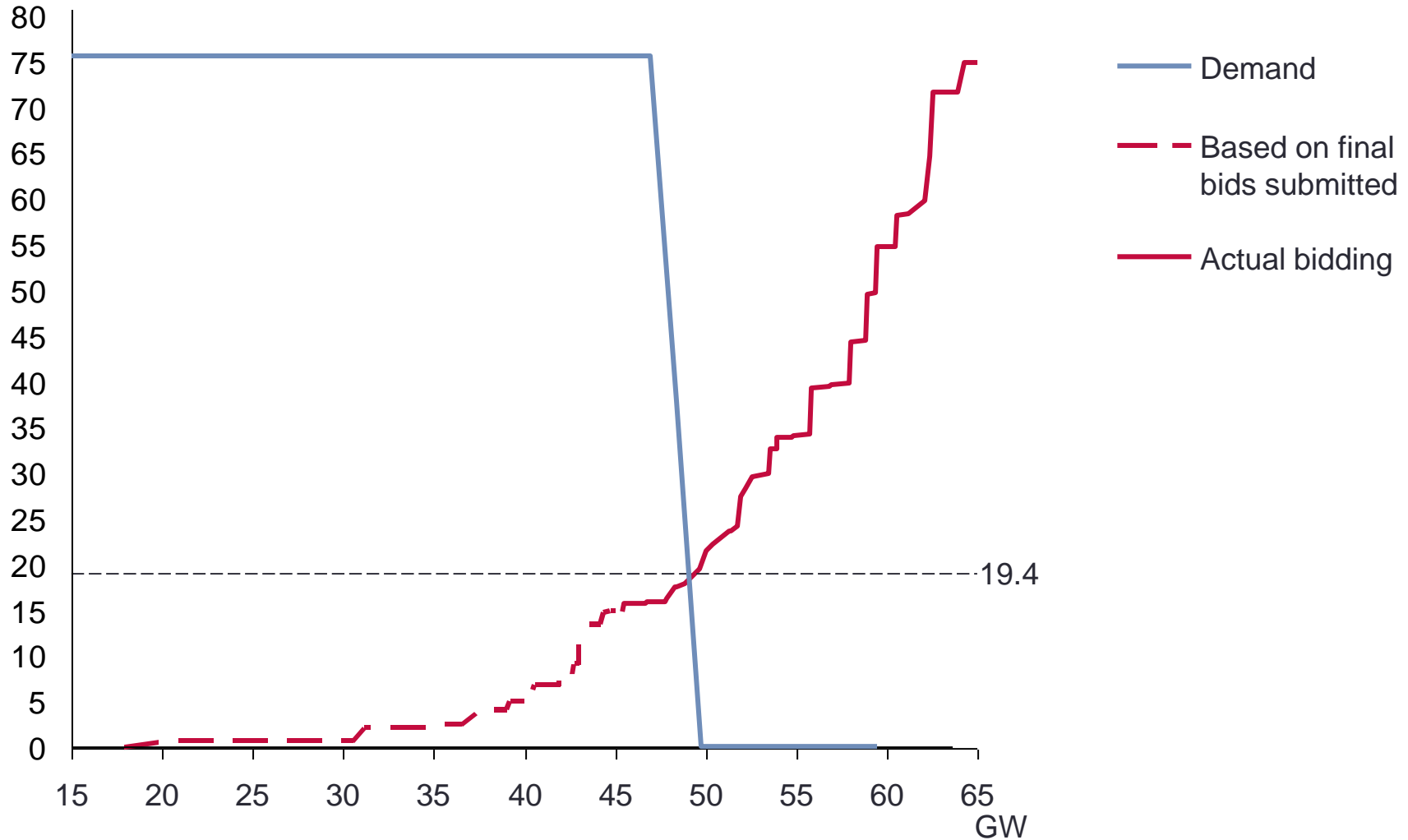
CfD Auction outcomes – cost of subsidy



Note: 1. Implied subsidy per MWh for Trafford through the Capacity Market, assuming 50% load factor
 2. The lower value is provided by the project developer, the higher value is an estimate from DECC

The Capacity Auction outcomes

Capacity price, £/kW



The Key Challenges for the Single Buyer

- How to manage the new fixed-price world?
- How to design the carbon profiles?
- What to do about coal?
- Deciding the fate of the CCGTs?
- What nuclear programme to support?

This needs...

- Institutions
- Modelling and analytical capacity
- Integration of carbon, energy and competition policies
- Contract credibility and financing

rather like the Department of Energy and the CEGB capabilities...

So What Will Happen?

- On EMR, not much...

→ Muddle through lots of lobbying + capture?

- On competition, follow the CMA...

→ structural changes follow the cost structures, not the CMA/DECC?

- On carbon, follow the CCC + floor price

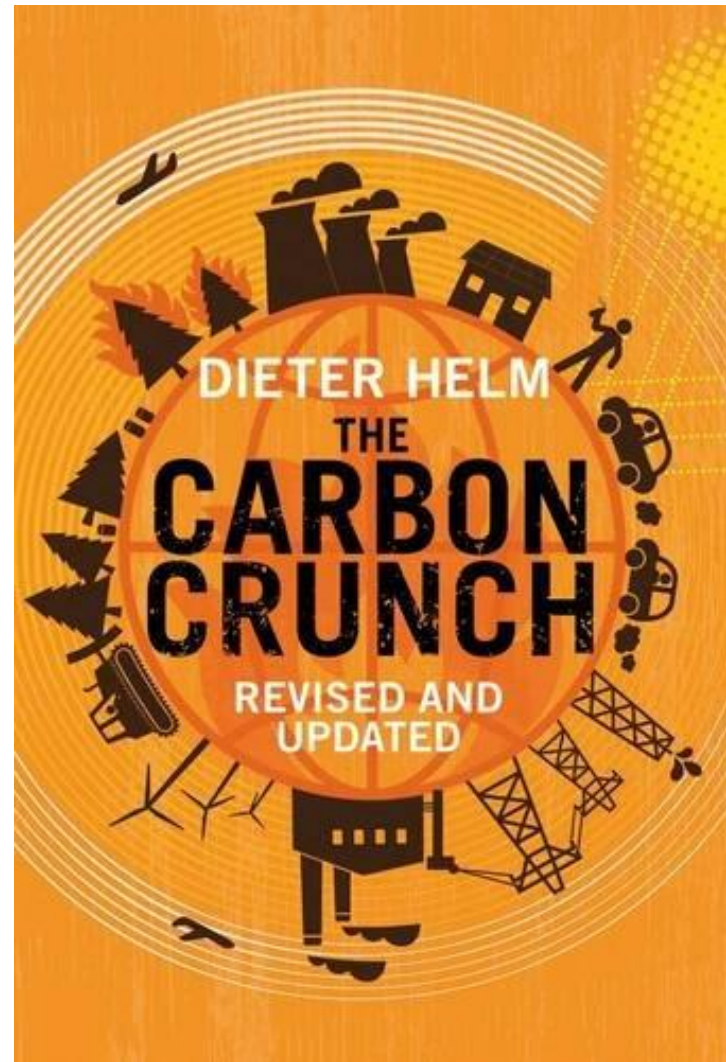
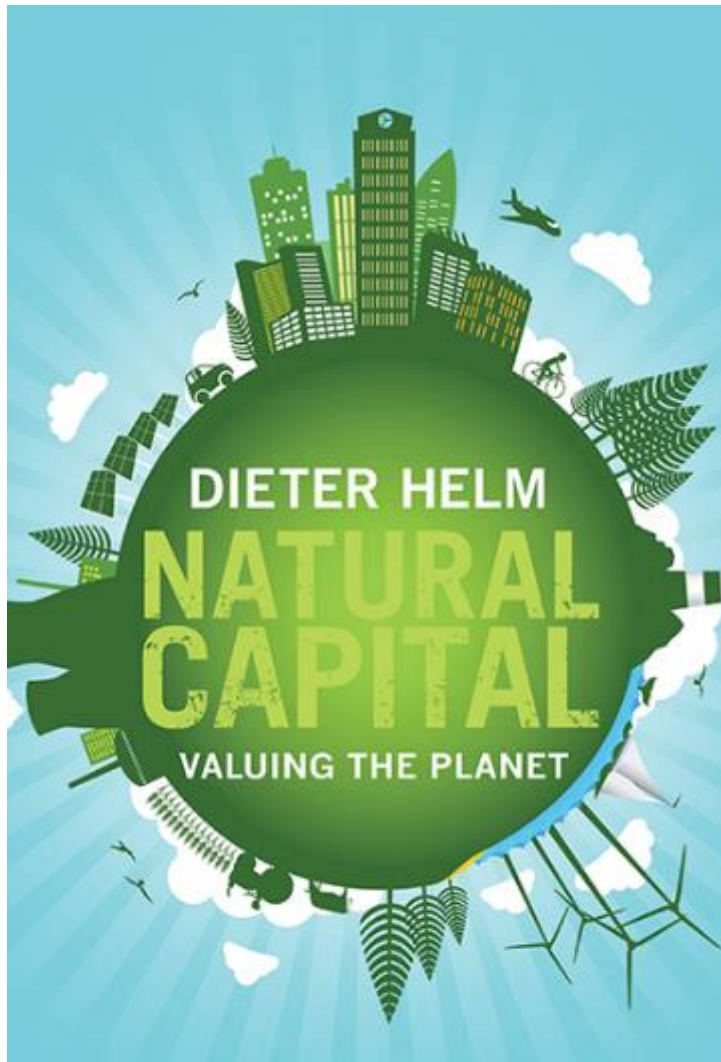
→ more high cost “solutions”?

The Choice Now

- Think again: an immediate, serious and expert review
- Make some decisions: including on nuclear
- Simplify: a merger of FiTs + capacity markets → single unified competitive auctions

OR...

- The CEGB model done properly



For Information

Online EFN publications

- Energy Policy and the Coalition, Paper 10 March 15
- What should oil companies do about climate change? Paper 9, Feb 15
- Competition in the British electricity sector: a set of practical measures, Paper 8, Feb 15
- The road to re-regulation, Paper 7, Jan 2015
- What future for vertically integrated companies? EFN Paper 5, September 2014
- The return of the CEGB? EFN Paper 4, June 2014
- A Credible European Security Plan EFN Paper 3, May 2014
- Electricity and energy prices EFN Paper 2, April 2014
- The Ukraine crisis and energy policy EFN Paper 1, March 2014

Energy publications

- Special report on energy. How do we get out of this mess?– Prospect Magazine October 2014
- Breaking the Bear Hug – Prospect Magazine May 2014
- The Carbon Crunch – how we are getting climate change wrong and how to fix it, 2013, London, Yale University Press.
- European Energy Policy, in: The Oxford Handbook of the European Union Edited by E Jones, A Menon, and S Weatherill, OUP, August 2012.