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Energy Spectrum 624

2 July 2018

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Monday 25/06 – Business and Energy Secretary Greg Clark announces that the government has decided not to go ahead with the Swansea Bay tidal lagoon project as it will not deliver value for money. Economist Martin Cave is confirmed as the preferred choice as Ofgem’s new Chairman. Scottish investment company Intelligent Land Investments announces plans for a new 400MW pumped hydro scheme east of Loch Ness.

Tuesday 26/06 – BEIS releases its annual fuel poverty report for 2016, showing a small rise in the number of households in fuel poverty. The International Energy Agency predicts that global gas demand will grow at an average rate of 1.6% a year to 2023. At its Power Responsive conference, National Grid reveals that its target of procuring 30-50% of balancing from demand-side response could be met two years early. Vattenfall applies to UK planning authorities to construct its 1.8GW Norfolk Vanguard offshore wind project.

Wednesday 27/06 – Iresa Energy is named as the worst energy supplier for customer service by Citizens Advice as an Ofgem order continues to prohibit them from taking on new customers. Labour and Lib Dem peers add an amendment requiring the implementation of a relative price cap to the government’s price cap bill. The Scottish government unveils new fuel poverty legislation, intended to ensure only 5% of households are in fuel poverty by 2040. Generation and storage developer Statera Energy completes debt refinancing for its 49.99MW lithium-ion battery located near Bishop’s Stortford.

Thursday 28/06 – The Committee on Climate Change releases its annual report to Parliament warning of tougher challenges ahead to meet the next carbon budgets, particularly with regard to buildings and transport. Trade associations including Energy UK and Renewable UK back the CCC’s calls for a route to market for low-cost renewables. Business and Energy Secretary Greg Clark announces a £200mn sector deal for the nuclear industry. Ørsted and Siemens Gamesa Renewable Energy sign a deal for supply of turbines for the Hornsea Project Two offshore wind farm.

Friday 29/06 – Centrica acquires a 50% stake in one of the UK’s largest biomethane suppliers, Barrow Green Gas. Swansea City Council launches a consultation proposing to create the first council-owned energy company in Wales. Eight further councils sign up to the Mayor of London’s Solar Together scheme.

Up for the cup: measuring supply market success



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In the wake of the beast from the east, there has been much comment on the viability of the “small supplier” business model. This includes Ofgem’s 11 June letter setting out its approach to reviewing how it licences suppliers and how it intends to refine the supplier of last resort (SoLR) mechanism.

Much of this discussion has focused on the many companies trying to make headway in the low-cost online, fixed tariff sector of the household market. The broad thrust has been to question the financial viability of that particular model, and whether customers are adequately served and protected should a supplier fail.

However, there are many different business models in the energy retail market, and there have been some striking successes. The number of transactions, consolidations and exits has accelerated since 2016, culminating in a merger proposed between two of the Big Six, npower and SSE’s domestic supply business. As retail markets evolve, it is likely this trend will increase.

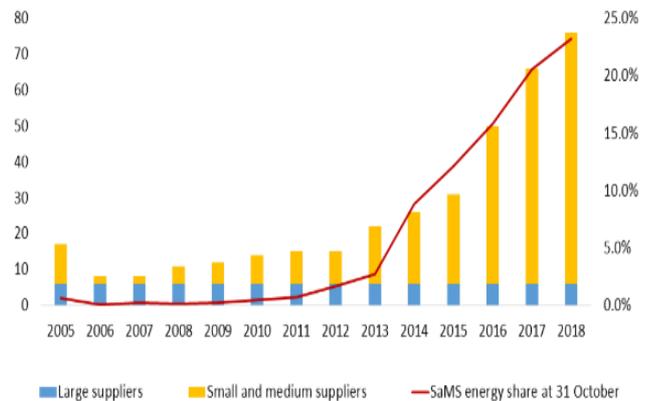
This *Energy Perspective* focusses on some of this recent activity and the wider debate around supplier success and failure.

Qualification

What do buyers value when considering an investment? In no particular order and depending on the circumstances, factors include the opportunity for growth, the ability of the business to sustain itself, having robust and upgradeable systems and infrastructure, the uniqueness and sustainability of the proposition including its brand and values, access to related markets and, most importantly, the ability of company management to execute their plans.

From an energy retail perspective, the structure of the market sets a defined framework in which these factors can be evaluated. Energy is a non-discretionary purchase comprising 50mn household accounts and 2mn business accounts. While demand has been steadily falling, projections including National Grid’s Future Energy

Figure 1: Suppliers and independents’ market share



Source: Cornwall Insight

Scenarios point to electricity demand increasing as transport, and to an extent heat, is electrified.

The ability of a supplier to sustain itself has until very recently triggered the twin needs for scale and integration. But new technology in production and retail management has diminished these aspects, and political distaste for the Big Six has served to emphasise these changes.

Technically skilled staff and management are required to navigate the complexities of the energy industry. Some of these skills are bespoke and in short supply. Often, they support propositions and systems that are hard to replicate, although a growing array of service providers have opened up these skills to entrants and slashed market entry costs and timescales.

Switching levels in the domestic market are at a decadal high, with around 20% of householders moving supplier each year, pointing to sustained, if flat levels of engagement. But independent supply is at an all-time high, stimulated by over 70 licensed suppliers (see Figure 1).

The downside of selling a non-discretionary product is the challenge of commoditisation. However, green energy, smarter prepayment, connected homes, electric vehicles, and multi-utility offerings are opportunities to diversify and create brands. There are plenty of signs that the smarter world will multiply these opportunities, and it offers a great contact list for upselling and cross-selling, especially if the energy business is able to create a brand that draws in consumers.

The ability of management to execute its plans is always the most difficult factor for investors to assess, especially if they come from outside the

sector. It will be the defining factor in the success of any transaction. A track record of sustainable, profitable business growth counts for a lot.

Group stages

At varying times in the development of the sector, different elements from the above list have come to the fore.

First of all was the great quest for scale and consolidation that led to the creation of the Big Six in the years up to 2002. Around that time too, diversification into related markets was a big factor in the development of Centrica with moves into telecoms, financial services and ownership of the AA.

Even so, this trend was quickly reversed when the electricity wholesale market crashed and then spiked, leading to vertical integration and a re-focus on core strengths away from bundled offers.

While the Big Six enjoyed the next 10 years seemingly uncontested at least in the domestic market, the period thereafter has seen their model seriously challenged. In the business market, that decade saw the emergence of notable entrant competitors including Electricity Direct, Pennine Natural Gas, Opus Energy and Haven Power, all of whom would go on to make successful trade sales. In the domestic market the incumbent challenges got tougher in 2011-14 with the establishment of First Utility and OVO Energy offering fixed tariffs cheaper with a better customer experience, especially online. They were followed in short order by Utilita's creation of a new market in smart prepayment, and then more recent initiatives in green supply, and electric vehicles such as those spearheaded by Bulb Energy, Octopus Energy and OVO Energy.

But perhaps the biggest change has been the entry into the market of an array of service providers who have taken much of the complexity out of the market for entrant suppliers and have at the same time often offered a better service than that provided by the Big Six. Some of these companies have attracted external investments of their own. But from the perspective of an investor in an energy supplier, an increasingly important question concerns the extent to which any outsourced services might constrain its ability to compete as the market continues to evolve.

Knock-out phase

Trade sales, consolidations, exits and other investments in suppliers show that these business models have different degrees of attractiveness to purchasers. The Big Six's race for scale set the benchmark price for domestic retail businesses that is still referenced today. That figure was £300/customer account (worth approximately £450 in current money), notionally based on 10 years' worth of profits.

Figure 2: Selected energy supplier acquisitions: 2013 to date

Supplier sold	Acquired by	Accounts/ contracts (mn)	Transaction value (£mn)	Value per account	Dom(D) or Non-Dom(ND)	year
Telecom Plus (Utility Warehouse)	UW Management	0.8	218	£272.50	D	2013
GB Energy (from SoLR)	Co-operative Energy	0.3	25	£96.15	D	2016
Opus Energy	Drax	0.1	340	£2,615.38	ND	2016
First Utility	Shell	1.6	240	£154.34	D	2018
Flow Energy	Co-operative Energy	0.2	9.3	£40.22	D	2018

Source: Cornwall Insight

Figure 2 shows transactions where account numbers and valuations have either been reported. They show a wide range of valuations from two failed suppliers (GB Energy and Flow Energy), both of whose customer books were acquired by Co-operative Energy for less than £100/ account, to Opus Energy whose predominantly SME customers attracted over £2,500/ contract from Drax Power. In the middle are the two successful domestic supply sales: Utility Warehouse buying its customers back from npower at £272/ account and Shell's purchase of First Utility at just over £150/ account.

Other successful trade sales of domestic suppliers have included ISupply Energy (purchased by Vattenfall), LOCO2 (purchased by Solarplicity) and PFP Energy (purchased by an external investor). While values for these transactions have not been published, our understanding is that they are no more than the Shell/First Utility per account benchmark.

Golden boot

We will inevitably see further exits and consolidation in a market that incentivises scale, but the striking thing in energy supply is not how many businesses have failed but how many have not. They may not all be prospering, but of those that have successfully transacted we think a number of consistent features emerge.

For example, Opus Energy was a first mover into the business SME market doing much to stimulate a new channel to market through third party intermediaries led by skilled management with its own and robust IT systems. At sale it had proven itself a scalable business with more potential to grow volume and value.

ISupply Energy entered the domestic market in 2011, by the owners of systems company Gilmond Consulting. The company grew steadily and profitably, mainly through the online fixed tariff market ahead of its purchase by Vattenfall in 2017.

First Utility is one of the early movers into the domestic energy market that have become the three largest challengers. Entering in 2008, it created one of the first scalable domestic supply business models outside the Big Six, originated the markets for online fixed tariffs and wholesale services for energy suppliers as well as showing challenger brands could prosper in the sector. It has begun to develop into new markets, notably broadband and home services.

OVO Energy was another early mover, entering the market in 2009, also acquiring scale and establishing a challenger brand, with distinct strands for online, renewable, prepayment and recently electric vehicles. It has now grown to be the largest challenger to the Big Six and is set to re-engineer itself as a tech-led energy services company, as demonstrated by the recent launch of battery and EV offerings.

The trade purchasers are all from related markets – oil and gas, power generation or integrated utilities – demonstrating the value to them of an established route to serving a new customer base. That base may be for current services or perhaps, as widely speculated, for new services, notably servicing electric vehicles.

There is also to come the largest transaction of all, that proposed between the domestic business of SSE and the full retail energy business of npower. Strikingly, the rationale for this transaction is defensive rather than expansive. As the deal was announced last November, SSE retail's chief operating officer Tony Keeling, commented: "By merging ..., we think we can be more efficient, more agile and more innovative for customers."

Messi ending?

Of course, there have been failures and forced exits, notably Tempus Energy, GB Energy, Future Energy, and Flow Energy. It is possible to conclude that, where the SoLR process is used, the supplier has not been able to attract investment or manage

an orderly exit via a trade sale. But the exits have not been of a scale to disrupt market confidence, especially among consumers. Recent exits have seen customer balances protected.

Ofgem's 11 June letter is a long-awaited follow-up to its 2017-18 workplan commitment to look at supplier viability, prompted by the failure of GB Energy in November 2016. In the interim market conditions have not improved, and wholesale market access is still challenging, and wholesale prices are increasingly volatile (and set to become more so from November in electricity). Concerns are also growing about the amount of customer credit being held by suppliers, especially those charging advance direct debits. Despite the proliferation of service providers, there are growing concerns around many smaller players electing not to hedge their forward wholesale price exposure even though the beast from the east took some suppliers to the edge.

BEIS seems intent on spreading the burden of policy costs, at least on the warm home discount with its plans to lower the compliance threshold. Removal of the whole of market requirement from price comparison websites means many smaller players are faced with a dilemma: either pay the site commissions significantly increasing their costs or lose visibility. And there are growing concerns that the imposition of the default price cap will reduce switching and incentivise customer inertia, making acquisitions more difficult for all.

As we have argued before, this initiative to review market entry and exit arrangements is necessary. But with over 70 suppliers already active in the domestic supply market, Ofgem needs to be careful about imposing blanket changes to deal with those models that concern it most and outlier suppliers. There are many well-run suppliers struggling to make a return in a very competitive market-place. And some of the regulators other interventions are already having unintended consequences, including creating or increasing barriers to their growth.



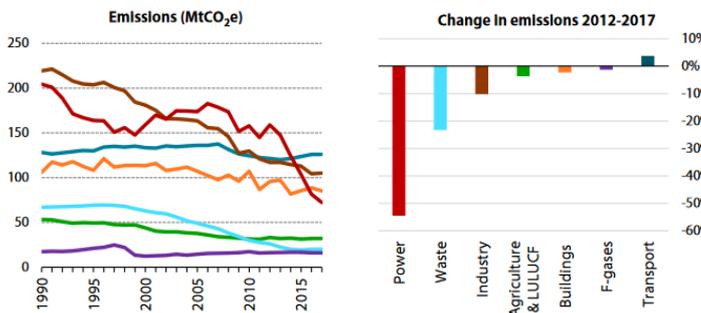
CCC warns of stalled progress in decarbonisation beyond power

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The Committee on Climate Change (CCC) delivered its annual progress report to Parliament on 28 June, reflecting on the success of action towards meeting climate goals and lessons from the 10 years since the passage of the *Climate Change Act*.

Overall, UK emissions are down 43% compared to the 1990 baseline, while the economy has grown significantly over the same period. However, the CCC warns that this progress has been driven by falls in emissions from the power and waste sectors (see Figure 1). Emissions levels from buildings have essentially stayed the same, and transport emissions have increased. This “marked failure” to decarbonise other sectors of the economy means the UK is not on track to hit the fourth (2023-27) or fifth (2028-32) carbon budgets.

Figure 1: Emissions reductions by sector



Source: CCC

To address this, the CCC urged the government to “learn the lessons” of the past decade. It split this into four key messages:

- support the simple, low-cost options: The government is currently not pursuing some of the cheapest courses of decarbonisation, with routes to market barred for onshore wind and solar and the withdrawal of incentives cutting home insulation levels to 5% of 2012 levels
- commitment to effective regulation and strict enforcement: Tougher long-term standards in areas such as vehicles and construction can cut emissions, while driving consumer demand, innovation, and cost reduction. A longer lead in to new regulations can also cut the overall cost of compliance
- end policy turmoil: The cancellation of programmes such as Zero Carbon Homes and carbon capture and storage commercialisation

has created uncertainty and thus damaged investor confidence. A consistent policy environment would keep investment risk low and reduces the cost of capital, and

- act now to keep options open: Looking longer term, an 80% reduction in emissions requires new infrastructure such as carbon capture and storage. To enable deep decarbonisation such options must be kept open now.

To spur decisive short-term action by policy makers, the CCC detailed a number of required milestones over the coming year.

In power, the government must provide a long-term view of low-carbon power auctions beyond the Spring 2019 Contracts for Difference round. This must include a route to market for onshore wind and solar.

In buildings, milestones include “concrete policies” to deliver the ambition of upgrading all homes to EPC band C by 2035. The ambition on improving business energy efficiency by 20% must also be backed up with firm policy by Summer 2018.

In heat, a decision on the successor to the Renewable Heat Incentive is required by 2018. A CCS Deployment pathway is also required by the end of that year.

CCC Chairman, Lord Deben, commented: “We recognise that over the last 10 years, the government has shown it has the know-how and commitment to drive down UK emissions in the electricity sector by acting early and consistently to avoid costly interventions later. We now have to ensure that the government learns from this experience and presents a programme to tackle emissions right across the economy, including in buildings, transport and agriculture.”

Energy and Clean Growth Minister Claire Perry stated at the report launch event that the government will respond officially to the findings on the week commencing 14 October.

There is a clearly discernible shift in tone here from the CCC, relating to the urgency with which it feels the government must take action. Clear milestones are set for swift decisions on key areas, but setting them and achieving them are separate matters.

CCC

Clark rejects Swansea Bay Tidal Lagoon proposal

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Business and Energy Secretary Greg Clark has rejected the Swansea Bay Tidal Lagoon proposal.

In a statement on 25 June, Clark said government analysis had found that the proposal to build six tidal lagoons, of which Swansea Bay would have been a pathfinder project, did not meet the government's requirements for value for money. Therefore, he could not justify committing public funds to their development.

Clark explained that Swansea Bay would cost £1.3bn to build and, if successful to its maximum ambition, would provide around 0.15% (0.52TWh) of GB's current annual electricity demand. By comparison, the construction of Hinkley Point C is expected to cost around £20bn and will supply around 7% (26TWh) of current demand. At £1.3bn, the capital cost per unit of electricity generated each year from Swansea Bay would therefore be three times greater than that of Hinkley.

If the full programme of six lagoons were built, the total cost would be over £50bn. This is around two and a half times the cost of Hinkley to generate a similar output of electricity. Clark also noted that enough offshore wind capacity to provide a similar level of generation as the lagoons would cost at least £31.5bn less to build. Comparisons to onshore wind were referenced in the values for money summary, but not disclosed.

Considering the total costs, the analysis found that by 2050 the lagoon programme could cost up to £20bn more than generating the same amount of electricity through a combination of offshore wind and nuclear. This premium includes financing, operating and system costs. It would cost an average household customer up to an additional £700 between 2031 and 2050.

Clark explained that government officials had also assessed the potential for innovation and cost reductions for later lagoons. It was found that the civil engineering that would be used in Swansea Bay offered "limited scope" for innovation and capital cost reductions (estimated to be just 5%) in future developments.

BEIS also examined the export potential of tidal lagoon technology. Here, Clark cited the findings of the Hendry Review, that it would take a "leap of faith to believe that the UK would be the main industrial beneficiary" of such a programme.

On security of supply, Clark said Swansea Bay would have a load factor of 19%. In comparison, offshore wind has a load factor of around 50% and nuclear around 90%.

Clark said: "The inescapable conclusion of an extensive analysis is that however novel and appealing the proposal that has been made is, even with these factors taken into account, the costs that would be incurred by consumers and taxpayers would be so much higher than alternative sources of low-carbon power, that it would be irresponsible to enter into a contract with the provider."

Following the announcement, Energy and Clean Growth Minister Claire Perry appeared before the Business, Energy and Industrial Strategy Committee in relation to the project. Perry echoed Clark's announcement, saying the project did not represent value for money for consumers. When asked why the decision had taken so long, she replied that such a proposal required a significant amount of scrutiny.

The decision was heavily criticised by Shadow Business and Energy Secretary Rebecca Long Bailey, who said the government had "failed to make the right decision for our economy, the people of Wales and the future of our planet." She added: "The next Labour government will back low-carbon projects like the Swansea Tidal Lagoon, supporting manufacturing, creating jobs and working to meet our climate targets."

Trade association Energy UK said it was "obviously important to bear in mind costs to the consumer", but that it was also important to have a diverse portfolio of generation. It added that the recent reduction in offshore wind costs was an example of "what can happen when industry and government work together to reduce costs", and it hoped "tidal power can be revisited in the future".

While some will be disappointed with the government's decision, it is hard to argue with the government's findings that the project simply does not represent value for money for consumers. The CCC's recent advice that the decarbonisation focus should now be on proven low-cost technologies is also pertinent here.

[BEIS](#)

[Parliament](#)

[Labour](#)

[Energy UK](#)

Eurelectric calls for close UK-EU collaboration post-Brexit

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On 20 June, European electricity trade association Eurelectric released a paper, *Brexit: EU-UK Future Energy and Climate Relationship*, outlining its position on the relationship of the UK and EU energy systems post-Brexit.

In the paper, the association urged policymakers to minimise the disruption resulting from Brexit on energy and climate issues. Taking into account the mutual benefits and importance of energy for the EU and UK in powering economies and societies, Eurelectric believes that close collaboration on areas such as wholesale energy market integration, interconnection and efficient energy trading arrangements should continue.

The association stated it would welcome the UK's continued membership in European Network Transmission System Operators for Electricity (ENTSO-E), European Network Transmission System Operators for Gas (ENTSO-G), European Securities and Market Authority (ESMA), the new EU Distribution System Operators (EDSO) entity and Agency for the Cooperation of Energy Regulators (ACER) (see Figure 1). It recognised that the UK's membership in these bodies has helped guarantee the smooth operation of connected energy markets between the UK and the rest of the EU.

Figure 1: European Parliament analysis of potential for UK to participate in EU energy agencies

	ACER	CEER	ENTSO-E	ENTSO-G
EU Member State (e.g. France)	Membership possible	Membership possible	Membership possible	Membership possible
EEA (e.g. Norway)	Associate member theoretically possible, but agreement with EU necessary*	Membership possible	Membership possible, but agreement with EU necessary	Membership possible, but agreement with EU necessary*
Energy Community (e.g. Ukraine)	Associate member theoretically possible, but agreement with EU necessary*	Associate membership possible**	Membership possible, but agreement with EU necessary	Membership possible, but agreement with EU necessary*
Bilateral Treaty (e.g. Switzerland)	Associate member theoretically possible, but agreement with EU necessary*	Associate membership possible**	Membership possible, but agreement with EU necessary	Membership possible, but agreement with EU necessary*
WTO (e.g. Morocco)	Associate member theoretically possible, but agreement with EU necessary*	Associate membership possible**	Membership possible, but agreement with EU necessary	Membership possible, but agreement with EU necessary*

Source: Bruegel.
 Note: * No such agreement has ever been adopted by the EU with any country; ** Under current rules, this would appear to be realistically possible only if the UK were to re-join the EFTA.

Source: European Parliament from Brugel

Similarly, Eurelectric supported the UK's continued participation in the Trans-European Networks for Energy, Projects of Common Interest and the Connecting Europe Facility. These projects are important in funding the delivery of infrastructure to strengthen the flow of energy across Europe. With the UK and other EU member states aiming to increase interconnection, Eurelectric argued that a

coherent regulatory framework to ensure the operation of interconnections and TSO cooperation is essential. The protection of North-South cooperation and the ongoing development of an island of Ireland energy market are also backed by both the EU and the UK. Eurelectric expressed support for the continuation of the all-island approach and for the parties involved to preserve the current market integration.

With the energy sector playing a vital role in decarbonisation and UK actions strongly contributing to green ambitions, it is important that agreements on energy efficiency, renewables and non-ETS targets are made between the EU and the UK. If agreements and targets are not set, it could result in the EU recalculating its decarbonisation targets or an increase in emission reduction targets for remaining member states. As a result, Eurelectric said it would welcome continued collaboration between the UK and the EU to support the delivery of energy and climate goals. The association also advocated the UK's continued participation in the EU Emissions Trading System. Failing this, the UK should set up a separate trading scheme to be directly linked to the EU ETS to ensure the fair application of carbon costs to generation that freely trades within the IEM.

Looking at the gas market, Eurelectric recognised that GB has one of the most liquid and well-established markets in Europe, as well as being a significant transit hub. It argued that failure to include the UK in EU solidarity mechanisms could have a negative effect on the UK and neighbouring countries. Therefore, the association encouraged the EU and the UK to seek an agreement to keep the future relationship as close to the current one as possible.

The paper also highlighted the importance of the EU and UK working closely together once the UK leaves the Euratom Community, of a future framework to ensure a consistent and fair interface between financial and physical commodity markets and for a new arbitration mechanism to ensure the UK and EU abide by any new agreement.

Close co-operation post-Brexit is essential to capturing the maximum benefits from existing energy relationships. At the industry level this is taken as read. But politically the debate has hardly begun.

Eurelectric



Parliamentary update: Week 26 2018

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The *Nuclear Safeguards Act* was granted Royal Assent on 26 June. It creates the legal framework for a nuclear safeguards regime to operate in the United Kingdom to replace the current legal framework, currently provided principally by membership of the Euratom treaty.

Business and Energy Secretary Greg Clark delivered a statement on 25 June on the proposed Swansea Bay Tidal Lagoon confirming it would not receive government funding. Shortly afterwards Energy and Clean Growth Minister Claire Perry appeared before the BEIS Committee as part of its inquiry into the decision-making process around the project (see p.5).

The decision drew sharp criticism from across the political spectrum. Former Liberal Democrat energy and climate change secretary Ed Davey said: "This is a betrayal of Britain's energy and economic future – and will be particularly devastating in Wales. Britain is an early leader in tidal power and has the potential to become the world champion. Tidal lagoons are the smartest way to take this opportunity. Yet the Conservatives are effectively killing it". Plaid Cymru argued that Wales was being "held back" by Westminster. The Green Party stated that it believed the decision showed there was "no plan for Wales' energy future." The Welsh Conservatives added they "remain convinced of the benefits of tidal energy [...] We now need to look forward and actively seek out a revised model which makes the project more cost-effective and more attractive to private sector investment".

The *Domestic Gas and Electricity (Tariff Cap) Bill* completed Report Stage in the Lords on 27 June. Labour and Lib Dem peers successfully added an amendment relating to the introduction of a relative price cap. Amendment 11, moved by Labour Shadow BEIS Minister Lord Grantchester, mandates that Ofgem must, during the term of the tariff cap conditions being in place, develop and then implement a relative tariff differential.

But BEIS Minister Lord Henley warned that a relative cap as a permanent feature of the market risked "undoing the work of the temporary absolute cap, because it would remove the incentive for the market to innovate and reform". He also set out a triple commitment by the regulator on this issue: "I can confirm that Ofgem has committed to assessing whether ongoing

protection will be needed for vulnerable consumers beyond the end of the price cap. I can confirm that Ofgem considers that it can implement price protection for selected consumers should that be appropriate. I can also confirm that, ahead of the price cap ending, Ofgem has committed to producing a report on what additional protection might be needed, who needs that protection — we are thinking of vulnerable consumers — and what form that protection should take." However, at division the amendment was backed by 193 votes to 192.

On the topic of CMA appeal on the level of the price cap, Lord Mackay of Clashfern (Conservative) revealed that the CMA had been written to on this topic. The peer said of the CMA's reply: "the letter is not one of the most lucid that I have ever read, but the decision that the CMA has taken is lucid enough: it does not want anything to do with this particular process, if at all possible." Lord Mackay said, as the changes of the Commons accepting an amendment on appeals were slim, he would not press the matter further.

The Bill moves to Third Reading on 4 July.

The *Automated and Electric Vehicles Bill* had a session in the Commons on 26 June for consideration of Lords amendments. Transport Minister Jesse Norman detailed how peers made two substantive changes to the policy. The first was to add a power to enable the Secretary of State to bring forward regulations to set availability, maintenance and performance standards for public charging infrastructure. The second was the introduction of a new clause to give elected mayors powers over the EV charging infrastructure roll-out. The government backed the changes and they were endorsed by MPs. The Bill continues in Ping Pong.

In a Written Answer published on 21 June, Claire Perry revealed that compensation to eligible energy-intensive industries has been worth £800mn since 2013.

The House of Commons Library published an updated briefing on Tidal Lagoons on 26 June.

It was confirmed that the BEIS Committee will hold a pre-appointment hearing with the government's preferred candidate for Chair of Ofgem Martin Cave on 3 July (see p.15)

[Links underlined above](#)

Government publishes sector details of Nuclear Sector Deal

BEIS has announced a £200mn Nuclear Sector Deal, which it said would “secure the UK’s diverse energy mix and drive down the costs of nuclear energy”.

The deal, announced on 27 June, includes £32mn of government and industry funding to help start a new advanced manufacturing programme, including research and development investment to develop “potential world-leading nuclear technologies”, such as advanced modular reactors. It also included a commitment to increasing gender diversity, with a target of 40% women working in the civil nuclear sector by 2030. BEIS added that the deal “will spearhead Britain’s move towards cleaner economic growth”.

Business and Energy Secretary Greg Clark said: “The UK is the home of civil nuclear technology and with this investment in innovation and our commitment to increasing diversity in an already highly-skilled workforce, I want to ensure we remain the world leader. Nuclear energy not only fuels our power supply, it fuels local jobs, wages, economic prosperity and drives UK innovation. This Sector Deal marks an important moment for the government and industry to work collectively to deliver the modern Industrial Strategy, drive clean growth and ensure civil nuclear remains an important part of the UK’s energy future.”

[BEIS](#)

Research reveals challenging year for community energy

The *Community Energy: State of the Sector Report 2018* was released on 23 June, finding that the impacts of regulatory and subsidy changes during 2015 and onwards have continued to have a negative impact on the community energy sector.

Community Energy England (CEE) found only one new community organisation was constituted in 2017, with 30 fewer successful projects and 31% less generation capacity installed or acquired compared to 2016. However, there was a continued desire identified to make low-carbon energy projects work at the local level. The continuation of early stage funding is seen as “central” to this, such as through Ynni Lleol, the Rural Community Energy Fund (RCEF) and local authority funding streams, as well as the sharing of knowledge, expertise, finance and services within community networks and through umbrella organisations.

Emma Bridge, CEO, commented: “The wider energy sector is going through a radical shift as we move towards a smart, decentralised, low-carbon energy system. Community energy will be vital in ensuring that this energy transition leads to a more equitable, affordable, stable and environmentally sensitive energy system. To enable this, communities need clearer national and local strategies which include early stage funding, financing support and subsidy review.”

The conclusions were released as findings of a survey by Co-op Energy, reported on 22 June, showed that more than three quarters (79%) of GB residents support the idea that the government should do more to help local communities generate their own energy.

We cover the subject of the outlook for community energy in depth in the June edition of [Energy:2030](#).

[CEE](#)

Scottish government moves to tackle fuel poverty with new legislation

The Scottish government is set to commit to a new target that no more than 5% of households in Scotland should be living in fuel poverty by 2040, in a new bill introduced to the Scottish Parliament.

The *Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill* also sets out a new definition of fuel poverty, with innovative use of the UK Minimum Income Standard. This will mean a household is classed as fuel poor if its required fuel costs are more than 10% of the household’s income after housing costs are paid, and if that means the remaining income is insufficient to maintain an acceptable standard of living.

The Bill came as research from Citizens Advice Scotland identified households most affected by fuel poverty and what kind of support they need. The report, published on 19 June, found that those in rented flats, rural

residents, younger people and those who use electric heating were more likely to struggle to afford to heat their homes. It also noted that those most in need of support were least likely to access it.

The charity made a number of recommendations to reduce the effects of widespread fuel poverty. These included increasing financial support available to those worst affected by fuel poverty, reviewing how this can most effectively be delivered, and the development of more bespoke support targeted at specific groups who have the greatest needs. Furthermore, the report recognised that ongoing efforts are required to increase awareness of existing discount and credit schemes among households.

[Scottish government](#)

[Citizens Advice Scotland](#)

Innovate UK offers business loans for smart cities projects

The UK's non-departmental innovation agency Innovate UK is to provide a total of £8mn of loans across 13 businesses working on "smart cities" projects. The funding aims to boost the development of innovative solutions to help meet the UK's urban infrastructure, energy and transport challenges. The scheme forms part of Innovate UK's two-year pilot loans programme, through which a total of £50mn is available. Successful smart cities projects can borrow between £100,000 and £1mn.

Announced on 25 June, the loans are being offered to help businesses to scale up and commercialise their proposed technologies. Those receiving the loans were selected from entrants to an Innovate UK competition that called for ideas to address the challenges of population growth, accelerating urbanisation and climate change.

Eight successful projects have been announced so far, including a system by Utonomy that uses pressure management to reduce gas leakage on utility networks by up to 25%. The company has said that its device can be retrofitted in 1-2 hours and that payback is typically less than three years. Other confirmed recipients include a moisture monitoring system by 3-Sci to detect corrosion under insulation and "cheaper, cleaner and greener" dual fuel engines by G-Volution.

Innovate UK's Executive Chair, Ian Campbell, said: "We've seen high levels of demand for this new, affordable, flexible and low-interest finance option for innovation."

[Innovate UK](#)

"Substantial" competition loss from SSE-npower merger unlikely: Citizens Advice

On 19 June the Competition and Markets Authority (CMA) published a response from Citizens Advice to its issues statement, which detailed Phase 2 considerations for the proposed SSE-npower merger, including whether the deal would "result in a substantial lessening of competition".

Dated 11 June, the Citizens Advice response said: "We think that the merger would likely result in a lessening of competition within the domestic retail gas and electricity markets, but think that dilution is likely to be limited and will probably fall short of meeting the substantial lessening of competition test."

In regard to the CMA's theory of harm, which proposed the deal could reduce switching levels, Citizens Advice described it as "plausible". The consumer advocate agreed that price rise announcements by the six larger suppliers have been linked to increased switching levels. However, it said that while the "first mover" in a price shift tended to get a large amount of press coverage, when other companies followed suit the publicity reduced. "It is therefore possible that the overall switching prompt driven by five large suppliers moving prices may not be materially lesser than the prompt driven by six", Citizens Advice said. The response added that it expects the scope for consumer harm to be mitigated in the short term with the planned introduction of a default tariffs cap, although it also said that the "time-limited nature" of the scheme would mean it falls away by or before 2023.

A final report from the CMA is due by the end of October.

[CMA](#)

Our latest [Chart of the Week](#) explores the shifting SMETS1 end dates.

Last week's Cornwall Insight blogs included [the case for new arrangements for supporting new generation](#).



High Court dismisses judicial review appeal on embedded benefits

Josephine Lord, j.lord@cornwall-insight.com

The judgment of the High Court on the application for judicial review of Ofgem's decision to approve changes to the charging treatment of embedded generation was handed down by Mr Justice Lavender on 22 June.

Ofgem's decision to approve alternative (WACM) 4 of Connection and Use of System Code (CUSC) proposal CMP264/265 in June 2017 had been appealed by eight companies, including Peak Gen, Welsh Power, Alkane and E.ON and defended by Ofgem and SSE. National Grid was an "interested party" but played no part in the proceedings. The changes, which were implemented in April, place transmission network use of system (TNUoS) charges on a gross basis, instead of netting off embedded generation, and introduce a new embedded export tariff (EET), phased in over three years. This will result in a significant reduction (Cornwall Insight estimates 20-30%) in controllable embedded generator revenues.

The claimants contended Ofgem had failed to take account of material considerations and/or facts in taking its decision, and that the decision was contrary to the EU principle of non-discrimination. Initially they argued that Ofgem failed to consider what they alleged was the impact of small embedded generators on the long-term avoided marginal costs of the transmission network. However, the judge said that this allegation was not made out. Ofgem did consider this and decided that the appropriate value is the EET. In effect, the judge said, the claimants asserted as a fact that small embedded generators produce larger savings than are reflected in the EET and then complained that Ofgem had failed to take that asserted fact into consideration. However, Ofgem had considered whether that asserted fact was true and decided that it was not. He said the court cannot simply assume the existence of asserted facts that the regulator concluded are untrue.

At the hearing, the claim was developed that Ofgem had misunderstood the arguments made to it and therefore did not truly take account of them. This related to the nature of the locational charge and that transmission network costs avoided by using embedded generators are in the residual charge. The judge said Ofgem adequately understood the points being made by the claimants and others, but just did not agree with them.

Of a claim that Ofgem had wrongly put the burden on the claimants to provide evidence that embedded generators result in additional savings in the costs of the transmission network, the judge ruled this fell foul of the principle that the decisionmaker decides on the manner and intensity of any inquiry undertaken into any material consideration.

A third argument, developed later in the process, related to the treatment of embedded generation in the Security and Quality of Supply Standard (SQSS). The judge concluded that Ofgem's decision demonstrated that it did consider arguments concerning the SQSS.

There were two parts to the claim on discrimination, both of which were also dismissed. The judge did not agree that behind-the-meter generation and commercial demand-side response were materially the same as embedded generation as all three reduce a supplier's net demand for electricity. Neither did he agree the effect of the decision was to treat small embedded generators as if they were in a comparable situation to transmission-connected generators when there are material differences between them.

Mr Justice Lavender commented that at the heart of the case, which saw over 280 pages of witness statements and around 5,500 pages of exhibits, was the simple fact that the claimants disagreed with Ofgem's conclusion about the benefits from embedded generation, but that this was not in itself grounds for judicial review. He also observed that Ofgem is an expert body charged with making decisions on complex technical issues and said the Courts will be slow to interfere with the judgements of such a body on such issues.

Ofgem said the ruling was good news for consumers, as the payments to smaller generators cost customers around £370mn in 2016 alone and would have increased further, and that it will robustly defend its decisions when challenged.

Ahead of further potentially major changes to network charging arrangements arising from the current charging reviews, this decision bolsters the regulator's authority and demonstrates the limitations of judicial review as an appeal route.

[Ruling](#)

[Ofgem](#)



Capacity Market delivery body gets mixed plaudits

Alex McGregor, a.mcgregor@cornwall-insight.com

The fourth annual report on the operation of the Capacity Market (CM) was issued on 19 June. It examined National Grid Electricity Transmission (NGET)’s role as the Delivery Body (DB) for the CM and explored operational issues during the reporting period covering 2017-18.

The report concluded that NGET met its CM deliverables and obligations as the DB, responding positively to challenges including prequalification preparations, running auctions and external challenges such as management of the second Contract for Difference (CfD) allocation round.

The rising number of capacity agreements has resulted in an increased demand for NGET’s processes around agreement management. NGET managed the highest ever number of Prequalification Applications (PAs) last year at 1,950 (up from 1,700 for 2016-17) despite disruption from regulatory changes. This prevented the DB from being able to consider new information from the PAs during “Tier 1 disputes”, increasing NGET’s workload and requiring a “proactive approach in facilitating the process to reduce the potential impact on CM participants”. This approach received positive feedback from stakeholders as the DB increased support and guidance to applications which saw the trialling of 280 surgeries run for 150 organisations. The overall number of Tier 1 disputes fell from 715 in 2016-17 to 620, a trend which Ofgem expects to continue as businesses become accustomed to the PA process.

The report also highlighted key areas that NGET will be required to address by the next reporting period. NGET’s portal for the CM was found to “lack the functionality required to facilitate the CM process as effectively as possible”. A loss of functionality on the EMR Portal resulting in Prequalification Decision letters being unavailable to all Applicants on the Prequalification Decision day led Ofgem to question how resilient the CM IT infrastructure is. It also raised concerns that the portal is not being utilised by the delivery body for information sharing as is mandatory in the CM rules, which requires “urgent attention”, and that IT constraints have slowed the implementation of changes to the CM Rules.

Customer satisfaction with NGET’s performance in delivering the CM functions also dropped lower than the previous year, falling from 7.3 out of 10 to

6.8, despite high levels of satisfaction being reported for auctions and the online auction system. This satisfaction score is 0.7 points below the baseline score of 7.5 and implies that the DB will lose £190,909 on the CM Customer and Stakeholder Satisfaction Survey (CSSS) Incentive.

On the other hand, there was positive feedback from stakeholders regarding NGET’s performance in the CfD allocation round, which was assessed for the first time in a separate CSSS in September. This set the baseline for future surveys at 8.5 out of 10, significantly higher than the baseline for the CM, and highlighting a positive response from CfD participants in the delivering of the CfD application process by NGET.

Ofgem is expecting to report on wider governance arrangements as part of the Five-Year Review process of Electricity Market Reform more generally, set to take place this year, which will also include NGET’s role as the DB. A consultation on Ofgem’s proposals for the incentive drivers for NGET in regard to consumer benefit is also expected to be published before the end of the year, providing a review of the existing EMR Financial Incentive framework for 2018-21.

On 29 May, NGET also published a preview of its 2018-19 Operational Plan Milestones providing draft dates for the CM (see Figure 1). Once the Secretary of State has formally instructed the Delivery Body to run the auctions in 2018-19, a final Operational Plan will be published. The T-1 auction is planned for the 29 January and the next T-4 auction is planned for 5 February.

Figure 1: 2018-19 Operational Plan milestones

Milestone	Date
Electricity capacity report	By 10 July 2018
Prequalification guidance	10 July 2018
Prequalification submissions window	23 July - 14 September 2018
Prequalification assessments	17 September - 26 October 2018
Prequalification results day one	26 October 2018
Tier 1 dispute submissions to DB	29 October - 2 November 2018
Tier 1 dispute assessments	5 November - 16 November 2018
Prequalification results day two	16 November 2018
Tier 2 dispute submissions	19 November - 23 November 2018
T-1 2019-20 auction	29 January 2019
T-4 2022-23 auction	05 February 2019

Source: National Grid

We have heard from participants about the poor functionality of the portal and IT systems arrangements. The resourcing of the scheme will also need to be re-evaluated given the increasing scale of demand.

Ofgem



Florence Forum addresses network code implementation

Josephine Lord, j.lord@cornwall-insight.com

The latest meeting of the European Electricity Regulatory Forum, known as the Florence Forum, was held on 30-31 May, addressing current and future challenges in network code implementation and development of smart energy networks.

The Forum noted the challenges arising from the existing capacity allocation and congestion management framework for day-ahead and intraday coupling, as well as from competition between Nominated Electricity Market Operators (NEMOs). The European Network of Transmission System Operators for Electricity (ENTSO-E) gave a presentation on the difficulty that exists because NEMOs compete “fiercely,” and it is then difficult for them to also cooperate closely as providers of the Market Coupling Operator (MCO) function. It said the MCO function, which matches orders from day-ahead and intraday markets in different bidding zones with allocated cross-zonal capacity, should be clearly defined and governed as a regulated monopoly. The Forum requested that the European Commission explore ways of addressing the shortcomings identified and report on them next year.

The Forum acknowledged the significant efforts that relevant transmission system operators (TSOs) made in preparing for the first edition of the bidding zone review, which was issued in March. It did not make recommendations to either maintain or change bidding zones. It highlighted the highly complex nature of the task and a series of lessons to be learned for future reviews. The Forum stressed the importance of defining the key elements at an early stage in future reviews and pointed out that other non-technical considerations could be taken into account, such as impact on social welfare and competition.

The EU Agency for the Cooperation of Energy Regulators (ACER) gave a presentation on interlinkages between the network codes and the terms, conditions and methodologies (TCMs) that are being put in place as part of the implementation process (see Figure 1). It said there are details in the TCMs that have the potential to significantly shape the market and system structure for electricity, and that in several cases timelines in terms of chains of decisions did not match. The Forum acknowledged the complexity of network code implementation and encouraged the development of methodologies that include all

necessary details so that they are transparent and implementable. It also invited ENTSO-E, ACER and other relevant stakeholders to continue their facilitation efforts for both pan-European and regional proposals.

Figure 1: Progress on implementation of TCMs

CACM	EB	FCA	SO
<ul style="list-style-type: none"> • 10 Approved • 3 Submitted • 0 Pending 	<ul style="list-style-type: none"> • 0 Approved • 0 Submitted • 10 Pending 	<ul style="list-style-type: none"> • 4 Approved • 1 Submitted • 2 Pending 	<ul style="list-style-type: none"> • 0 Approved • 2 Submitted • 1 Pending

Source: ACER

The Forum welcomed the announcement of the impending Cross-Border Intraday initiative (XBID) go live, involving launch of intraday continuous trading across 10 countries, which took place on 12 June. On the future target model for intraday trading, the Forum encouraged the Commission to explore with stakeholders ways to ensure that continuous trading and intraday auctions are complementary across the EU. Following a presentation by ENTSO-E on the importance of increased use of ICT and data, the Forum encouraged the Commission to consult stakeholders in order to set priorities and build consensus for further actions towards the digitisation of the energy sector.

The Forum then considered the roles of energy storage and demand-side flexibility. It called on stakeholders to promote innovation and facilitate the deployment of storage, including through long-term investment signals. On demand-side flexibility it underlined the importance of market-based allocation and procurement of active system management products as well as of access to all markets to ensure the lowest cost for the system. The Forum also stressed the need for common views on active system management under a whole-system approach. It encouraged TSOs and distribution system operators, in cooperation with traders and other market participants, to propose actions at the next Forum.

Now that the initial network codes are being implemented, the Forum has progressed to wrestling with issues that are arising and the development of the next level of detail. It also has an eye to future market evolution, and how the market arrangements should adapt.

[European Commission](#)

Iresa risks losing supply licence

On 27 June, Ofgem confirmed that it is extending prohibitions detailed in its provisional order imposed on Iresa in March. As such, the supplier will continue to be prevented from taking on new customers, requesting one-off payments and increasing direct debits until further notice.

It was also announced last week that Iresa was the worst energy supplier for customer service, according to research by Citizens Advice. The supplier received the worst ever complaints score in the charity's supplier ranking, scoring 0.35 out of a possible 5 for its customer service from January to March 2018 after it received more than 9,000 complaints per 100,000 customers. The next worst supplier, TOTO Energy, received substantially fewer complaints at 1,800 and a score of 1.6 out of 5. Chief Executive of Citizens Advice, Gillian Guy, said Iresa's customers have had to tolerate continued problems including "inaccurate billing, long phone queues and even being blocked from switching to a new supplier".

Explaining its decision to extend the order, the regulator said that, while it has observed some improvements in Iresa's call waiting times, complaints handling and managing vulnerable customers, it is "not currently good enough" and has not been sustained for a reasonable period.

Ofgem has warned the supplier that if it does not meet the requirements set out in the confirmed provisional order it could revoke the supplier's licence within three months.

[Ofgem](#) [Citizens Advice](#)

BSC Panel initially recommends electricity market sandbox proposal

The Balancing and Settlement Code (BSC) Panel has initially recommended implementation of a BSC proposal that will enable derogations from certain BSC obligations in order to facilitate the trialling of pre-competitive and innovative products in the live settlement environment.

P262 Introducing BSC Arrangements to Facilitate an Electricity Market Sandbox was raised by the BSC Panel and developed by a workgroup. Under the proposed arrangements, Ofgem will act as the point of entry to coordinate applications across the industry and for the BSC Elexon will receive and prepare relevant information for the Panel. The Panel will then make a recommendation to Ofgem on whether or not to approve or reject the derogation, and the regulator will then decide on the derogation and synchronise approved derogations across impacted codes and licences. Sandbox projects will be required to demonstrate that they will better facilitate the Applicable BSC Objectives and are expected to be conducted on a small scale for a limited duration. The maximum derogation is for three years, of which a maximum of two years is for the trial with a further year for unwinding the derogation. Derogations should not have an adverse impact or pose significant risk to settlement or to BSC Parties.

On 14 June the Panel initially recommended the alternative proposal that is identical to the original except that it will also enable National Grid to apply for and be granted a derogation. It then sent the proposal to a final consultation, which closes on 3 July, and the Panel will make a final recommendation prior to an Ofgem determination.

[Elexon](#)

Ofgem confirms forthcoming Authority appointments

On 25 June, Ofgem affirmed that Professor Martin Cave had been selected by BEIS to chair the energy regulator, subject to a pre-appointment hearing in front of MPs on 3 July. He is expected to replace David Gray who will retire in September.

Cave was formerly Deputy Chair at the UK Competition Commission and Deputy Panel Chair of the Competition and Markets Authority (CMA), having sat on the CMA Panel during its investigation into the energy market during 2014-16. He was also economic advisor to Ofcom between 2003 and 2006.

The regulator also confirmed that Lynne Embleton and Ann Robinson are to join Ofgem's governing body, the Gas and Electricity Markets Authority (GEMA), in the coming weeks as new non-executive directors. Embleton is currently the chief executive of IAG Cargo, while Robinson is a noted consumer champion with significant experience in energy and consumer policy.

[Ofgem](#)



Final guidance published on co-location of storage for RO and FiT participants

On 22 June, Ofgem issued final guidance for participants of the Renewables Obligation (RO) and Feed-in Tariffs (FiT) schemes who are considering co-locating electricity storage facilities with their accredited RO generating station or FiT installation.

The regulator said the majority of comments it received to draft guidance focused on the co-location of storage with FiT accredited installations and primarily focused on metering arrangements. Overall, 19 representations were made, including on topics such as consumer protection, installations standards and co-location interactions with the Capacity Market. Respondents included seven suppliers, aggregators or FiT licensees, five trade associations, five generators and installers, one consumer body, and National Grid Electricity Transmission.

Ofgem has provided a list of changes and associated explanations. These include clarification of the definition of co-located storage and on the scenarios presented in the guidance, which cover fixed devices only. Regarding the latter, Ofgem noted that, if and when it receives applications to co-locate a mobile storage device with an accredited generating station or installation, it will update the guidance accordingly. Where storage is installed in such a way that the generating station or installation is not entitled to continue receiving support, the document states that there may be scope to reverse the change and restore eligibility.

[Ofgem](#)

SSE compensates customers £190,000 following white label tariff withdrawal

Ofgem announced on 28 June that SSE has paid £190,000 in compensation to customers after failures following its withdrawal of a white label partnership tariff with Ebico.

Having terminated its partnership at the end of 2016, SSE withdrew the tariff from the market in February 2017, but did not migrate all customers off it until the end of August. This breached Standard Licence Condition 22D, which requires suppliers to move customers onto another tariff within 49 days, and led to some customers paying more than they would have on the new tariff. SSE also paid out a further £475,000 in goodwill. At the same time, Ofgem found that Ebico had initially not obtained customer consent to transfer customers to Robin Hood Energy, which became its new supplier, but subsequently recontacted them to do so.

[Ofgem](#)



New monthly publication | Energy:2030

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SSE upgrades expectations on gains from npower merger

Molly Lloyd, M.Lloyd@cornwall-insight.com

SSE's Annual Report for the year 2017-18 outlining its financial overview for the year and strategy for the future was released on 18 June. The report also focussed on the planned SSE Energy Services merger with npower.

In the report, Chief Executive of SSE Alistair Phillips-Davies stated that one of the main highlights of the year was SSE being disciplined in meeting their primary financial objective of rewarding shareholders with dividend growth. He added: "That financial discipline can be seen in the execution of a £1.5bn capital investment programme that has added to an already significant portfolio of quality assets."

Another highlight included two of SSE's biggest ever projects, Beatrice offshore windfarm and the Caithness-Moray transmission link, progressing over the year. Both continue to be on track for commissioning in 2018-19.

The report also detailed a financial overview for the year including revenues of £31.2bn, an increase on the previous year of £29bn. SSE's reported profit for the year was £920.1mn, a fall from £1,718mn the year before. This was attributed to significant exceptional charges incurred in the year, including impairment charges recognised for gas production assets. SSE's adjusted earnings per share was 121.1 pence, which was 3.6% lower than in 2016-17 but nevertheless "ahead of expectations" at the start of the financial year.

As at March 2018, SSE had a total of 6.8mn Energy Services customer accounts (including domestic energy supply and services) and 0.49mn Business Energy accounts. This was down from 7.23mn in 2016-17. Headwinds were identified as competition, operating costs and regulatory intervention.

The annual report also confirmed further details of the merger with npower. Resolutions relating to the transaction will be proposed at a General Meeting on 19 July.

SSE expects to complete the transaction in the final quarter of 2018 or the first quarter of 2019. Following this, the remaining SSE Group is expected to benefit from a clearer investment proposition, with greater visibility of future assets and earnings.

In a circular ahead of SSE's Annual General Meeting, the company set out some of the

expected benefits of the SSE/npower merger. The SSE directors believe that, as a result of the combination, the merged company will generate cash cost synergy benefits of at least £175mn by the end of the fourth full year following completion. Of this, £156mn relates to operating expense savings and £19mn of recurring capital maintenance savings. This is a level of efficiencies ~75% higher than previously stated.

Post-merger, the majority of the reshaped group's assets and earnings are expected to come from regulated electricity networks and renewable energy.

Looking to the future, SSE has set a number of goals in order to meet their objectives in these areas. For developing, owning and operating energy, SSE is currently expecting its capital and investment expenditure to total around £6bn across the five years to March 2023. By 2020, SSE's portfolio of renewables will comprise over 4.2GW of capacity and, by 2023, it expects to own and operate networks with a total Regulated Asset Value of £10bn.

In addition, SSE has submitted a planning application proposing to install a black start facility at the Peterhead CCGT Power Station. It said that, subject to receiving planning permission, it anticipates construction beginning towards the end of 2018, with the project to be commissioned around a year later.

SSE has also adopted a new ambition to reduce the carbon intensity of the electricity it generates by a further 50% between 2018 and 2030, building on the 50% reduction achieved since 2006.

Chairman Richard Gillingwater commented: "The past year shows how index-linked earnings from projects combined with a commitment to recycling capital through strategic disposals when the right opportunities arise can add real value".

SSE's RemainCo will have an attractive mix of assets, with guaranteed revenue streams. However, city analyst Bernstein have expressed a preference in outlook for Ørsted for its exposure to renewables and National Grid for networks, reflecting that SSE will still be split across two distinct businesses.

SSE

Wholesale costs drive significant change in supplier costs in May

Charlotte Farmer, c.farmer@cornwall-insight.com

The latest monthly Cornwall Insight Index of Domestic Energy Supply Costs was published last week. Updated every month, the index tracks wholesale, network and policy costs faced by domestic electricity and gas suppliers. It is baselined to a value of 1,000 points in January 2012. The electricity index increased by 35 points to 1,478, while the gas index increased by 57 points to 1,041 points. These changes represent some of the largest increases seen in 2018, with the increase in gas costs contrasting starkly against steady falls in the index since January.

In the electricity index, the 35-point increase was the result of a 46-point rise in the wholesale cost component tempered by a 10-point fall in network costs and a one-point fall in policy costs. The large increase in wholesale costs, for both the electricity and gas indices, was the result of bullish commodity markets underpinned by a tightening oil market and escalating geopolitical tensions. Even so, in contrast to the gas market, electricity price rises were somewhat counteracted by high output from solar generation.

Network charges fell due to reduced balancing use of system (BSUoS) charges and residual cashflow reallocation cashflow (RCRC) charges.

Technical changes in indices for both electricity and gas saw changing ECO costs (which are incorporated on a two-month lag). The change saw a lowering of this element by one point for

electricity and an increase of one point for gas. The technical changes were driven by updated Meter Point Administration Number (MPAN) figures from the latest DNO charging statements, rather than any change in the underlying costs of the scheme itself.

In the gas index, the remaining 56 points of the 57-point increase were the result of rising wholesale costs, with the month-ahead gas contract in May rising 14% across the month. In addition to the impact of bullish commodity markets, gas prices were also pushed higher as a result of planned and unplanned outages at production sites in the North Sea as well as increased demand for near-term LNG across the Asian markets.

Towards the end of May, prices had begun to ease with the prospect of increasing US and OPEC oil output in the coming months. Given the strong relationship between the global oil price and gas prices, as well as Britain's reliance on gas-fired power stations for electricity, increased oil production in June would help to dampen further increases in the wholesale cost component of the indices.

We update the index of domestic supply costs during the third week of each month. For more details, please contact c.farmer@cornwall-insight.com or 01603 959880. For accompanying charts and figures, visit our [website](#).

Figure 1: Trends in components of Cornwall Insight's index of domestic supply costs standard user



OPEC agrees to end supply cut

OPEC's meeting in Vienna on 22 June ended with the announcement of a deal to increase oil production and stabilise global oil inventories to relieve market tightness.

The production increase will begin from 1 July and will see a theoretical 1mn bpd added to the OPEC and non-OPEC group's output. The actual production increase is estimated to be between 500,000 and 800,000 bpd, with no precise figures released in their final communiqué.

The uncertainty in volume is caused by the lack of spare capacity available for many members, with Saudi Arabia, the UAE and Kuwait the only OPEC members with additional capacity currently available. Of the group's non-OPEC members, Russia has the largest spare capacity. Even so, this may take several months to restore production that was previously cut.

One of OPEC's smallest producers, Qatar, has announced that it will immediately increase production by 30,000 bpd. The country has a limited capacity, and Qatar Petroleum CEO Saad al-Kaabi said they would not be able to "grow beyond 50,000-70,000bpd".

In its press release, OPEC said that the meeting reaffirms the group's commitment to stable markets and noted that market conditions have improved since the supply cut started, with confidence and investment returning to the industry.

Since the announcement on the 22 June, Brent crude oil prices have risen as the market remains tight due to rising demand.

OPEC

SolarPower Europe finds UK solar growth halved for a second year running

According to data from SolarPower Europe's latest report released on 19 June, the number of new solar PV installations in the UK halved for the second consecutive year in 2017.

According to the *Global Market Outlook*, new solar capacity in the UK declined to 0.95GW last year, down from 1.97GW in 2016 and 4.1GW in 2015. Growth in the UK is expected to be lower than other member states over the next four years. SolarPower Europe suggests that this was due to cuts to rates under the Feed-in Tariff scheme, which has seen tariffs cut by up to 65% and imposed deployment caps on the technology.

Globally, solar installations grew by 30% with 99.1GW of capacity added in 2017, meaning more solar PV was installed than any other power generation technology. It is anticipated that newly installed capacity will exceed 100GW this year globally. Reaching the 400GW milestone already in 2017, SolarPower Europe now expects the cumulative total global installed PV capacity to exceed 500GW in 2018, 600GW in 2019, 700GW in 2020, 800GW in 2021 and 1TW in 2022.

Commenting on expected trends, the report said: "Except for the UK, the prospects for the leading solar markets are expected to be mostly sunny over the next few years."

SolarPower

Statera Energy completes debt refinancing of battery project

On 27 June generation and storage developer Statera Energy announced it had completed debt refinancing for its 49.99MW lithium-ion battery storage system, located near Bishop's Stortford – the largest single battery storage facility built in the UK to date.

The refinancing deal, completed with NatWest, is one of the first for a battery storage installation in the UK. The project was commissioned in December 2017 under a two-year contract with National Grid to provide grid balancing services. In addition to the two-year Firm Frequency Response contract, the project also secured a 15-year Capacity Market contract commencing in 2020-21.

"We are delighted to have successfully completed six months of operation and the facility refinancing with NatWest," said Managing Director of Statera Energy Tom Vernon. He added that the deal "demonstrates the bankability of battery storage".

Statera Energy



400MW Loch Ness pumped hydro project planned

Scottish investment company Intelligent Land Investments (ILI) has unveiled plans for a new 400MW pumped hydro scheme east of Loch Ness.

The Red John project will use excess power generated by windfarms to pump water into a reservoir to then be released to generate power at times of high demand. Water will be pumped between Loch Ness and a newly constructed upper head pond.

CEO Mark Wilson said: “Renewable energy capacity in Scotland has more than doubled since 2007, but due to its intermittent nature there is a need to store surplus energy from sources such as wind so it can be used when we need it most. Pumped storage hydro is the largest and cleanest form of energy storage that currently exists – and a key enabler in helping Scotland meet its green energy ambitions.”

ILI added it is also keen for the community to be involved in the project. Preliminary discussions have been held with the community council on community ownership, as well as establishing a community benefit scheme.

[ILI](#)

EDF confirms battery storage and windfarm projects have come online

On 22 June EDF announced that its 49MW battery storage facility located at West Burton B power station had been brought online. The project involves one of the largest battery storage units in the UK and is the largest project in the new frequency control system which will be deployed across the UK to improve stability of the national grid.

On the same day, the company announced that its 41.5MW Blyth offshore windfarm also came online. Blyth is the first offshore wind farm to use float and submerge technology. The wind turbines are supported with gravity-based foundations transported by floating, reducing installation costs. The 8.3MW turbines are also amongst the most powerful of their type to be used offshore.

Chief Executive Officer Simone Rossi said: “At Blyth, we have used innovation to drive down the cost of offshore wind power and at West Burton B we are setting up infrastructures, which will guarantee viability of a system increasingly focused on low-carbon energy. Both projects demonstrate our commitment to providing UK consumers with reliable, affordable, low-carbon energy from a range of technologies mainly based on renewable energies, batteries and nuclear power.”

It was also reported on 27 June that EDF had begun talks with “a dozen” private investors about backing the construction of a new nuclear power plant in Suffolk at Sizewell. The report said that, if private investors were brought on board, EDF’s proposed two new reactors at the existing Sizewell site could serve as a new financing model for other nuclear projects in the UK.

[EDF](#)

UK’s largest EV charging company acquired by BP

BP announced on 28 June 2018 that it had acquired Chargemaster, which operates the UK’s largest electric vehicle (EV) charging network (6,600 charging points).

In its statement, BP said the deal was an important step to scaling up and deploying fast and ultra-fast charging points across its UK forecourts. Following the deal, Chargemaster will be renamed as BP Chargemaster, which will combine “Chargemaster’s extensive EV charging network with BP’s 1,200 service stations.” Under its new name, BP Chargemaster will roll-out ultra-fast charging infrastructure in the UK, including 150kW chargers that are capable of delivering 100 miles of range in 10 minutes. BP added that its customers can expect to see BP Chargemaster chargers appearing on forecourts over the next 12 months.

BP’s Downstream CEO Tufan Erginbilic said: “Combining BP’s and Chargemaster’s complementary expertise, experience and assets is an important step towards offering fast and ultra-fast charging at BP sites across the UK and to BP becoming the leading provider of energy to low-carbon vehicles, on the road or at home.”

[BP](#)

SSE-npower merger: response to the CMA Issues Statement – Professor Stephen Littlechild

The Competition and Markets Authority (CMA) published an *Issues Statement* on 29 May setting out the scope of its inquiry into the SSE Retail/npower merger. Included is a proposed new theory of harm associated with a loss of rivalry in the setting of default tariff prices. However, the parties involved have argued that evidence doesn't support this. There was indeed rivalry in the setting of default prices – Standard Variable Tariffs (SVTs) – during the first decade of the domestic retail energy market. Given that a significant number of customers prefer an SVT product rather than shopping around, there is scope for rivalry in the setting of default prices to develop, and indeed to be encouraged, to the benefit of such customers. If the CMA maintains the new theory of harm, then a disposal of some of npower's long-standing SVT customers would potentially address its concerns and increase competition, innovation and customer benefits.

The market to date

From 1998, when the domestic retail markets opened, to 2008, competition between retail suppliers was primarily based on their SVTs, and the setting of default tariff prices. To attract new customers, former incumbent electricity retailers charged a lower SVT price to customers outside their former areas than to existing customers.

From 2008 this rivalry has been precluded, restricted or discouraged by various regulatory interventions. Ofgem introduced its non-discrimination condition and its "simple tariffs policy", restricting the number and variety of fixed price, fixed term tariffs that suppliers could offer. The practical consequence of the latter was that suppliers offered a single SVT and two or three fixed price fixed term tariffs. As restrictions on the SVT meant that it could no longer be used as an acquisition tariff, competition was instead focused on fixed price, fixed term tariffs.

However, the CMA's 2016 Electricity Market Investigation (EMI) found Ofgem's simple tariffs policy had restricted competition and innovation, recommending that the main elements of the policy be discontinued. While Ofgem implemented these recommendations last year, restrictions on the use of SVTs remain, with pressure on suppliers to reduce the number of customers on SVTs or to cease offering them entirely. There is also an element of pressure on customers to be more

proactive in their engagement with the market to switch away from SVTs.

Encouraging rivalry in default tariff pricing

Despite the above, there is evidence to suggest that a significant number of customers prefer not to have to continually make decisions about their energy product or supplier, and a frequently expressed view – not least in Parliamentary committees – is that customers shouldn't have to keep changing to find a reasonable price.

This suggests a policy of encouraging competition between suppliers with regards to their SVTs should be considered. Not only would this allow customers to compare their current SVT with other suppliers, it would enable them to choose a more attractive SVT or supplier. Such a policy would increase the competitive pressure on suppliers, ensuring that their SVTs – or other default tariffs – offered good value compared to other SVTs, alternative fixed price tariffs and other products. It would also not be inconsistent with enabling customers to better engage in the market.

Considering this, the obvious place to start is to compare the SVTs of various suppliers (see Figure 1).

Figure 1: SVT tariffs at average consumption levels in Southern Region

Supplier	Jun-16	Dec-16	Jun-17	Dec-17	Apr-18	
British Gas	£ 1,054	£ 1,054	£ 1,054	£ 1,111	£ 1,111*	
EDF Energy	£ 1,080	£ 1,096	£ 1,174	£ 1,153	£ 1,169	
E.ON UK	£ 1,052	£ 1,042	£ 1,136	£ 1,115	£ 1,145	
npower	£ 1,086	£ 1,086	£ 1,203	£ 1,180	£ 1,180	
Scottish Power	£ 1,094	£ 1,083	£ 1,169	£ 1,160	£ 1,223	
SSE	£ 1,077	£ 1,077	£ 1,144	£ 1,133	£ 1,133	
First Utility	£ 1,180	£ 1,180	£ 1,180	£ 1,163	£ 1,163	
Ovo Energy	£ 1,080	£ 1,069	£ 1,069	£ 1,051	£ 1,051	
Utility Warehouse	£ 1,022	£ 1,022	£ 1,022	£ 1,136	£ 1,136	
Co-operative Energy	£ 1,050	£ 1,081	£ 1,137	£ 1,115	£ 1,115	
Ranking of suppliers						Average rank
Supplier	Jun-16	Dec-16	Jun-17	Dec-17	Apr-18	
British Gas	4	3	2	2	2	2.6
EDF Energy	6=	9	8	7	8	7.7
E.ON UK	3	2	4	3=	6	3.7
npower	8	8	10	10	9	9.0
Scottish Power	9	7	7	8	10	8.2
SSE	5	5	6	5	4	5.0
First Utility	10	10	9	9	7	9.0
Ovo Energy	6=	4	3	1	1	3.1
Utility Warehouse	1	1	1	6	5	2.8
Co-operative Energy	2	6	5	3=	3	3.9

Source: Data from Cornwall Insight

Analysis of the SVTs offered by the Big Six suppliers and four medium-sized suppliers over the last three years for the Southern region shows that, from June 16 to April 18, British Gas and Utility Warehouse had the lowest SVTs. The highest were from npower and First Utility. The general picture is that some suppliers consistently offer SVTs that

are good value compared to their rivals while others do not. For customers, being with one of the better-ranking suppliers offers savings. While these are not as large as those gained from moving to the lowest fixed price deals – which requires frequent changing of tariff or supplier – the savings are nonetheless worth considering. For example, over this period a customer would have saved nearly £200 with Utility Warehouse compared to npower, or nearly £80 per year.

With regards to market shares for default tariff customers, the CMA’s concern is essentially with those SVT customers that have been with their supplier for over three years – those on fixed tariffs and non-SVTs, or on SVTs for less than three years are assumed to be sufficiently engaged in the market. As of October 2017, there were 7.85mn such customers, accounting for 34% of the 23.4mn customers listed in Figure 2. Of these, 19.7% are with SSE and 9.4% with npower. A merger would therefore create a company with 29.1% of these customers, which would be the second largest grouping of such customers behind British Gas (36.3%) and would result in the two largest such groupings making a total of 65.4%.

Figure 2: Number of non-prepayment domestic customer accounts by supplier, October 2017

Supplier	Fixed Tariff	Other non-SVTs	SVT (less than 3 years)	SVT (over 3 years)	SVT (over 3 years) as %
British Gas	2,122,713	0	1,575,115	2,854,952	36.3%
EDF	1,391,486	0	738,141	745,608	9.5%
First Utility	630,804	0	151,674	24,170	0.3%
OVO	440,881	0	139,784	10,606	0.1%
Coop	226,806	0	91,627	32,606	0.4%
E.ON	1,317,898	9,367	809,080	1,233,876	15.7%
Npower	1,308,185	14,764	432,376	737,549	9.4%
Scottish Power	1,456,292	60,009	460,799	549,872	7.0%
Utility Warehouse	65,950	157,208	128,656	118,653	1.5%
SSE	648,424	324,709	848,207	1,546,202	19.7%
Totals	9,609,439	566,057	5,375,459	7,854,094	100%

Source: Ofgem, SVT indicators, final column & final row added

Whether this would result in a substantial lessening in competition is for the CMA to judge. However, it would be unfortunate if the merger was viewed as the recreation of a duopoly in the energy market, supplying no less than two thirds of the customers that are the least inclined to engage in the market.

Addressing the CMA’s concern

In a previous submission on the SSE/ npower merger on 14 March I suggested that concerns about such a potential reduction in competition could be addressed by a suitable divestment of customer accounts to other existing or potential small or medium suppliers. Following the recent clarifications of the CMA’s potential concerns, it is possible to make more specific suggestions.

It would seem the CMA’s concern about loss of rivalry in the setting of default tariff prices could be completely alleviated if npower were to divest to a buyer other than SSE those customers who have been on SVTs for more than three years (740,000 as of October 2017). Alternatively, SSE might undertake, or be required to dispose of such customers as a condition of the merger. This would be a potential maximum disposal sufficient to meet the CMA’s concern and, considering the potential benefits of the merger, the CMA may consider that divesting a small number of customers may suffice.

The extent of the competitive benefit of such a disposal would depend on who acquired these customers. A potential acquirer would obviously need to be someone other than a Big Six supplier, but there are several possibilities. For example, 740,000 new customers would approximately double the size of First Utility and nearly treble the size of OVO or Utility Warehouse, providing an effective challenge to what would now be the ‘Big Five’ suppliers without the opprobrium sometimes attached to being a large supplier. Moreover, such a move would allow these medium-sized suppliers to acquire a substantial number of customers of a type, and on a type of tariff, where they currently have few such customers.

Alternatively, dividing 800,000 customers between half a dozen smaller suppliers would move them through the 250,000-customer barrier, thus reducing the number of suppliers effectively subsidised by the present exemptions from social and environmental costs and enabling competition on a more solid and less controversial basis.

The CMA might consider whether it was necessary to protect customers transferred from npower to another supplier, and if so how. The parties and the CMA might therefore wish to consider the record of the acquiring parties with respect to the level of SVT tariffs. However, it appears that most potential acquiring parties have a better record over the last three years than npower has.

Professor Stephen Littlechild was a member of the Monopolies and Mergers Commission from 1983 to 1988 and director general of Electricity Supply from 1989 to 1998. Since 1999 he has been an international consultant on privatisation, regulation and competition, and an economic adviser to Ofgem. He is now a Fellow in privatisation, regulation and competition at the Cambridge Judge Business School.

The full response to the Issues Statement is available on the SSE/npower case page [here](#).

Gas

The majority of gas contracts rose last week, following a rise in oil prices and higher national system demand.

Day-ahead gas gained 0.4% to 53.4p/th. The gas system started the week oversupplied but saw increased demand for power generation amid soaring temperatures and low levels of wind output. In contrast, month-ahead gas (July) lowered 0.5% to 53.2p/th, down 5.4% from the same period last month when it was at 56.2p/th.

All seasonal gas contracts experienced bullish movement last week, up 3.6% on average, following oil prices higher. Winter 18 gas was up 2.3% to 63.9p/th and summer 19 gas ascended 4.2% to 50.4p/th.

Electricity

The majority of power contracts followed gas and commodity prices higher.

Day-ahead power was the exception, dropping 2.5% to £52.2/MWh. The contract declined amid high levels of solar output, which peaked at 9.1GW at 1pm on 27 June. Month-ahead power lifted 0.4% to £53.1/MWh, as the hot and dry weather is forecast to last into July, reducing wind output and potentially lifting demand for air conditioning.

All seasonal baseload power prices increased, rising on average by 2.3%. Winter 18 rose 1.7% to £61.1/MWh. Summer and winter 19 both gained 2.5% to £49.9/MWh and £55.9/MWh respectively.

Oil, coal and carbon

Brent crude oil grew 2.2% to average \$76.1/bl, up from \$74.4/bl the previous week. Oil prices started the week at \$74.8/bl amid uncertainty of where OPEC's additional production would come from after the announcement to increase output on 22 June. Reduced Canadian production, uncertainty over Libyan exports and a fall in US crude stocks also supported prices, leading oil to break \$79.3/bl at the end of the week.

EU ETS carbon prices increased 3.0% to average €15.1/t last week, up from €14.7/t the previous week.

API 2 coal prices have continued to slip from recent highs, lowering 1.0% on average to \$86.7/t, down from \$87.5/t the previous week.

