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UK Government removes uncertainty for renewable energy investors

The British Secretary of State for Energy, Ed Miliband, has announced that the Government is dropping its plans to introduce ‘zonal pricing’. This is good news. There are well-publicised views both for and against zonal pricing, but we have been highlighting that the most material aspect of this decision was the uncertainty relating to the future of electricity pricing. This was harming confidence among investors looking to deploy capital into new clean energy projects, such as solar farms, at a time when significant capital is required to achieve our clean power and energy security needs.

The Government will now adopt welcome market reform measures as it seeks to ensure energy markets and the grid are fit for purpose. This will be based on its development of a Reformed National Pricing model, designed to serve all the needs of future electricity consumers. In addition, the Government has indicated that it intends to take a more active role in developing the electricity system in a way that incorporates local context while meeting our national needs.

Welcome recognition of the need for stability

Zonal pricing is a form of market design in which the cost of electricity varies depending on local supply and demand. It was one of the measures being considered by the Government’s Review of Electricity Market Arrangements (REMA) process, which is examining the future of the electricity system.

Today’s announcement provides welcome certainty for existing and future investors in UK renewable energy, the investment case for which remains robust. This is important because it is these investors who will provide the capital needed to continue the successful decarbonisation of Great Britain’s electricity grid. A stable policy and regulatory environment helps with the long-term decision making needed to deliver complex infrastructure projects.

Where next for market reform?

The benefits of decarbonisation, based on power plants such as solar farms, include clean and secure power. However, concerns about ‘constraint costs’ – the cost of balancing the electricity grid when there is an over- or under-supply of renewable power in different parts of the country – do need addressing. At NextEnergy Capital, we understand and agree with the Government’s objectives, which are rightly focused on keeping bills down for consumers. It is a vital part of the industry’s licence to operate that we maintain public support for the energy transition.

There are several ways the Government can help maximise the deployment of renewables while keeping constraint costs down. These include:

- Major investment in upgrading the grid, by building out the physical network needed to send clean electricity around the country. Ofgem recently made the welcome announcement approving investment of a further £9 billion towards achieving this.

- Reforming 'Transmission Network Use of System Charges' (TNUoS). These are the costs which electricity network operators charge generators to use the network. Although complex, this mechanism is already well-established and can be refined to help direct investment to the geographical areas where new capacity is most needed.

- Updating the Balancing Mechanism, which is the system used to manage supply and demand across the country.

The government knows that these are key priorities for everyone investing in the energy transition, and over the last 12 months has also implemented a tough but necessary set of reforms designed to ensure that only projects which are ready to connect to the grid are approved to do so. We should give credit to the Department for Energy Security and Net Zero for tackling these complex and difficult questions, and providing answers which improve certainty and clarity for investors seeking to deploy capital in UK infrastructure.

These investors include NextEnergy Capital. We are deeply committed to the UK's clean energy future, and the historically stable policy environment in the UK is one of the reasons why we have been able to raise capital for funds like NextPower UK (NPUK) – the largest fully subsidy-free fund investing in solar and energy storage in the UK.

Fundraising for NPUK closed at £733 million, which is 50% above target, and will enable us to deliver more than 1GW of capacity around the country. This week we were delighted to announce the energisation of our latest two assets, Inkersall and Crifton, with a combined capacity of 130MW, and responsibly-developed solar farms such as Inkersall and Crifton come with a broad range of benefits beyond clean energy. These include jobs in construction and operations, and significant benefits to biodiversity where investors take a strategic approach to nature.

The future of solar and energy storage in the UK

The major expansion of renewables ahead gives an excellent platform for continued growth of companies like NextEnergy Capital. We intend to build on this with the forthcoming launch of our next fund focusing on UK solar and battery storage. The potential for solar is significant: it could provide around 15% of Britain's total power by 2030 alone. The Government laid out its plan for how it intends to do this in the Solar Roadmap published last week – the development of which I was privileged to support as a member of the Solar Taskforce – and with its latest decision is sending the right signals to investors. It must now continue to upgrade and invest in the grid as its overriding priority.