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Coos Battjes, Energy Markets Specialist

## Transcript

- 00:10 Welcome back to the latest edition of Energy Transition Shorts. Once again delighted to be joined by Coos Battjes, our Energy Markets Specialist. Coos, thanks for coming along. So, REMA's in?
- 00:21 Well, I think you should say REMA's out. Well, quite. Okay. Well, zonal pricing is out. Reformed national pricing is in. Don't know what that means. We'll find that out over the next couple of months no doubt. So fundamentally, the arguments just weren't strong enough for the government for zonal pricing. Let's try and pick out a couple of points that maybe played a factor in the decision. One of which must be CP2030 and a planned investment in the grid.
- 00:50 Yeah, I agree. I think it's – if you look at the plans for a reinforcement of the grid, off the top of my head it's like 4,500km offshore and about 1000km onshore, if you look actually that's all coming in, to 2030, and it kind of is in line with when zonal pricing will be introduced. You almost think, what's the point of zonal pricing, right? If all these bottlenecks are alleviated.
- 01:15 Yeah, exactly. 5500km of transmission network relieving constraints that zonal pricing is designed to deal with. So, that certainly seems to be a factor. And then the other one really is CfD. The government's very focused on reaching 2030. CfD is the primary mechanism or delivering renewables – renewable generation to 2030. Do you want to talk a little about that?
- 01:39 Yeah. I think what they've seen is that some analyses showed that actually the cost of implementing this for the entire market, I think after you said about 9.6 billion SSE to estimated 20 billion. So I think that – This is the uncertainty – the cost of uncertainty, see, that's introduced into the market as a result of introducing REMA, right? Not CfD particularly but just general uncertainty in the market and its impact on cost of capital.
- 02:07 Yes, totally. And I think that's – it's a little CfD specific. So the total cost to the market. And I think if you look into CfD, and I think the government always can downplay this, is the impact of negative pricing. Because if you get zonal pricing if the market – actually, I don't know how many negative pricings you will get. A negative pricing are detrimental to CfD projects because you're not being paid a price of negative. And I think actually if you have more uncertainty about that, your cost of capital will go up. So your cost of CfD will go up, and I think that's what really scared the government.
- 02:42 I suppose that's the reality of things isn't it. Maybe, just that you've got this near term locking-in of higher cost of CfD as a result of this market uncertainty and the higher cost of capital. CfD auction round 7, CfD auction round 8, which is next year, that will be the two main mechanisms to get to 2030 against these more uncertain benefits of zonal, which are slightly longer term. Demand reciting in response to lower price signals, avoided curtailment, those kinds of things. Do you think that's the way it sort of plays out?

- 03:21 Yes. I think if you said you have uncertainty about the benefits and uncertainty of the cost, I think, which you could say, and maybe just shifting demand, I think we've seen that in the Nordics. We've had zonal pricing in the Nordics for quite some time. The assumption was that actually demand will move to the lower price zones, which has never really happened. Because there are more – other things will seem important as well, like other people who are living there and so forth. So, yeah it's not just price.
- 03:50 It's just that there is some uncertainty around that isn't there? Well, there's a good economic argument. It's just reality gets in the way sometimes, right? And also some of these things are – they're big, you know, citing a green steel or hydrogen plant somewhere is like the size of a small town or size of a large town. And that's very binary, whether that happens or not and the impact in that price zone. We've seen that play out in pricing in the Nordics as well. So maybe all of these things coming together is what's influenced the government.
- 04:18 Well, look. Who knows? We'll see. Thanks for sharing your thoughts. I hope you found that interesting and hope you join us for another edition of Energy Transition Shorts.