DECC’s Main Estimate 2014-15

Thank you for your letter of 15th May in which you raise questions on the 2014-15 Main Estimate, specifically relating to cost to consumers of Contracts for Difference (CfDs), Carbon Capture and Storage, Nuclear Decommissioning Authority (NDA) income and spending under the Levy Control framework.

Contracts for Difference

You asked for additional information on the CfD arrangements. The total annual costs of supporting low-carbon generation through the Renewables Obligation, small-scale Feed-in Tariffs and CfDs are capped by the Levy Control Framework and were estimated in the EMR delivery plan at around £76 per household in 2020 – with around £26 of this cost going towards CfDs. These are the “gross” costs and do not reflect the reduction in wholesale electricity prices from having less reliance on fossil fuel generation.

The CfD projects covered by the £28.8bn are one component (less than one-third) of this total but the £28.8bn represents a whole life cost for those projects – it is not money that will be spent in a single year. The majority of CfDs will be of a 15 year duration, although some may be of a longer duration where the Department judges that would represent better value for money (for example, nuclear power stations).

The Department expects to lay the supplier obligation regulations before Parliament before the summer recess. These regulations will set out the formula used to calculate the supplier obligation, and how it will be collected. They will specify that the CfD Counterparty, a Government-owned company that will be the counterparty to CfDs and collect funds from electricity suppliers, must determine and publish, before 1 January 2015, an interim levy rate and reserve amount payable by suppliers from April 2015.
first payments in respect of some CfDs will start to be made from April 2015 although the total amount to be paid in a year cannot be known until after the year has ended because it depends on electricity prices and the volume of CfD generation in the year.

**Carbon Capture and Storage (CCS)**

You asked about the £1 billion CCS budget originally announced in the 2010 Comprehensive Spending Review (SR10). At the last Spending Review HMT agreed that DECC could surrender all of the CDEL allocated to it for CCS in the SR10 period apart from the estimated £100m needed to fund the Front End Engineering and Design (FEED) contracts which resulted from the most recent CCS Commercialisation Competition. This change to budgets will be put through in the Supplementary Estimate for 14-15. However, this re-profile will not change the £1bn allocated to CCS overall. The exact profile of spend for the next SR period will be informed by the FEED, which will confirm costs and the construction timetable.

**NDA Income**

You asked for the reasons behind the fall in NDA income from £943m in 2013-14 to £872m in 2014-15. Latest estimates for NDA income in 2014-15 in fact show an increase of £280m on 2013-14 to £1.2bn, due to:

- £60m additional electricity generation (due to a lengthy outage in 13-14)
- £80m more EDF/British Energy future fuel being delivered to Sellafield
- £80m more from EDF/British Energy historic contracts (more THORP throughput and vitrification)
- £60m more from nuclear materials deals with the Japanese and Europeans.

**2014-15 Levy Control Framework spend**

The breakdown of forecast spending in 2014-15 as provided to the Office for Budget Responsibility for their forecast in March is:

<table>
<thead>
<tr>
<th>Renewables Obligation (RO)</th>
<th>Feed-In Tariffs (FITS)</th>
<th>Warm Homes Discount (WHD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>£3,129m</td>
<td>£784m</td>
<td>£320m</td>
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</tbody>
</table>

It should be noted that these estimates are subject to change and are presented in nominal terms. Updated forecasts will be available at the time of the Autumn Statement.

EDWARD DAVEY