



## **Energy Act**

The following measures are included in the Energy Act:

1. Decarbonisation;
2. Electricity Market Reform (EMR);
3. Creation of the Office for Nuclear Regulation (ONR);
4. Enabling the sale of the Government Pipeline and Storage System (GPSS);
5. Introduction of a Strategy and Policy Statement (SPS) to improve regulatory certainty by ensuring that Government and Ofgem are aligned at a strategic level;
6. Powers in relation to domestic energy tariffs and licensable activities;
7. A new power to enable Ofgem to provide redress to consumers;
8. An amendment to the Warm Homes and Energy Conservation Act for a new fuel poverty target.
9. An amendment to the Feed-in Tariff Order to extend the maximum capacity that community projects can install from 5MW to 10MW.
10. A technical amendment to avoid offshore wind generators constructing transmission assets falling foul of the law;
11. A charging power for energy resilience;
12. An amendment in respect of cost recovery for advice on the new nuclear waste and decommissioning financing arrangements; and
13. A new power to enable the Secretary of State to require private landlords to provide smoke and/or carbon monoxide alarms.

### **Decarbonisation**

At Commons Committee Stage, the Government brought forward new provisions to enable a statutory 2030 decarbonisation target range for the GB electricity sector to be set in 2016 once the level of the fifth carbon budget, which covers the corresponding period (2028-32), has been set in law. At Lords Grand Committee, these provisions were extended to cover the UK.

### **Electricity Market Reform (EMR)**

The UK is at a critical juncture in the way it generates electricity. Around a fifth of capacity available in 2011 is set to close over the coming decade. At the same time, demand for electricity is expected to double from its current level by 2050, particularly with the expected electrification of heating and transport.

Set against this backdrop, it is imperative that the right mechanisms are in place to attract the £110 billion investment that is needed to ensure that the UK can meet its requirements for secure and flexible supplies of electricity at affordable prices. The reforms will ensure that low-carbon generation is sufficiently incentivised to ensure new plants are built, which will be crucial if the UK is to meet its obligations to reduce carbon emissions and increase the use of renewables. With such large-scale changes to the electricity market, the key measures in the Energy Act focus on EMR, which consist of provisions for:



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- **Contracts for Difference** – long-term contracts between a CFD counter-party and eligible generators, funded by contributions from licensed electricity suppliers to provide stable and predictable incentives for companies to invest in low-carbon electricity generation;
- **Capacity Market** – to ensure the security of electricity supply, including provisions to allow Electricity Demand Reduction to be delivered;
- **Investment contracts** – long-term contracts broadly similar to CFDs to enable early investment in advance of the CFD regime coming into force;
- **Conflicts of Interest and Contingency Arrangements** – to ensure the institution which will deliver these schemes is fit for purpose;
- **Liquidity and Power Purchase Agreements** – to ensure a competitive wholesale market and help independent renewable electricity generators access the market to sell their power;
- **Renewables Transitional** – transition arrangements for investments under the Renewables Obligation scheme; and
- **Emissions Performance Standard** – to limit carbon dioxide emissions from new fossil fuel power stations.

For further information on EMR see: [Planning our electric future: a White Paper for secure, affordable and low-carbon electricity](#) (July 2011)

### **Creation of the Office for Nuclear Regulation**

In February 2011, the Government announced that it would create a new independent statutory body, the Office for Nuclear Regulation (ONR), to regulate the nuclear power industry. This signalled the Government's commitment to securing an appropriately resourced and responsive regulator to meet the future challenges of the nuclear sector. Pending legislation, the ONR was set up as a non-statutory agency of the HSE on 1 April 2011.

The ONR will build on its current strengths as a world-class regulator and will be better placed to respond quickly and flexibly to current and future regulatory challenges, while retaining its focus on the protection of people and society from the hazards of nuclear generation. The ONR will be a modern independent regulator based on the better regulation principles of transparency, accountability, proportionality, consistency and targeting. See: [Chris Grayling's Written Ministerial Statement](#) (8 February 2011)

### **Government Pipeline and Storage System (GPSS)**

The Energy Act also includes measures to allow the sale of the GPSS, a Ministry of Defence-held asset which supplies 40% of aviation fuel in the UK to major commercial airports such as Heathrow and Gatwick as well as RAF and US airbases. Legislation is needed to create transferable rights of access to the land through which the pipeline runs, so that its future sale might be possible.



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### **Introduction of a Strategy and Policy Statement**

A new Strategy and Policy Statement will set out the Government's strategic priorities for the energy sector in Great Britain; describe the roles and responsibilities of Government, Ofgem, and other relevant bodies; and define policy outcomes that Government considers Ofgem to have a particularly important role in delivering.

### **Domestic tariffs & licensable activities**

These provisions will help to simplify and improve domestic energy tariffs, in particular requiring energy companies to move customers off poor value "dead" tariffs on to the cheapest tariff for them and to limit the overall number of tariffs so that customers have a straightforward choice. The Act also extends the power to introduce licensable activities under the Gas and Electricity Acts to cover third-party intermediaries, such as switching websites.

### **Consumer Redress Orders**

A new power will enable Ofgem to require energy companies that breach licence conditions or other relevant regulatory requirements to provide redress to consumers who suffer detriment as a result of the breach. The amount of compensation and penalty that an energy company can be required to pay will be capped.

### **Fuel Poverty**

The amendments to the Warm Homes and Energy Conservation Act propose a new target for fuel poverty that would be set through secondary legislation. They remove the current target to eradicate fuel poverty so far as reasonably practical by 2016 and replace this with a duty to set a new target to address fuel poverty. They also include a requirement to put in place a new fuel poverty strategy for achieving the new target.

### **Feed-in tariffs**

As part of the EMR process, there are benefits to large community energy projects from being able to access the certainty offered by the FITs scheme. An amendment to the Secretary of State's powers will allow the FITs scheme to include installations with capacity of up to 10MW (an increase on the current ceiling of 5MW) to receive FITs.

### **Offshore Transmission**

This technical change to the Electricity Act 1989 will ensure that UK offshore generators can build and test transmission assets for exporting their power with confidence that they are acting within the law.



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### **Charging power for energy resilience**

The charging power for energy resilience will enable DECC to charge fees for providing energy resilience services in the event of any disruption or threatened disruption to energy supplies. This will allow DECC to set appropriate fees for those services and recoup some or all of the costs of the support service from the businesses who utilise, and therefore benefit from, the service provided.

### **New Nuclear Waste and Decommissioning Cost Recovery**

This amendment to the Energy Act 2008 extends the existing regime for recovering costs from industry to include the Department's external adviser costs relating to the Waste Transfer Contract and any agreement reached under Section 46 of the Energy Act 2008. The cost of advice in relation to the Funded Decommissioning Programme is already recoverable from the date of submission to the Department. The amendment also extends the existing cost recovery regime to cover the period between notification by an operator of its intention to submit a Funded Decommissioning Programme and formal submission.

### **Smoke and Carbon Monoxide Alarms**

This provision gives the Secretary of State order making powers to introduce a requirement on all private sector landlords in England to install carbon monoxide and/or smoke alarms in their properties. The Government is not committing to making any regulations at this stage. Before introducing such a requirement on landlords, we would consult with key interest groups as part of a wide ranging and fundamental review of property standards in the sector. Regulations would only be brought in if the review concluded that there should be a requirement to install carbon monoxide and/or smoke alarms.