

9 March 2011

Electricity Market Reform Project
Department of Energy and Climate Change
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To Whom It May Concern

**DEPARTMENT FOR ENERGY AND CLIMATE CHANGE CONSULTATION –
ELECTRICITY MARKET REFORM**

Please find below the authority's consultation response to the Government's proposals regarding the electricity market reform.

The authority agrees that reform of the electricity market needs to be undertaken in order to meet future energy demand. It is expected that demand for electricity in the future could rise as decarbonisation of the economy occurs and other sources of energy are used less frequently. As this demand increases, it is important to secure the supply in order to meet the demands placed on the sector. Reform is also important to facilitate the achievement of climate change targets, both at a local and national level. By 2020 30% of electricity needs to come from renewable sources; currently this is only 7%. In order to meet this target, 25% of existing capacity needs to be replaced by 2020 due to the age of the generators and their likely failure against the required environmental regulations.

The authority supports the proposals to replace part of the existing generation capacity as this will improve both the levels of renewable output and the security of supply as generators will be newer and more reliable. The authority particularly supports the promotion of the wider use of nuclear and wind within the consultation document. The west coast of Cumbria is home to Britain's Energy Coast and Sellafield, where there are nuclear assets which are of local, national and international importance. Locally, Sellafield is an important employment hub, providing approximately 15,000 direct and indirect jobs, with the local nuclear industry accounting for 40% of West Cumbria's GVA. Nationally, West Cumbria has 50% of the UK's civil nuclear workforce and 36% of the UK's civil nuclear industry.

Further promotion of, and hopefully subsequent investment into, the nuclear industry would provide additional economic and social benefits to Cumbria. For example, the prospective developer at Sellafield is considering the installation of two, possibly three, reactors. At £3-4 billion a reactor this represents a significant investment into Cumbria; bearing in mind the dependence on Sellafield for employment, this is to be welcomed. In addition, there are plans by Lakes College and Britain's Energy Coast to build a £7 million training centre in West Cumbria which would train 600 construction students to work in the local nuclear and offshore wind industries.

Whilst the consultation document promotes the use of nuclear energy, it does not mention the management of the nuclear waste produced. The authority supports the development of the [REDACTED] industry in Cumbria, but it also supports the safe management of radioactive waste. The [REDACTED] Radioactive Waste Safely Partnership is committed to involving local communities in Government plans to source suitable sites to deposit nuclear waste in a safe manner and recognising the potential adverse impact on local communities.

In order to allow equal access and wider market participation to the electricity sector for low-carbon generators, the consultation offers four reform proposals. Please find specific responses below to each of the four proposals contained in the consultation document:

- **Carbon price support**

- In a separate consultation response to the HM Treasury, the authority stated its support for the proposals of a carbon price floor. In particular, the authority supported the greater investment certainty and risk reduction for low carbon investments, with a particular focus given to the nuclear and renewable sectors that Cumbria hosts.
- Points were made in the response to the HM Treasury with regard to potential increases in household fuel poverty as when wholesale electricity prices rise, as a result of the proposed measures, bills will subsequently rise. In addition the consultation document showed that isolated dwelling houses and houses in villages will incur disproportionate increases in electricity costs. As Cumbria is a predominately rural county, this raised particular concern.
- Overall, the proposals for a carbon price support will reduce uncertainty and risk levels for investors, but must be used in conjunction with other Governmental policies and strategies outlined in this DECC consultation document.

- **Low carbon generation revenue support**

- The consultation document offered three options of Feed in Tariffs but stated that the Feed in Tariffs with a Contract for Difference was the preferred option. The authority agrees with this as it is the Feed in Tariff which offers better value for money for the end users, the consumers.
- By offering low carbon generators a long term contract (e.g. for between 15 to 20 years), the Government is providing a price certainty, therefore minimising the risks for investors, leading to higher investor confidence. When selling their electricity to the market, generators have an agreed tariff level and if the market wholesale price is lower than the agreed tariff, they receive a top up. This will provide more confidence to those looking to invest in the nuclear sector as, due to the higher start up costs, they will be looking for a more secure return on their investment. The Contract for Difference also benefits consumers as if the market wholesale price is higher than the agreed tariff level, then the generator will be expected to return the difference, with the repayment passed onto the consumers.
- The use of a Premium Feed in Tariff will lead to higher costs for consumers and less certainty for investors. In addition, the emission levels in 2030 will be higher than using the Contract for Difference approach as forecast modelling expects investment to be made at a later stage.
- Whilst the authority supports the use of Feed in Tariffs with Contract for Difference, it will need to be resolved by the Government regulator how it will be calculated and subsequently applied to different low carbon

technologies. This uncertainty will need to be addressed as soon as possible as investment will be delayed until it is resolved. The level that the Contract for Difference is set at needs to ensure that the payment will provide financial confidence and support to investors but does not overpay them.

- **Capacity mechanism options**

- In order to improve the security of supply, the proposals made under capacity mechanism options are to transfer the management of risk associated with under-estimating the capacity requirements from market participants to the Government.
- The Government would determine the levels of capacity required and compare it against the demand needed. This would allow them to be aware of the spare capacity required during peak periods of demand and tender the market for that specific amount.
- The authority believes that this proposal should act as a support mechanism for other proposals as it would not achieve the required outcomes as a standalone proposal.

- **Emissions Performance Standard**

- The authority supports the proposed introduction of the Emissions Performance Standard which would limit the amount of carbon dioxide produced from new coal powered stations.
- The proposal to have an annual carbon dioxide emissions limit will help to minimise the output of the most carbon-intensive forms of energy generation, thereby minimising the effects of carbon release.
- It is recognised that it is a positive approach not to allow new coal powered stations to be built unless they have incorporated Carbon Capture and Storage technology.

Overall, the authority believes that this proposed reform will assist in attracting long term investment into the UK's low carbon economy, thereby helping to meet climate change targets and decarbonising the economy (one of the aims of the reform). If these proposals go ahead, the reform will remove the reliance on energy imports and vulnerability to fossil fuel volatility thereby improving the security of supply (the second aim of the reform). However, the third aim of the reform framework is to offer change at an affordable level; as afore mentioned there is concern regarding the threat of fuel poverty to some consumers in the short to medium term owing to the rise in wholesale electricity prices. The Government will need to actively monitor this situation and assist those who are affected.

The authority is also vulnerable to increases in energy costs and is actively seeking to manage its carbon footprint. Support mechanisms will continue to be needed to allow authorities such as Cumbria County Council to strive for greater energy efficiency and to investigate potential new supplies of renewable energy.

If you have any queries regarding this response, please do not hesitate to contact Francesca McEnaney, Planning Officer in the Spatial Planning Team (contact details can be found at the top of page 1).

Yours faithfully



cc. [REDACTED]
[REDACTED]

Cabinet Member for [REDACTED]
Cabinet Member for [REDACTED]