

UK Energy Policy after the 2015 General Election

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What happened last time?

The coalition agreement specified three elements of EMR (CfD-FiTs, CPS, EPS) and hinted at the fourth (CM). The four elements of EMR that emerged were drawn from the Committee on Climate Change, *Meeting Carbon Budgets – the need for a step change*, Progress Report 2009 (where a wider capacity obligation is mentioned).

What the CCC are saying this time?

Committee on Climate Change, *Meeting Carbon Budgets – 2014 Progress Report to Parliament*, July 2014, is likely to be a very important guide.

Here are a few ideas that may be significant:

- 'By 2016, publish a strategy to **develop carbon capture and storage (CCS)** in both power and industry, including CO₂ infrastructure development, minimum levels of deployment over the period to 2030...
- **Strengthen the near-term framework for energy efficiency improvement** in residential buildings: increase ambition on insulating lofts and cavity walls while finalising the Energy Company Obligation (ECO)...
- Develop additional measures to tackle fuel poverty in England to supplement the Affordable Warmth element of the ECO, **possibly including targeting of the RHI**.
- In 2016, **set a carbon intensity target range for 2030 under the Energy Act 2013**...(e.g. 50-100 g/kWh).
- Work with partner organisations (e.g. industry, local authorities, the Green Investment Bank) **to tackle financial and non-financial barriers to electric vehicle uptake by providing**: new, low-cost approaches to financing; on- street residential charge points and a national network of rapid charge points; softer time-limited measures such as access to bus lanes and parking spaces.
- **Over time, adjust fiscal levers** (i.e. Vehicle Excise Duty, Company Car Tax and Enhanced Capital Allowances) to align to new vehicle CO₂ targets and provide additional incentives for ULEVs.
- **When considering future airport expansion, plan on the basis of 2050 emissions at around 2005 levels**, implying an increase in demand – provided aircraft efficiency continues to improve significantly – of around 60% on 2005 levels by 2050.
- Use the “**2050 decarbonisation roadmaps**”, planned for spring 2015, to identify and set out the opportunities for reducing emissions in industry, then by 2017 publish a strategy for delivering abatement in the 2020s.'

What are the parties saying?

A *Conservative led coalition* will continue with existing policies, possibly with more opposition on onshore wind and more support for natural gas.

A Labour led coalition will introduce a price freeze (cap), an Energy Security Board to decide on the mix of generation and a National Infrastructure Commission (again!).

EMR will continue untouched but the levy control framework may begin to bite by the end of the parliament, in terms of threatening achievement of 2023-2027 carbon budget of -50% on 1990 levels.

What should happen?

1. The most important **potential driver of change is at the EU level**: on the ETS, on RES markets, on product and vehicle standards. For anyone interested in cost effective policy that may actually work, this is where the real action is. The UK must actively support EU efforts (which are largely sensible) on energy and climate. This will involve adjusting the CPS and CM.
2. In power **increased emphasis on market mechanisms in procurement** (CfD auctions) and efficient connection. This would be facilitated by non-firm connection, and small scale DG and DSM procurement auctions. There is the possibility of DSO platform markets being established (as in the State of New York).
3. **CfD-FiT contracts need to be made more politically robust**. This involves removing some or all of the linking to inflation and improving the refinancing gains / the performance benefits to consumers (as is the case in Germany).
4. There should be **on-going reform of energy taxation**, clearly taxing winter fuel payments and raising VAT on electricity and gas while switching subsidies to general taxation makes fiscal sense. It would also make sense to move towards increasing road user charges ahead of falling petroleum tax revenue (energy taxes are 6.2% of all tax revenue). CPS needs to be made non-distortionary to trade.
5. The **CMA should be allowed to determine what happens to the regulation of residential energy prices**. However it seems clear that some light regulation of the standard variable tariff (default tariff) is necessary, at least for a time.
6. An **independent system operator (ISO) needs to be created**, to oversee non-discriminatory access to the transmission grid across the UK and to move towards world best practice on the use of IT on the network, nodal pricing and market integration. It would also allow Ofgem to concentrate on economic analysis and impact monitoring rather than delivery.
7. There should be **an increased emphasis on transport decarbonisation, then heat, then power** (which has been dealt with). This implies that there is still a need for emphasis on energy R+D and innovation, as there are several exciting developments in prospect e.g. on solar, in batteries, in EVs, in building materials, in product efficiencies.
8. There should be a move towards the **creation of a whole British Isles energy market framework**; that is robust to the reality of coalition governments (and devolution, the potential break-up of the UK and integration with ROI) and avoids energy market policy being reset every five years, in the face of a large degree of consensus about policy targets.