



Coalition Government – the future for energy

Energy and Environment - May 2010

A briefing from our Energy and Environment team

The new Government has announced the high level agreements reached between the Conservatives and Liberal Democrats on key issues pending the development of a more detailed Coalition Agreement.

In addition to identifying areas of agreement, the joint statement, published on 11 May 2010, sets out a [modus operandi](#) for dealing with key areas of difference. The statement provides the first indication of the likely impact of the new administration on the energy sector.

Nuclear

As far as energy is concerned, the key issue on which the partners in Government have had to agree to disagree is new nuclear power, although the statement indicates that a process has been agreed so that new nuclear construction becomes possible. The Government will complete the drafting of a national planning statement in support of nuclear power to be put before Parliament on the understanding that the Liberal Democrat MPs will abstain on the vote.

Press reports indicate that the new Liberal Democrat Secretary of State for Energy and Climate Change, Chris Huhne MP, will refer decisions on individual new nuclear stations to the Energy Minister, Charles Hendry MP, formerly Shadow Energy Minister, enabling the Conservatives to keep their pledge to return decision-making powers from the [Infrastructure Planning Commission](#) to Ministers.

Carbon tax

Although it appears that any form of public subsidy for new nuclear plant has been ruled out, nuclear developers will benefit from a floor price for carbon in

the UK. The Conservative manifesto proposed that this would be achieved by adjusting the [Climate Change Levy \(CCL\)](#) in response to changes in the price of carbon, with CCL payable on fuel consumption for electricity production rather than on electricity supplies. Generators would be able to offset their CCL liability by acquiring emissions trading allowances.

Fossil fuels

There is no mention of oil or gas in the statement and it looks as if the Parties may be struggling to reach agreement in this area. The Conservatives had promised changes in the offshore sector as well as an obligation on gas suppliers to secure adequate flexibility, such as minimum levels of gas storage.

Gas-fired power stations may have escaped the threat of restrictions on their operation through the proposed [Emissions Performance Standard](#), which, according to the statement, will be applied to prevent new coal fired developments unless fitted with [Carbon Capture and Storage \(CCS\)](#). Existing coal-fired generation and older gas-fired plant will still have to contend with the forthcoming [Industrial Emissions Directive](#).

Plans for four CCS demonstration projects have survived, although there is no indication as to how these will be paid for, but it is likely that, to avoid the need for legislative change, the [Energy Act 2010](#)'s electricity supply levy mechanism will be used.

Renewables

The statement promises both "full establishment" of a [Feed-In Tariff \(FIT\)](#) for electricity and maintenance of banded ROCs, two apparently contradictory objectives. It is not clear whether developers should expect business as usual (in other words FITs for small-scale renewables and ROCs for larger developments) or grandfathering (in some form or other) of existing rights under the [Renewables Obligation](#) with FITs applying to future developments, irrespective of their size. The prospect of FITs for

larger plant has been broadly welcomed by the industry, although the continuing uncertainty over the future of the Renewables Obligation will be a cause for concern for those with completed projects or projects which are currently under development.

The Parties are agreed on establishing a green investment bank, although it is not clear whether this will be funded by new investment or simply by consolidating existing funding mechanisms such as the Carbon Trust.

Also promised are measures to promote marine energy and a “huge” increase in energy from waste through anaerobic digestion.

The Parties have agreed to increase the target for energy from renewable sources by an unspecified amount, subject to advice from the [Climate Change Committee \(CCC\)](#) - which is hardly likely to say no.

Energy markets and networks

Although the statement does not mention energy market reform, the CCC is of the view that market reform is required to meet existing emissions reduction targets, let alone larger targets for renewables, so further work on energy market reform following on from the Treasury’s recently published [Energy Market Assessment](#), can be expected.

There will be measures to create a “smart grid” and for roll-out of smart meters. In their manifestos, the Liberal Democrats promised roll-out of smart meters for all consumers and businesses by 2015 and the Conservatives for “most” by 2016. The Government will also mandate a national charging network for electric and hybrid vehicles.

Although the [Renewable Heat Incentive](#) is not mentioned, some sort of support is likely - the Conservative manifesto pledged a FIT for waste heat capture from sustainably resourced fuels and waste and the Liberal Democrats also promised new incentives for renewable heat.

Energy efficiency and consumers

Home energy efficiency improvements are to be paid for though savings in energy consumption, although it is not clear if additional support will be provided to make this possible. Neither is there any evidence of the social tariffs favoured by the Liberal Democrats.

Planning for smaller developments

The statement refers to the Parties promoting “the radical devolution of power and greater financial autonomy to local government and community groups”. In their manifesto, the Conservatives promised an “open source” planning system, with neighbourhoods able to specify the kind of development they want to see in their area and financial incentives for them to accommodate new development. It remains to be seen whether, in the present circumstances, wholesale change to the [Town and Country Planning Act](#) will be one of the Government’s top priorities.

Ministerial appointments

The appointment of Gregory Barker MP, who led for the Conservatives in their support for the introduction of the Climate Change Act, as Minister for Climate Change, completes the Ministerial Team at DECC. Eric Pickles MP, Conservative Party Chairman, is appointed Secretary of State for Communities and Local Government, with Greg Clarke MP, former Shadow Minister for Energy and Climate Change, and, and Grant Shapps MP, also a Conservative, as junior ministers at DCLG.

More information

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