



The bill also said energy intensive industries, such as steel and cement producers, would be exempt from additional costs from moves to encourage investment in new low-carbon production. The Energy Intensive Industries (EII) exemption will be subject to State Aid clearance from the European Commission.

A new government company will act as a counter-party for Contracts for Difference, which are aimed at giving investors stable revenues on low carbon energy projects at a fixed level, or strike price, helping developers to secure upfront costs on projects while also protecting consumers from rising energy bills.

The bill allows ministers to treble investment in low-carbon power generation to £7.6 billion by 2020, up from £2.35bn this year.

It will “stimulate supply chains and support jobs in every part of the country”, said Ed Davey, energy and climate change secretary.

It raised the significance of gas and put a focus on the ongoing role of coal fired stations. Mr Davey promised to maximise fossil fuel extraction in the North Sea.

Mike Pigott, UK power sector director at the global programme management consultancy Turner & Townsend, said: “There’s every chance that Britain will see a second ‘dash for gas’ as gas is cast as the least controversial, quickest to build and most reliable stop-gap source of power.”

Mark Stewart, UK Head of Energy for EC Harris, said: “The gas industry appears to be the biggest winner and if a more detailed strategy is included as part of the autumn statement, there could be imminent movement in terms of building new CCG plants and gas storage facilities.”

New nuclear power stations will play a key role, though with a longer construction timescale.

The government will also create an independent statutory nuclear regulator, the Office for Nuclear Regulation.

Government said it will “kick-start a renaissance in construction of low-carbon energy infrastructure and in low-carbon manufacturing supply-chains”.

Mr Davey said the investment needed to upgrade energy infrastructure is almost half of the infrastructure investment needed in the UK.

“This is far more than is taking place in transport, in telecoms, or in water, and dwarfs the investment that was needed for the Olympics or Crossrail.

“The Bill will support the construction of a diverse mix of renewables, new nuclear, gas and CCS, protecting our economy from energy shortfalls and significantly decarbonising our electricity supply by the 2030s as part of global efforts to tackle climate change.”

Mr Davey said it will “stimulate supply chains and support jobs in every part of the country, capitalising on our engineering prowess and our natural resources, cementing the UK’s place at the forefront of clean energy development”.

As previously reported, a 2030 decarbonisation target has been dropped, with a range for the power sector to be decided by the Climate Change Committee in 2016.

Subject to Parliament, the bill is expected to achieve Royal Assent in 2013.

CfDs and reforms to the electricity market to attract investment:

- A new Government owned company will act as a single counterparty to the CfDs with eligible generators; This was a key recommendation of the ECC Committee, and has been welcomed by industry and investors.
- Two stage process so projects can apply for a CfD once they have cleared hurdles such as planning permission and a grid connection agreement, and then a small number of hurdles post CfD-award in order to retain the contract.
- Introduce a Capacity Market, allowing for capacity auctions from 2014 for delivery of capacity in the winter of 2018/19, if needed, to help ensure the lights stay on even at times of peak demand. A Capacity Market will provide an insurance policy against future supply shortages, helping to ensure that consumers continue to receive reliable electricity supplies at an affordable cost.
- National Grid the System Operator is to be appointed to deliver the Electricity Market Reforms, including CfDs, administer the Capacity Market and provide analysis and evidence to Government. The Bill also provides Government with powers it may need to manage any conflicts of interest relating to this appointment.
- Government will take additional powers so that if necessary, they can promote greater competition and liquidity in the wholesale market.

Reaction:

Mark Stewart, UK Head of Energy for EC Harris, said: “A focus on gas makes sense in the short-term as it could help deliver the capacity required to keep the lights on, whilst its relative cleanliness compared with thermal based fuels, will enable the government to reduce the UK’s carbon footprint, albeit at a slower pace.”

Paul King, CEO of the UK Green Building Council, said the announcements are “much more encouraging than many have been expecting”.

“It’s great to see government bringing forward innovative proposals to reduce energy demand, but of course, it will be critical that they learn lessons from the feed-in tariff debacle and the carbon reduction commitment to ensure that this is done in the right way and provides the certainty industry needs to invest.”

John Cridland, CBI director-general, said: “Energy-intensive manufacturing is finally getting its place in the sun today, by the exemption from necessary new energy costs. This is vital for such companies to play a key part in our low-carbon economy and it is good news that the government has listened to our calls to build in support at this early stage, which will ensure we reap the full economic benefits at the earliest opportunity.

“Equally important is the welcome boost the bill gives to investor certainty.”

Keith Parker, chief executive of the Nuclear Industry Association, said: “The bill provides much needed investment certainty. A major nuclear new build programme will lead to substantial industrial and employment benefits – including considerable opportunities for the UK nuclear supply chain and a boost for UK manufacturing and construction.”