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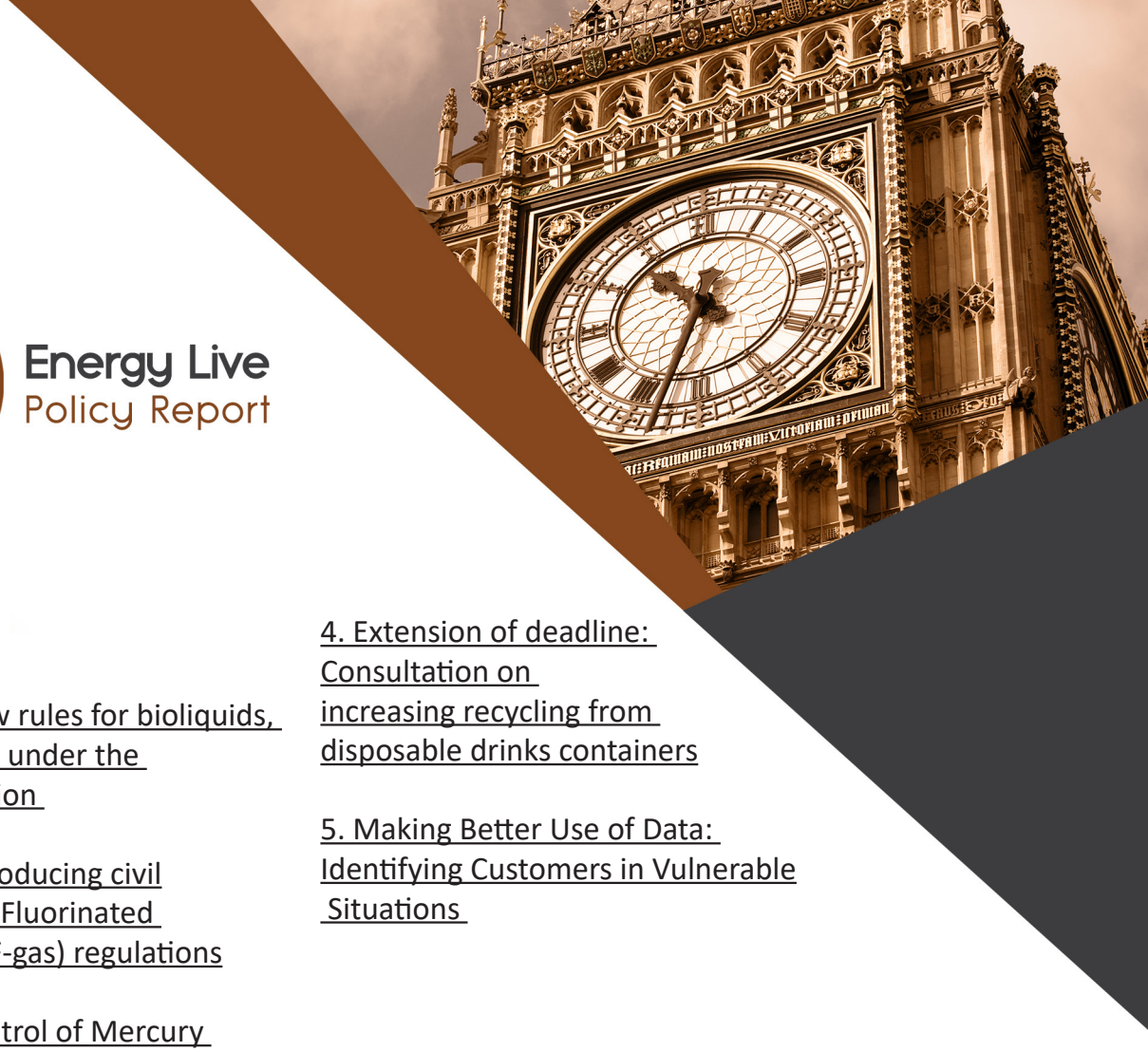
Energy Live
Policy Report



Energy Live
Policy Report

In this update:

Cost of Energy Review

Following an independent review, led by Professor Dieter Helm, BEIS has published a report which explores the opportunities to reduce costs in the electricity system.
This has considered a whole-system approach to the electricity system including generation, transmission, distribution and consumption.

What does this mean to the end user?

This review provides a series of recommendations for government, which the author considers could reduce the cost of electricity for domestic and non-domestic end-users.
These recommendations will now be considered by government and further consultation or amendments to legislation and policy may result in time.
For the end-user, this could result in more changes to the way network charges and other non-commodity costs are calculated. Elements of this report which could impact electricity pricing or day-to-day management of energy costs include:

Helm identifies seven main direct and indirect taxation schemes, some of which he describes as being of 'mind-boggling complexity' which could be fully or partially replaced with a simple carbon price. These are:

- EU Emissions Trading Scheme
- Carbon Price Floor
- Carbon Reduction Commitment
- Climate Change Levy
- Climate Change Agreements
- Fuel duty
- VAT

Universal Carbon Price

The Review highlights a need for a strong, uniform carbon price to reflect the real costs of fossil fuel generation and help correct distortions in the electricity market. Helm states that this is the most efficient way to meet the Climate Change Act's 2050 target.

The current carbon floor price is paid by generators and this therefore reflected in the wholesale price of electricity when purchasing from fossil-generation.

Helm recommends that two approaches should be analysed for effectiveness:

1. a generalisation of the fuel duty to all three fossil fuels (coal, oil and gas);

2. a generalisation of the carbon price floor (CPF) to the whole economy.

The Treasury is expected to respond to this with future plans for the carbon price floor in the Autumn budget next month.

Network Costs

This review calls for the existing framework that determines recouping of network revenue to be abolished and replaced. This is largely because the method of setting out revenue for several years in advance is impractical.

> "Technical change is so fast that predicting costs eight–ten years hence is impractical"

This could make forecasting of non-commodity costs less predictable, but costs would be more closely aligned to the true costs to deliver energy. This review calls for Feed-in Tariffs and Contracts for Difference to be abolished and replaced with a single levy,

which the report terms a unified "equivalent firm power" capacity auction. This review states that the cost of intermittency should rest with those that cause the problems. This means that the additional cost of systems balancing created by having greater levels of variable generation such as solar and wind generators,

should be paid for by the renewable generators themselves.
At present these costs are socialised – i.e. shared amongst all users of the system.

This could result in renewable generators becoming responsible for their own balancing by co-locating with entering into contracts with demand-side response providers, storage assets or back-up plants. This could create opportunities for end-users that are partnered with companies that invest in renewable generation and demand side response.
Alternatively, costs of balancing could be covered through the network charges faced by variable renewable generators to export power.

"The FiTs and other low-carbon CfDs should be gradually phased out, and merged into a unified equivalent firm power (EFP) capacity auction. The costs of intermittency will then rest with those who cause them, and there will be a major incentive for the intermittent generators to contract with and invest in the demand side, storage and back-up plants. The balancing and flexibility of markets should be significantly encouraged."

Legacy costs

Historic contracts for Renewables Obligation Certificates (ROCs), the feed-in tariffs (FiTs) and contracts for difference (CfDs) cannot be reneged but are a major contributor to rising prices. Helm suggest these costs should be separated out, ring-fenced, and placed in a 'legacy bank'.

The report states these costs should be charged separately and explicitly on customer bills. Industrial customers with a consumption of 50GWh electricity per annum or more should be exempt from these legacy costs.

Demand Side Response

Helm considers that digitalisation enables the demand side of the market to be active, not passive and that soon, demand will become an equal partner with supply. Hence, using demand management for flexibility should be encouraged.

Simplification of regulation and incentives

This review states that the role of Ofgem should be significantly diminished and that the separate generation, supply and distribution licences, at least at the local level, should be replaced by a simpler, single licence. This could have implications for local authorities and other interested stakeholders investing in decentralised energy assets.
The above considerations are recommendations to government only and may not be progressed.
To access the full report, please click here.

Consultation: New rules for bioliquids, wastes and residues under the Renewables Obligation

Government is seeking views on how to implement the EU's new sustainability requirements for bioliquids used for electricity generation under the RO for England and Wales, Scotland and Northern Ireland.

This consultation document also sets out new definition for wastes and residues that apply to bioliquids, and solid and gaseous biomass.

What does this mean to the end user?

This will affect any business using bioliquids and wastes for electricity generation, for example in anaerobic digestion.
The consultation comprises 10 questions, covering topics that include:

- reporting requirements,
- definitions
- draft wording of legislation and
- Views on the future of electricity generation from crop-derived fuels

Specifically, with regards reporting, BEIS is proposing to make no changes to the reporting requirements for generators up to 50kW capacity.

For plant with an output above 50kW, this consultation sets out a proposal to amend the data gathering requirements in the RO legislation to require generators above 50kW to provide Ofgem with information about the energy content of bioliquids from cereal and other starch-rich crops, sugars and oil crops.

For more information or to download the consultation documents, please click here.
This consultation closes on 13th November.

DEPARTMENT OF ENVIRONMENT FOOD & RURAL AFFAIRS

Consultation: Introducing civil penalties under the Fluorinated greenhouse gases (F-gas) regulations

Government has set out proposals to change the way F-gas regulations are enforced by introducing civil penalties. These changes would apply to England, Scotland and offshore marine areas.

What does this mean to the end user?

Government has concerns whether the current penalty system under the F-gas regulations provides sufficient deterrence against non-compliance. To encourage compliance, proposals have set out under the draft F-Gas Amendment Regulations to introduce civil penalties for those found to be in breach of the legislation.

This will affect all energy managers and maintenance teams with responsibility for refrigeration and air-conditioning plant as well as electrical switchgear equipment, solvents and fire extinguishers.

Offences which would be subject to civil penalties include:

- Placing certain products and equipment on the market;
- Placing equipment not accounted for within the quota system on the market;
- Failure to comply with requirements to remove or dispose of unlawfully imported products;
- Failure to comply with an enforcement notice; and
- Intentionally obstructing people enforcing the Regulations including providing them with false information or failing to produce a document or record when required to do so.

These are currently criminal offenses but changing to a civil offense with stringent financial penalties is considered to be more effective.

The deliberate release of F-gases would remain as a criminal offence but there would still be the option to apply a civil penalty in such cases instead.

Further detail on the qualifications and certificates needed to work on systems containing F-gases as well as a full list of accredited organisations who offer F gas qualifications can be found via this link.

To respond to the consultation or for further information, please visit the online consultation portal.

This consultation closes on 24th November 2017

DEPARTMENT OF ENVIRONMENT FOOD & RURAL AFFAIRS

Consultation: Control of Mercury Enforcement Regulations 2017

Government is seeking views on how to enforce controls on mercury in the UK. The controls will apply the requirements of EU Regulation 2017/852 on mercury.
This is a joint consultation led by DEFRA, with input from the Department for Business, Energy and Industrial Strategy (BEIS) and the Department of Health. In the Devolved Administrations this work is led by the Scottish Government, the Welsh Government, the Department of Agriculture, Environment and Rural Affairs (Northern Ireland) and the Department of Health (Northern Ireland).

What does this mean to the end user?

This will affect businesses that use mercury or deal with mercury waste, as well as those involved in dentistry.

Mercury is used in a variety of applications, such as healthcare, electrical and electronic devices and measuring equipment.

EU Regulation 2017/852
The EU Regulation controls imports and exports of mercury between the EU and non-Member States.

The European Parliament and Council adopted the Regulation on mercury on 17 May.
This filled gaps in existing EU mercury legislation. It restricts the use of dental amalgam, sets requirements for the storage and disposal of mercury, and restricts the creation of new mercury-added products or new manufacturing processes involving mercury from the 1 January 2018.

Proposed UK Mercury Regulations
Mercury is a highly toxic substance, which under UK legislation has been subject to strict control for many years. Under these proposals, a single set of UK-wide regulations will be introduced, that would enable enforcement by relevant authorities in each devolved administration. The proposed UK Regulations would repeal the Mercury Export and Data (Enforcement) Regulations 2010.

The consultation covers enforcement by relevant authorities in each devolved administration, powers for enforcement and penalties including both criminal and monetary penalties and also sets out levels of culpability.

To download the consultation document and supporting information or to submit a response, please use the online consultation portal.

Extension of deadline: Consultation on increasing recycling from disposable drinks containers

This consultation, explained in issue 50 of the Energy Live Policy Report, on 9th October was originally due to close today, 30th October.

This deadline has now been extended to 30th November.

The full consultation document and supporting information can be found here.

Making Better Use of Data: Identifying Customers in Vulnerable Situations

Ofgem and Ofwat have collaboratively produced a report under the UK Regulators Network (UKRN) to explore better use of across the energy and water sectors, in relation to vulnerable customers.

What does this mean to the end user?

This is strongly focused on domestic energy and water supply.

In the report, the regulators highlight collaboration already taking place between water and energy companies to better identify customers who might be in a vulnerable situation and consider how they can make better use of data including information on non-financial vulnerabilities.

Water and energy companies are looking to work more closely together as greater cross sector collaboration is expected to result in better quality interactions and more varied support offerings.

To access the full report, please click here.