nationalgrid

Factsheet

The Energy Act 2013

"National Grid owns and manages the networks that connect homes and businesses to the energy they need. The Government's Energy Act 2013 and Electricity Market Reform (EMR) seek to ensure a stable electricity supply at affordable prices as coal-fired power stations are retired, and to meet our climate change responsibilities. National Grid has been working with the Government and industry in developing this reform. The Government will continue to set the policies National Grid works to."

Glossary of Terms

Contracts for Difference (CfD)
These give developers of low-carbon projects a guaranteed 'strike price' for 15 years.

Capacity Mechanism
A stable monthly payment to ensure generators are available and can generate electricity when required.

Demand Side Balancing Reserve (DSBR)
Encouraging industrial users to reduce their demand, with a financial incentive. They can reduce demand by shifting it to off-peak periods, or by using power they generate themselves.

Supplemental Balancing Reserve (SBR)
A scheme where National Grid offers contracts to generators to keep power stations available in winter, when they would otherwise be inactive or closed.

What is Electricity Market Reform?

The Coalition Government introduced Electricity Market Reform (EMR) in 2011, to complement existing arrangements, encourage low-carbon generation, and ensure security of supply.

There are four main elements to EMR:

- A capacity market
- Feed-in Tariffs (FiT) with Contracts for Difference (CfD)
- A carbon price floor – a tax on fossil fuels used to generate electricity
- The Emissions Performance Standard (EPS)

What does the Energy Act aim to achieve?

The new Energy Act was put before Parliament in November 2012 and became law at the end of 2013, with secondary legislation set to follow in 2014. The Act establishes financial support measures to attract the £110 billion investment needed to replace current generating capacity, upgrade the grid by 2020, and cope with rising demand for electricity.

How will National Grid's role change?

National Grid will be involved in administering EMR, using data and analysis to support the Government.

National Grid's role in EMR:

- Detailed modelling and analysis to help the Government set suitable strike prices

- Checking applicants' eligibility for CfDs.
- Running the allocation process.
- Liaising with the Government for signing contracts with successful generators.

We will be closely involved with the Contracts for Difference (CfDs) and the Capacity Mechanism. CfDs give developers of low-carbon projects a guaranteed 'strike price' for 15 years. If the wholesale price is lower than the strike price, generators get a top-up payment – but if it's higher, they pay back the difference, which is then passed to suppliers. This protects consumers' interests and creates an incentive to invest in low-carbon power generation. CfDs will apply to energy from renewable sources, nuclear power, and carbon capture and storage techniques. With the right amount of CfDs, the Government aims to meet its 2020 target for renewable energy and put the UK on track to meet its carbon emissions reduction target for 2050.

The first allocation round for CfDs will be in late 2014.

The **Capacity Mechanism** is designed to ensure there's enough capacity to meet the Government's standard for security of supply. The scheme will give generators a stable monthly payment to ensure they're available to generate electricity when required – and will be open to response from both generators and demand-side management.

Our role will be to assess how much capacity is required to meet the reliability standard. The Government will then use this information to determine how much capacity to procure, and instruct us to run the Capacity Mechanism auctions and administer the successful capacity agreements as they come into force.

The first Capacity Mechanism auctions should run in winter 2014, to provide capacity for 2018/2019.

How will National Grid deal with potential conflicts of interest?

When National Grid was first asked to administer EMR, the Government acknowledged the risk of conflicts of interest arising, but a 16-month review by Ofgem and the Department for Energy and Climate Change (DECC) concluded that this risk was relatively low. National Grid and DECC are confident any conflicts of interest could be overcome simply by applying business separation rules, overseen by Ofgem. National Grid is experienced in managing actual or perceived conflicts between different areas of its business, and ensuring sensitive confidential information provided for one purpose isn't used for others. However, the Energy Act gives the Government the power to manage any conflicts of interest that do arise.

What are the other main elements of the Energy Act?

There are other elements of the Energy Act that National Grid is not responsible for:

- Carbon price floor support – which aims to set a rising price for carbon, up to around £70 a tonne by 2030. It's designed to make running costs for higher-polluting generation plants more prohibitive, and to make investment in lower-carbon alternatives more attractive. There will also be carbon price relief for carbon capture and storage (CCS) and combined heat and power (CHP) schemes.

- Emissions Performance Standards (EPS) – which will restrict the amount of carbon dioxide power stations can emit. EPS will apply to all fossil fuel plants larger than 50MW, approximately enough energy to power more than 33,000 average homes as, of 2014.

What contingency measures is National Grid taking before the Energy Act kicks in?

Demand Side Balancing Reserve (DSBR) – DSBR is not intended to force consumers or businesses into reducing demand; it simply gives more options to those who want to save energy and earn money, by easing the strain on the grid during peak periods.

Supplemental Balancing Reserve (SBR) – A scheme where we offer contracts to generators to keep their power stations available in winter, when they would otherwise be inactive, sometimes called mothballing, or closed.