

*These notes refer to the Energy Markets (Carbon Reduction and Warm Homes) Bill as introduced in the House of Commons on 26th June 2007 [Bill 131]*

# **ENERGY MARKETS (CARBON REDUCTION AND WARM HOMES) BILL**

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## **EXPLANATORY NOTES**

### **INTRODUCTION**

1. These Explanatory Notes refer to the Energy Markets, Carbon Reduction and Warm Homes Bill as introduced in the House of Commons on 26<sup>th</sup> June 2007. They have been prepared by National Energy Action, and Mr Alan Simpson MP, the Member in charge of the Bill. They do not form part of the Bill and have not been endorsed by Parliament.
2. The Notes need to be read in conjunction with the Bill. They are not, and are not meant to be, a comprehensive description of the Bill. Where a clause does not seem to require any explanation or comment, none is given.

### **SUMMARY**

3. The Bill will require local authorities to draw up a sustainable energy plan which must aim to meet or exceed any climate change or fuel poverty targets set by the Government.
4. It amends the duties of Ofgem to encourage reductions in household energy consumption, specifically through the promotion of energy services companies (ESCOs). To support the development of ESCOs, the Bill removes regulatory restrictions that limit the size of local distribution networks.
5. The Bill introduces a Citizen's Electricity Allowance and a Citizen's Gas Allowance, to be determined by the Secretary of State. These are a supply licence condition and set an amount of electricity and gas which must be supplied at the energy supply company's lowest tariff.
6. Finally, the Bill will empower the Secretary of State to set preferential buy-back prices for locally generated electricity in order to promote small-scale renewable energy schemes in the home or in local communities.

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## **BACKGROUND**

7. The Sustainable Energy Act 2003 requires the Government to produce an annual assessment of progress on greenhouse gas emission reductions and fuel poverty alleviation. The draft Climate Change Bill published on 12 March 2007 proposes the establishment of a new Committee on Climate change which would report annually on progress towards CO<sub>2</sub> emissions reduction (representing 72% of greenhouse gas emissions) and must take into consideration any impact on fuel poverty of the pathway to achieve carbon reductions.
8. This Bill will require local authorities to produce energy plans for delivering the national goals relating to climate change and affordable energy in the home.
9. The current duties of the Gas and Electricity Markets Authority relate primarily to the protection of consumers through the promotion of short term price competition in energy markets. Its duties were framed at the start of the liberalisation of the energy market and competition has been established now for 10 years in the supply side. The bill aims to meet the new challenges of global warming and poverty reduction by refocusing the duties of the Regulator to deliver energy services which are more affordable for the poorest and which involve lower carbon emissions. It aims to ensure that the poorest have access to a company's lowest tariff, irrespective of the means they pay by, and that lower consumption is rewarded.

## **COMMENTARY ON CLAUSES**

### **Clause 1: Sustainable Energy Plans**

10. This clause requires local authorities to set out how they plan to contribute to meeting Government targets on carbon reduction and fuel poverty. *Subsections (1) and (2)* require local authorities to produce plans setting out how they intend to meet or exceed the targets.
11. *Subsection (4)* sets out the matters in relation to which local authorities must make requirements in respect of applications for planning permission for new developments.

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**Clause 2: Gas and Electricity Markets Authority: duty to encourage reductions in household energy consumption.**

12. This clause imposes a new duty which will make it a licence condition for energy suppliers to reduce household energy consumption and encourage local generation – including microgeneration either at a household level or at a community level

**Clause 3: Citizen's Electricity Entitlement**

13. This clause provides for a basic energy allowance to be provided as a licence condition for electricity suppliers in Britain, to be charged at the company's lowest tariff level. The amount would be set by the relevant Secretary of State.

**Clause 4: Citizen's Gas Entitlement**

14. This clause makes provision similar to that of clause 3 in respect of households which have a gas supply.

**Clause 5: Buy-back of Renewable Energy**

15. This applies to individual domestic or commercial customers or consortia of customers at a local community level.

**Clause 6: Licensing of electricity supply: exemption for local distribution networks**

16. The Exempt Licensing regime restricts a local generator (using a private wiring system) to delivering a maximum of 1 MW for domestic customers. (Effectively supply requirements of 1000 households) If the energy generator supplies exempt electricity to customers over public wires this upper limit can increase to 2.5 MW. Anything above these limits has to be approved by the Secretary of State under the Electricity Act 1989.

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