

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT ELECTRICITY CAPACITY (AMENDMENT) (NO. 2) REGULATIONS 2015

Monday 12 October 2015

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED

£3.00

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Friday 16 October 2015

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY
FACILITATE THE PROMPT PUBLICATION OF
THE BOUND VOLUMES OF PROCEEDINGS
IN GENERAL COMMITTEES

© Parliamentary Copyright House of Commons 2015

*This publication may be reproduced under the terms of the Open Parliament licence,
which is published at www.parliament.uk/site-information/copyright/.*

The Committee consisted of the following Members:

Chair: ANDREW PERCY

- | | |
|---|---|
| † Aldous, Peter (<i>Waveney</i>) (Con) | † Morton, Wendy (<i>Aldridge-Brownhills</i>) (Con) |
| † Bebb, Guto (<i>Aberconwy</i>) (Con) | Paisley, Ian (<i>North Antrim</i>) (DUP) |
| † Campbell, Mr Alan (<i>Tynemouth</i>) (Lab) | † Phillips, Stephen (<i>Sleaford and North Hykeham</i>) (Con) |
| † Field, Mark (<i>Cities of London and Westminster</i>) (Con) | † Shah, Naz (<i>Bradford West</i>) (Lab) |
| † Harpham, Harry (<i>Sheffield, Brightside and Hillsborough</i>) (Lab) | Sharma, Mr Virendra (<i>Ealing, Southall</i>) (Lab) |
| † Leadsom, Andrea (<i>Minister of State, Department of Energy and Climate Change</i>) | † Skinner, Mr Dennis (<i>Bolsover</i>) (Lab) |
| † McCaig, Callum (<i>Aberdeen South</i>) (SNP) | † Smith, Julian (<i>Skipton and Ripon</i>) (Con) |
| † Mathias, Dr Tania (<i>Twickenham</i>) (Con) | † Thomas, Derek (<i>St Ives</i>) (Con) |
| † Maynard, Paul (<i>Blackpool North and Cleveleys</i>) (Con) | † Whitehead, Dr Alan (<i>Southampton, Test</i>) (Lab) |
| | Ben Williams, <i>Committee Clerk</i> |
| | † attended the Committee |

First Delegated Legislation Committee

Monday 12 October 2015

[ANDREW PERCY *in the Chair*]

Draft Electricity Capacity (Amendment) (No. 2) Regulations 2015

4.30 pm

The Minister of State, Department of Energy and Climate Change (Andrea Leadsom): I beg to move,

That the Committee has considered the draft Electricity Capacity (Amendment) (No. 2) Regulations 2015.

May I say what a pleasure it is to serve under your chairmanship today, Mr Percy? The regulations amend the main secondary legislation package for the capacity market scheme, which was part of the electricity market reform programme in 2013. The powers to make this implementing secondary legislation are found in the Energy Act 2013. Following scrutiny in this House and the other place, the 2013 Act received Royal Assent in December 2013, with cross-party support. The two changes in the regulations will simplify the process for applicants to the capacity market and were overwhelmingly supported by respondents to our consultation.

Before I explain the changes in more detail, it may be helpful if I say a few words on the background of the capacity market as a reminder to hon. Members, particularly new hon. Members. The capacity market will address our medium-term electricity needs and ensure that there is sufficient electricity supply towards the end of the decade and beyond. In brief, the capacity market will achieve that by making a regular capacity payment to providers that are successful in capacity auctions. In return for that payment, providers must meet their obligations to provide supply or reduce demand when the system is tight, thereby ensuring that enough capacity is in place to maintain security of electricity supply.

Ensuring that families and businesses across the country have secure, affordable energy supplies on which they can rely is our top priority. That is why, working closely with National Grid and Ofgem, we already have firm mechanisms in place to maintain comfortable margins in the system for coming winters. Beyond that, it is essential that generators have confidence that they will receive the revenues they need to maintain, upgrade and refurbish their existing plant, as well as to finance and build new plant to come on stream as and when existing assets are retired. Equally, we want to ensure that those who can shift demand for electricity away from periods of greater scarcity without detriment to themselves and the wider economy are incentivised to do so. That is why we have the capacity market.

The first auction, which was held in December 2014, saw a good outcome for consumers. Fierce competition between providers meant that we obtained the capacity we will need in 2018-19 at prices below the levels that many had expected, and that translates to lower costs on consumer bills.

The regulations make two minor changes to improve the capacity market, based on feedback from stakeholders. The first is to substitute a new definition of “relevant grant” in regulation 17 of the Electricity Capacity Regulations 2014. The second is to regulation 59(3) of the 2014 regulations and will extend from five to 15 the number of days in which applicants can submit credit cover after receiving a conditional pre-qualification notice.

The amendment to the definition of “relevant grant” will ensure that grants, which are there to support feasibility studies or research and development in relation to carbon capture and storage, will not preclude participation in the capacity market. The essential feature is that the carbon capture and storage support should not have provided effective material support that would put a provider at an advantage compared with others that did not get that support. That will not be the case for such early-stage grants for CCS purposes. The regulations extend the number of days from five to 15 to enable applicants to have slightly longer to submit credit cover.

My Department consulted on the two changes in March 2015 and received 22 responses. The vast majority of stakeholders who responded were content with the changes proposed. I look forward to hearing what hon. Members have to say.

4.35 pm

Dr Alan Whitehead (Southampton, Test) (Lab): It is a pleasure to serve under your chairmanship, Mr Percy. The changes put forward in the regulations are unexceptional and uncontroversial, so the Opposition will not seek to divide the Committee. This is a useful occasion, however, to seek a little clarification from the Minister on the wider purposes of the changes.

Although, as we have heard, the changes were consulted on in the spring, it looks as if the main change to the regulations passed into law last year is perhaps to correct an omission. It appeared that CCS projects that had received some kind of grant support, through either European Union funding or departmental grant arrangements for early-stage developments such as front-end engineering and design, might be in a difficult state of definition as far as the pre-qualification arrangements are concerned because someone had not put the right wording in the 2014 regulations.

I welcome the new, proper wording, which clarifies the circumstances under which CCS projects will be not disadvantaged if they have received a grant, or advantaged if they have received a grant specifically in relation to a capacity market unit. Nevertheless, a problem still appears to arise, because as far as I am aware, the Government do not intend to enable CCS to access operational support to capacity markets. Indeed, on the contrary, the Government’s intention, which they made clear in their scoping document this spring, is that whereas grants will be available in advance of a contract for difference being issued for the operation of a CCS plant, operational support should in principle take place through some form of modified CFD. In the long term, that closes the door to support of any kind for CCS arising through capacity auctions, and I doubt whether any CCS developer is under any illusions otherwise.

Therefore, prudent though it may be to close the door on possible sloppy wording, I wonder whether the whole premise of the regulations is not a little redundant.

Perhaps the Minister will help by clarifying those matters a little, unless CCS is intended eventually to pre-qualify for capacity auctions in its operational phases and across the board, which would be quite a turnaround in policy.

4.39 pm

Andrea Leadsom: I can only assure the hon. Gentleman that there was no case of wrong wording the first time around. As he will know, the point of not allowing those who are already in receipt of Government subsidies to participate in a capacity market is sound, because otherwise they would effectively be paid for something they were already being subsidised to produce. The implication of being given a grant was not specifically dealt with, so it was not a case of wrong wording;

it was more that that was subsequently pointed out and carried sufficient support to be worth making an adjustment.

The hon. Gentleman's other point was that CCS may not ever take part in a capacity market. I am not aware that we have come to a conclusion on that either way at this point. As he will know, we do not as yet have any deployed carbon capture and storage in this country, but we are looking at it closely, and two competition projects are currently considering their own ability to develop an industry that could be very valuable for the long-term use of fossil fuels.

Question put and agreed to.

4.40 pm

Committee rose.

