

The Energy Bill

- **The Queen's Speech announced that the Government would introduce a Bill to "promote secure, sustainable supplies and a safer environment".**
- **The Bill had its First Reading in the House of Lords on Thursday 27 November.**

Ofgem has welcomed the publication of this important Bill. This factsheet sets out the main provisions which will affect Ofgem's work.*

Creating a single electricity market for Great Britain

Background

In Great Britain today, there are two separate systems used to transmit electricity:

- in **England and Wales**, there is a competitive generation (wholesale) market and a single electricity transmission network
- in **Scotland**, while there is competition in supply, there is no competition in generation. The transmission networks are subject to outdated and inefficient arrangements dating from privatisation.

In January 2003, the Government published the **Draft Electricity (Trading and Transmission) Bill** setting out the legislation required to create a single set of arrangements for the trading and transmission of electricity in Great Britain.

The Draft Bill was examined by the House of Commons **Trade and Industry Select Committee**. The Committee's Report, published in April, supported the creation of a GB-wide market.

Part 3 of the Energy Bill seeks to take these proposals forward.

What are the main elements of the new arrangements?

They will create:

- a common set of **trading rules** so that electricity can be traded freely across Great Britain
- a common set of rules for access to, and charging for the use of, the **transmission network**, and
- a GB **system operator**, independent of generation and demand interests, so that those seeking to use the system and access the market can be confident there will be no limitation to access.

What are the benefits?

GB-wide electricity trading and transmission arrangements will:

- bring **more competitive prices** and **greater choice** to all electricity customers, particularly those in Scotland, and
- mean that **renewable** and other generators, particularly in Scotland, will benefit from access to a **wider market**, once the necessary physical infrastructure is in place.

* Part 1 of the Bill deals with particular provisions relating to the management of nuclear waste, which lies outside Ofgem's regulatory remit.

Supporting the development of renewables

In addition to these proposals, the Bill contains a number of important provisions to support the development of renewable energy, particularly **offshore wind**. The Bill will make Ofgem the licensing authority for generation, transmission, distribution and supply offshore.

Ofgem will be working with the **Department of Trade and Industry (DTI)** on the detail of how the regulatory regime in relation to new renewables will work.

Securing supplies

Part 3 of the Bill provides for the appointment of a **special administrator** to keep networks running should one of the monopoly businesses running the **pipes and wires** networks become insolvent. This will bring the gas and electricity networks into line with similar arrangements in the **water** industry.

Ofgem strongly supports these important safeguards.

Improving accountability

The Bill provides a right of appeal against decisions made by Ofgem in relation to modifications of certain **industry codes** which form part of the **contractual framework** of the gas and electricity industries.

The appeals mechanism must avoid introducing unacceptable **delay** and **uncertainty** into a process where rapid decisions can be needed. Some **200 modifications** are proposed each year to the industry codes, each of which has around 150 signatories. The Authority has to make a **decision** on each one. In a large proportion of cases there will be winners and losers and companies could therefore have a **commercial interest** in appealing - even if only for tactical reasons.

The provisions in the Bill have been carefully drafted to **minimise these risks**. Ofgem is content that the introduction of the proposed appeals process will improve **accountability** without unduly impacting on the effective operation of the wholesale markets.

Other measures

The Bill also includes various other provisions relating to the regulation of the gas and electricity industries.

■ Licensing interconnectors

The Bill will amend the **Gas Act 1986** and the **Electricity Act 1989** so that companies operating interconnectors between Great Britain and other EU Member States, will need to obtain a **licence** from Ofgem. This provision is in response to the new **EU Gas and Electricity Directives**.

■ Definition of electricity supply

The Bill will change the definition of **electricity supply** in the Electricity Act 1989, so that it includes certain large **industrial and commercial** customers connected to the high-voltage **transmission** network. At present, the definition includes only customers connected at the lower voltage **distribution** level. The change will mean that the **Renewables Obligation** and the **Climate Change Levy** will apply to all electricity customers.

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