

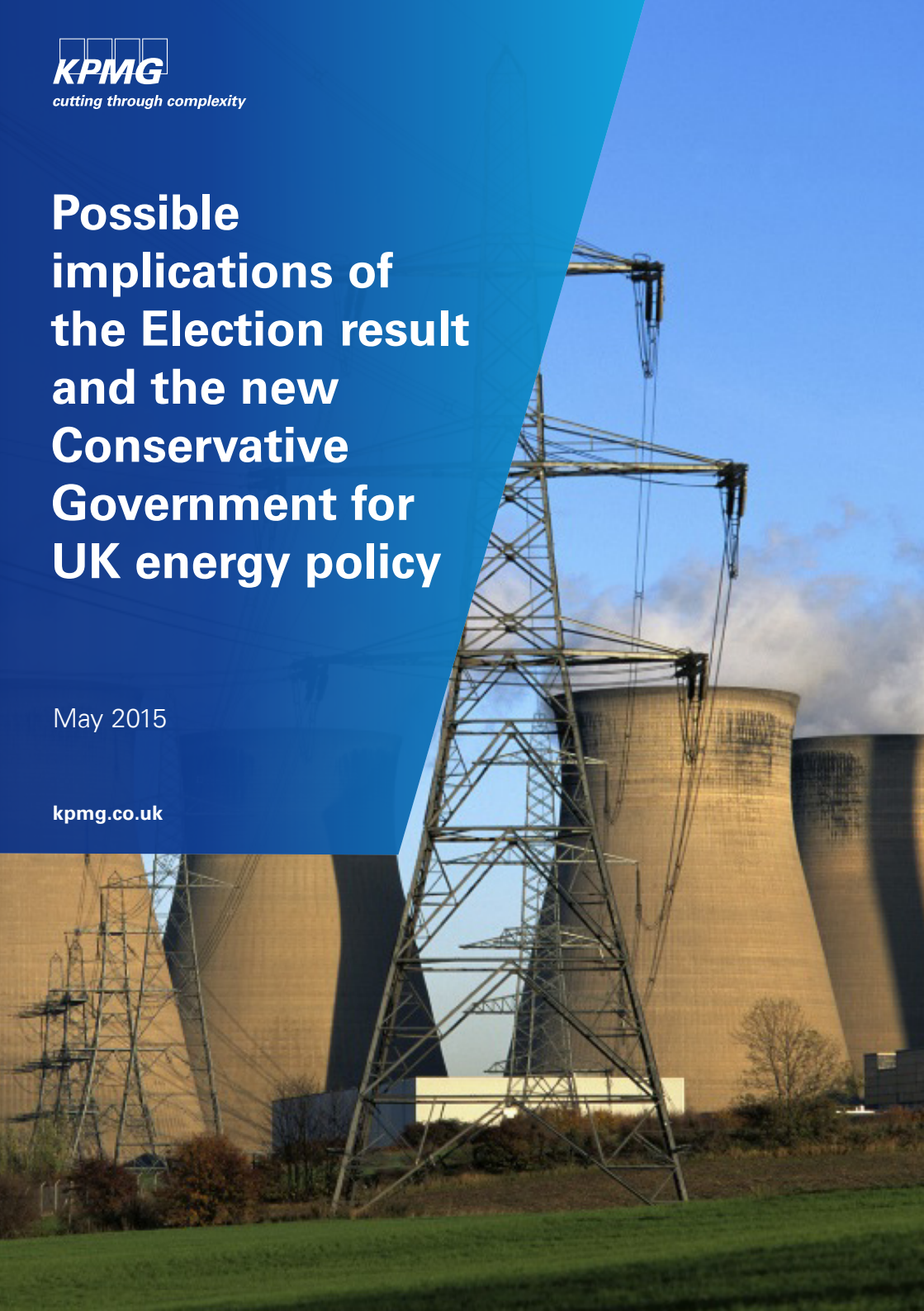


cutting through complexity

Possible implications of the Election result and the new Conservative Government for UK energy policy

May 2015

kpmg.co.uk



Summary

A Conservative majority Government, together with the appointment of Amber Rudd as Secretary of State for Energy and Climate Change, is likely to result in **a good deal of continuity, rather than radical change, in British energy policy**. The UK Government remains committed to action on climate change; however, onshore wind is likely to be curtailed, with the Government seeking to rely more heavily on gas and nuclear power in the energy mix.

Ministers and Institutions

Amber Rudd is the new Secretary of State for Energy and Climate Change (DECC) and will have overall responsibility for the work on the department. She was a Junior Minister in DECC under the last Government and is a former Parliamentary Private Secretary to Chancellor George Osborne. She is committed to action on climate change and has said that she plans to “win over” climate change sceptics.

Andrea Leadsom is the new Minister of State at DECC with day-to-day responsibility on energy supply issues. She has also worked with George Osborne at the Treasury. She has been a vocal critic of onshore wind farms in the past.

Lord Bourne of Aberystwyth is the new junior Lords Minister at DECC. His time will be split with supporting the Wales Office. He will focus on the energy efficiency agenda.

Effectively, DECC now has 2.5 Ministers, less than the 4 under the previous government, implying a less ‘activist’ policy agenda than in the past (when the department was run by Liberal Democrats).

Ofgem, the energy regulator, continues in its current form.

Key policy developments

Based on the commitments in the Conservative Party Manifesto and statements from the new ministerial team at DECC, we expect to see the following developments in UK energy policy:



1

Affordability and value for money: will be key drivers for energy policy, along with ensuring security of supply. The UK carbon budget framework will remain in place and decarbonisation of the UK economy will still proceed, but at a slower pace – especially in the power sector, where there will no longer be a target set for rapid decarbonisation by 2030.

2

Renewables: the new Government has committed to bring forward early legislation to end subsidies for new onshore wind farms and ensure communities get a full say on all wind farm applications. Until now, inspectors have had the final say on appeals and larger wind farms have been approved by Government under a separate national planning regime. There will be close scrutiny of the costs of other renewable technologies as well as the availability of funding under the Government's Levy Control Framework. Amber Rudd has made clear in an early speech her support for solar energy.

3

New Nuclear: the Conservatives have committed to pushing forward the new nuclear agenda. The current, market-lead approach, is in part the product of the 2010 Coalition Agreement (which ruled out direct 'public subsidy' for nuclear). The new Government may decide to review how it takes new nuclear forward, to see if it can accelerate progress and reduce costs.

4

Gas: the Conservatives also see a big role for gas in the energy mix. They will be looking at ways to stimulate investment in new gas-fired power stations. This could include looking again at the detailed design of the capacity market.

5

Upstream oil and gas: building on the tax reforms announced in the March 2015 Budget, which reduced certain taxes in the oil and gas sector, the emphasis will continue to be on 'Maximising Economic Recovery' from the North Sea, formally establishing the new Oil and Gas Authority, and avoiding decommissioning liabilities falling on the UK taxpayer.

6

Shale: Amber Rudd has committed to a renewed push on shale which she wants to see delivered "in a safe but beneficial way".

7

Retail: The Government has said it will implement the forthcoming Competition and Markets Authority recommendations regarding the state of competition in the energy market. This is likely to include further action on tariff reform, transparency in financial accounting, greater liquidity in the wholesale market and easier switching for consumers.

8

Energy efficiency: the Government is likely to review the design of the main energy efficiency measures, like ECO and the Green Deal to maximise value for money. Powers to run energy efficiency schemes will be devolved to Scotland as per the Smith Commission recommendations.

9

COP21/Climate Change: The Prime Minister, David Cameron, has said that he wants to see a "strong climate deal" at the COP21 UN climate change talks in Paris later this year. The 2030 EU package commitments will remain in place and form the basis of the UK negotiating position.

Contact us



Simon Virley

*Partner and UK Chair, Energy &
Natural Resources*

KPMG in the UK

T. + 44 (0) 207 311 5037

E. simon.virley@kpmg.co.uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International