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Labour's energy ambitions: initial policies and actions

August 2024



Labour government energy policy



At the general election on Thursday, 4 July, the Labour Party won a significant majority, obtaining 412 seats.

The newly elected government has indicated plans to implement a significant shift in policy direction on the energy market and net zero ambitions, compared to the previous Conservative government. This paper summarises the key energy-related manifesto commitments and announcements Labour's made since the election. It also summarises the latest position on key energy policies the new government has inherited.



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The Labour Party Manifesto

As part of its “five missions to rebuild Britain”, Labour pledged to make Britain a clean energy superpower and targets clean energy by 2030.

It promised to make firmer and faster decisions on new and existing nuclear power, ensuring the long-term security of the sector. This includes extending the lifetime of existing plants and getting Hinkley Point C “over the line”. Labour has also said it will maintain a strategic reserve of gas power stations to guarantee security of supply. The party plans to work with industry to upgrade the national transmission infrastructure and rewire Britain.



Energy Independence Act

Labour plans to introduce legislation – the Energy Independence Act – to establish the framework for its energy and climate policies. The headline target is decarbonising the electricity sector by 2030.



Green Prosperity Plan

A “Green Prosperity Plan” will fund the clean energy transition. Labour plans to provide an average of £4.7 billion per annum. A time-limited windfall tax on oil and gas companies will fund approximately one quarter of this total to support the transition. Government borrowing will fund the remainder.





Great British Energy

As one of its first six steps for change, the party committed to setting up Great British Energy (GBE). The Green Prosperity Plan will fund this.

While details on the expected operation of GBE are scarce, the party said it will:

- **Partner with industry and trade unions to deliver clean power by co-investing in leading technologies**
- **Help support capital-intensive projects**
- **Deploy local energy production to benefit communities across the country**

To support this, Labour will capitalise GBE, most likely based in Scotland, with £8.3 billion over the next parliament.

Experts expect GBE to co-invest with private companies to double onshore wind, triple solar power and quadruple offshore wind capacity in GB by 2030. This will support delivery of the decarbonisation commitment. Additionally, a new Local Power Plan and Warm Homes Plan will outline how GBE will support local power production and improved domestic energy efficiency, respectively.



Local Power Plan

Labour plans to deploy more distributed generation capacity through its Local Power Plan. Great British Energy plans to partner with energy companies, local authorities and co-operatives to install thousands of onshore wind, solar and hydropower projects. It also anticipates inviting communities to come forward with projects to enable local people to benefit from local energy production.



Warm Homes Plan

Labour will invest an extra £6.6 billion over the next parliament to upgrade the energy efficiency of five million homes.

The Warm Homes Plan will offer grants and low-interest loans to support investment in insulation and technologies such as solar panels, batteries and low carbon heating to cut bills. The party plans to deliver this through partnerships with authorities, local and devolved governments. Labour will also work with the private sector, including banks and building societies, to provide private finance to support home upgrades and low carbon heating.



National Wealth Fund

We expect the UK Infrastructure Bank (UKIB) and British Business Bank to work closely together under the umbrella branding of the National Wealth Fund. Labour's National Wealth Fund is a £7.3 billion pot (on top of existing UKIB funding) that it will directly invest in what it terms "industries of the future". These include ports, hydrogen, automotive and steel industries, as well as industrial clusters.

This includes:

- A **£2.5 billion** "Plan for Steel" to support deployment of green steel
- **£0.5 billion** in green hydrogen funding over the parliament, subject to commercial negotiation
- A **£1.5 billion** Battery Power fund
- **£1.8 billion** in port infrastructure

The party is targeting a 3:1 ratio of private sector to public funding. We understand that the state-owned UKIB will disburse the public money.



Retail market

Labour has promised to implement a "much tougher system of regulation that puts consumers first and attracts the investment needed to cut bills". The party said it will work with Ofgem to both strengthen the regulator to ensure it can hold companies to account for wrongdoing and reduce standing charges. It also said it will work with Ofgem to ensure there's automatic customer compensation for failure.



Clean Power Alliance

Labour committed to creating a new Clean Power Alliance. The party plans to bring together a coalition of countries at the cutting edge of climate action to accelerate the energy transition and help cut bills.

Initial actions in post



King's speech features bills to deliver Labour manifesto pledges

The Labour government will accelerate the delivery of infrastructure and housing through a new Planning and Infrastructure Bill, announced the King in the King's Speech on 17 July. The Government will also introduce The Great British Energy Bill to set up Great British Energy, which will help accelerate investment in renewable energy such as offshore wind.

The speech said the government will bring legislation forward to help the country achieve energy independence and unlock investment in energy infrastructure.



Energy Secretary establishes departmental priorities

Secretary of State, Ed Miliband, outlined his priorities for DESNZ in a message published on 8 July. Miliband, who said the role felt like "returning home" having been in the post in 2008, said his priorities are:

- **Delivering the mission to boost energy independence and cutting bills through clean power by 2030**
- **Taking back control of GB's energy with Great British Energy**
- **Upgrading Britain's homes and cutting fuel poverty through the Warm Homes Plan**
- **Standing up for consumers by reforming the energy system**
- **Creating good jobs in Britain's industrial heartlands, including a just transition for the industries based in the North Sea**
- **Leading on international climate action, based on domestic achievements**



2030

Labour establishes 'Mission Control' with Chris Stark at helm

The Energy Secretary appointed Chris Stark as head of its new Mission Control on 9 July. The former Climate Change Committee chief executive will head up the group tasked with delivering a zero carbon electricity system by 2030.

Mission Control will "troubleshoot, negotiate and clear the way for energy projects", using the expertise of Ofgem, National Grid, National Grid Electricity System Operator (NGESO) and other energy experts. The Department for Energy Security and Net Zero (DESNZ) expects Stark to bring extensive expertise of working with the energy sector to remove barriers and achieve the clean power mission on the country's path to net zero.

The Energy Secretary, Ed Miliband, has also asked NGESO to provide advice on the pathway towards the 2030 ambition. His request particularly focuses on the location and type of new investment and infrastructure to enable achievement of the target.



Planning decisions support onshore wind and solar deployment

On 8 July, only a few days after coming into power, the Labour government announced an immediate removal of the “de facto ban” on onshore wind in England. Onshore wind farms have had to meet extended criteria versus other types of energy development in the National Planning Policy Framework (NPPF) since 2015. These cumulatively set a higher bar for development consideration and mean that opposition to a proposed development’s more likely to succeed.

The statement said the government will confirm this position to Parliament on 18 July, following the State Opening. Alongside this, government said it will consult on bringing large onshore proposals into the Nationally Significant Infrastructure Project regime, supporting accelerated planning.

Separately, the Secretary of State awarded Development Consent Orders (DCOs) to three large solar farms on 12 July. The three projects are:

- **Gate Burton Energy Park (up to 530MW)**
- **Sunnica Energy Farm (up to 500MW)**
- **Mallard Pass Solar Farm (up to 350MW)**

Commentators noted that some of the solar farms had suffered multiple delays in the planning process. For example, the Examining Authority recommended that Sunnica Energy Farm shouldn’t go ahead (28 June 2023). However, the new Secretary of State concluded that “the public benefits for the Proposed Development outweigh the harm identified” and, as such, granted consent.



Secretary of State announces offshore wind CfD budget review

Secretary of State, Ed Milliband, said he plans to review the budget for offshore wind for the upcoming Contracts for Difference (CfD) Allocation Round 6. Speaking at the Clean Energy Superpower Mission debate on 18 July, Milliband said:



By the beginning of August, I will report back on the budget for AR6 to ensure that as much clean, home-grown energy as possible gets built while ensuring value for money.



This follows analysis from commentators that the Government needs to procure approximately 10GW of the technology over the next two annual CfD auctions, to get the its offshore wind target on track.



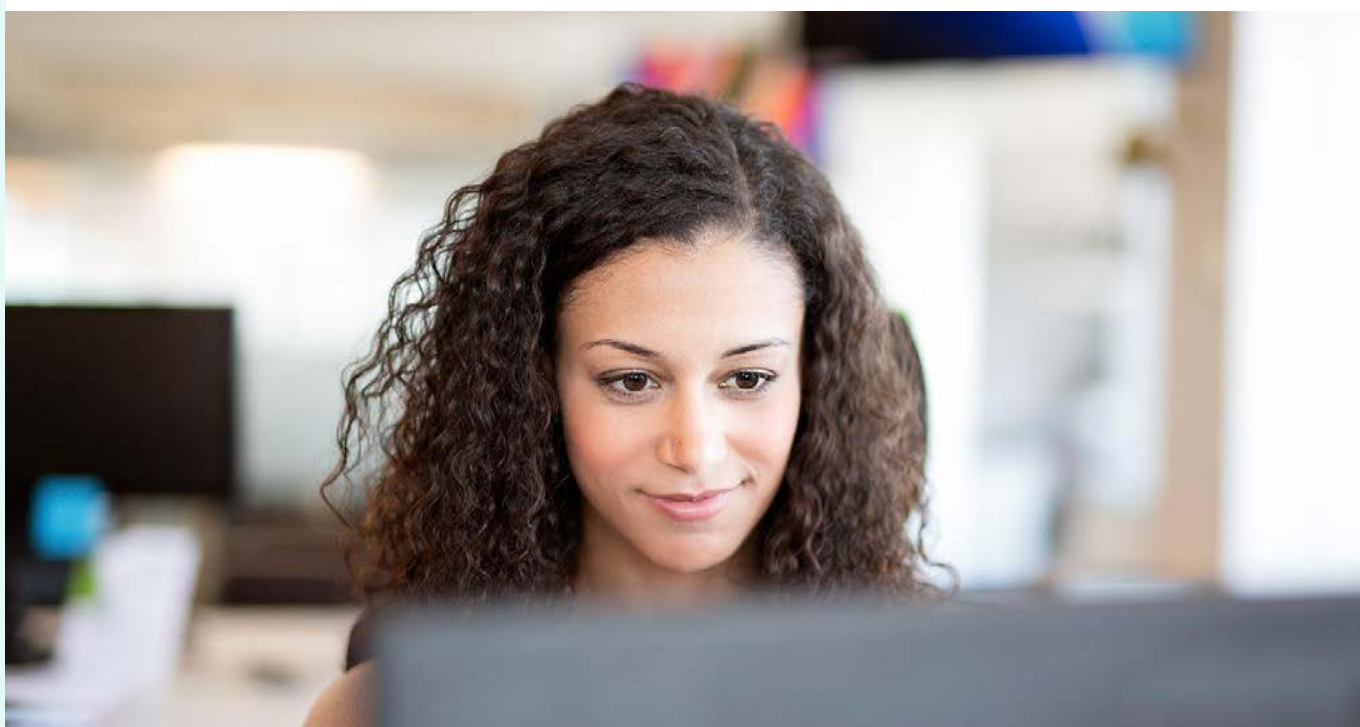
Policy positions on inherited policies



EI exemptions

The Conservative government launched the British Industry Supercharger in February 2023. This included an extension of the policy cost exemptions for energy intensive industries (EIIs). It increased exemptions for green levies from 85% to 100%, implemented a new exemption from the Capacity Market, and introduced a 60% reduction in eligible network costs.

The Department for Business and Trade noted on the webinar to launch the EI evidence portal (run by Elexon on 8 July) that Labour was broadly supportive of the policy proposals. Until instructed otherwise, the Department and Elexon will continue with the deployment of the scheme.



Regulated Asset Base for new nuclear

The Regulated Asset Base (RAB) is a policy mechanism for supporting the development of new nuclear assets, developed under successive Conservative governments. The model supports the financing of large scale infrastructure projects, but is a novel support mechanism for nuclear in the UK.

The model enables investors to share some of the project's construction and operating risks with consumers. This lowers the cost of capital – the main driver of a nuclear project's cost to consumers. The scheme differs from the Contracts for Difference in that the developer/generator has a specific RAB licence and receives support in the construction and delivery stages as well as during operation.

The Labour government has promised to accelerate decisions on new nuclear and ambitions for developing further capacity. The government hasn't explicitly said it will change the funding mechanism for new nuclear assets. It would likely take many years and new legislation to deliver an alternative funding mechanism. Given the urgency it implied in its policy direction, the RAB support mechanisms for Sizewell C and potential future nuclear assets may continue.



REMA

The most fundamental change programme in energy presently is the Review of Electricity Market Arrangements (REMA), which commenced under the previous Conservative government. This seeks to ensure the wholesale electricity market, associated policies, ancillary services, and balancing operations are all fit for a net zero future. REMA also aims to address what the programme's architects term "market failures and limitations of existing interventions".

The transition to net zero requires unprecedented levels of investment in the energy system. So the result of any reform needs to balance the investment community's perception of risk, system design, and economic signals.

The possible outcomes of the REMA process range from fundamental and wide-reaching change to more targeted changes enhancing the current system and rules. Consequently, its impact on UK businesses and other organisations runs from potentially huge to relatively minimal.

We've provided a short overview of this complex change programme on the following pages.

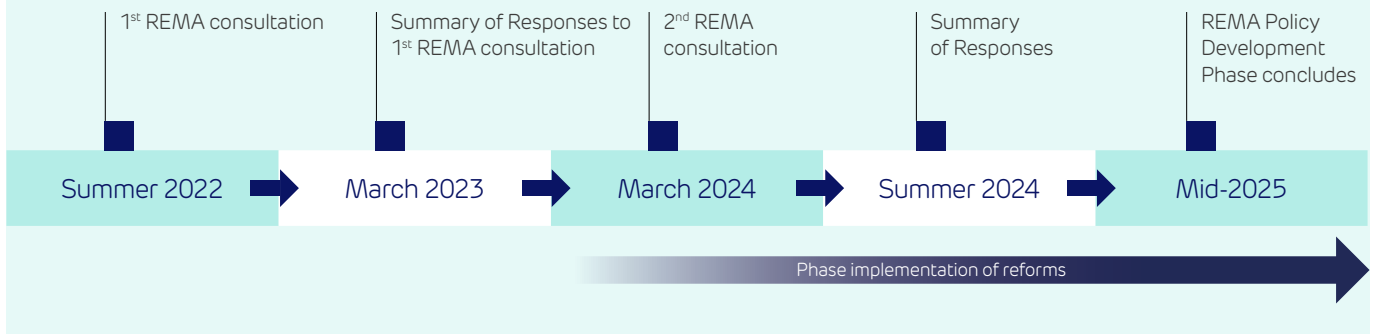
Why now?

The electricity system in Great Britain is undergoing a period of significant change, as intermittent renewable sources exert an increasing influence over the mix of power generation assets. For example, between May 2023 and April 2024, wind contributed the greatest proportion of generation of any technology type.

This means storage technologies and demand side response (DSR) mechanisms must provide an ever-growing level of flexibility and ability to respond. Power stations are increasingly deployed at the edge of the system, including generators in the North Sea, on the coast, and in wild and windy parts of the country. And we're becoming more interconnected with our European neighbours.

The REMA reform timeline

Published on 12 March 2024, the second REMA consultation sought stakeholder opinion on a shortlist of options for reform and was generally signalled as being the final market-wide consultation before the government commenced implementation in mid-2025 (or earlier, where time and policy development allowed). The change in government may affect this approach and timeline.



The transition to having more renewable power on the system presents a substantial infrastructure challenge. National Grid ESO says: "Around four times as much new transmission network will be needed in the next seven years as was built since 1990". The recently published Transmission Acceleration Action Plan aims to mitigate this risk by halving the timeline for building new transmission network infrastructure from 14 to 7 years.

The ESO's analysis indicates that, if delays to network build persist, annual constraint costs could rise. It suggests they may increase from around £2 billion per year (£80 per household per year) in 2022 to around £7-8 billion in the late 2020s – see Figure 1.

Figure 1: Annual constraint costs with a 3-year delay, FES 2022, Leading the way, £ billions, undiscounted, 2022/23 prices, 2023-2042



Source: DESNZ illustration of National Grid ESO analysis

However, REMA has been exploring if and how this infrastructure challenge can be met with market-based solutions. The government wants to ensure that the market arrangements and economic signals exist to support:

- Decision makers in locating assets optimally
- Assets to operate in an optimal manner that brings the greater benefit to the system

The fundamental question underpinning the REMA programme is whether the predicted system benefits of implementing change outweigh the cost and time it will take to implement the reform. The increased cost of capital associated with potential changes in risk distribution, plus the uncertainty existing ahead of implementing the reform, make answering that question even harder.

What's ruled out and what interdependencies exist?

The Contracts for Difference (CfD) and Capacity Market (CM) schemes are expected to stay and remain integral to delivering a net zero power system (although both could be subject to change). However, the previous government had ruled out a range of possible reforms from its original long list, meaning that:

- **The wholesale market would continue to be a unified market across renewables and fossil-fuel fired assets (although prices could vary by region – see page X)**
- **The marginal plant (i.e. the most expensive generator coming onto the system) would continue to set the wholesale market price (although this may also change on a regional basis)**
- **System balancing would continue to occur nationally (although National Grid's main tool – the Balancing Mechanism – could alter)**

Due to the fundamental reforms under discussion, there's also consideration for REMA's interlinkages with other policy and regulatory ongoing workstreams including:

- **The review of the Renewable Energy Guarantee of Origin (REGO) scheme**
- **The Smart and Secure Energy System Programme**
- **Towards a More Innovative Energy Retail Market**
- **Ongoing review and reform of schemes such as the CM and CfD (see above)**
- **The ESO's Flexibility Market Strategy**

REMA reform options

At the second consultation, the following options were still on the table:

Area of reform	Option 1	Option 2	Option 3
Wholesale market – location	National pricing	Zonal pricing	n/a
Wholesale market – dispatch	Self-dispatch	Central dispatch	n/a
Mass low carbon power	Existing Contracts for Difference	Deemed generation Contracts for Difference	Capacity-based Contracts for Difference
Flexibility	Optimised Capacity Market	Capacity Market with flex enhancements	n/a
Operability	Changes to CfD and CM design	Co-optimisation	Business as usual with enhancements

These options reflect the previous Conservative government's focus around four key challenges:

- **Passing through the value of a renewables-based system to consumers**
- **Investing to create a renewables-based system at pace**
- **Transitioning away from an unabated gas-based system to a flexible, resilient, decarbonised electricity system**
- **Operating and optimising a renewables-based system, cost-effectively**

REMA

It is unknown exactly how a Labour government will interface with and potentially change such a complex and fundamental change programme. REMA will have an interplay with Labour's accelerated 2030 targets, and we will need to wait and see how the change in government will impact the proposals under the scheme.

What next?



Delivering a net zero electricity system by 2030 is an ambitious but achievable target, that requires:

- A supportive planning environment that allows for delivery of new renewable and low-carbon generation both onshore and offshore
- Infrastructure challenges including connection timeframes to be resolved
- A strong investment environment and minimised costs of capital
- A balance of intermittent and dispatchable technologies to manage system operational risks

This is all while ensuring we don't lose sight of the longer-term net zero target. Therefore, support for technologies that are essential to the transition, including carbon capture and storage and long-duration energy storage, need to be supported and delivered at pace.

The next few years are essential for laying the groundwork for a decarbonised energy future.

The first two weeks of the new Labour government have demonstrated the speed with which it wants to address some of the barriers to the energy transition, particularly in planning. Further decisions will need to be made imminently to keep the UK on track for both its 2030 and 2050 targets. For example, in National Grid's 2024 Future Energy Scenarios, released 15 July, state:



Decisive action is needed within the next two years to deliver the fundamental change required for a fair, affordable, sustainable and secure net zero energy system by 2050.



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