



Video Transcript

Future Report: Policy and Regulation

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00:14 **Martin Pearce, Policy and Regulation Business Partner, EDF Energy**

Over the next five years, the key thing for the energy landscape or for the energy sector is going to be stability of policy and regulation. We've seen a lot of changes over the last few years, so for both investors and customers alike that stability is going to be very important.

00:25 **What are the 3 biggest challenges facing the energy industry over the next five years?**

The three biggest challenges facing the energy industry can be simplified into what's known as the energy trilemma. This is the idea that we need to decarbonize our energy sources, so to mitigate the worst effects of climate change if you like. Secondly, to get security of supply. So how do we make sure supply and demand meet up when we need them too?
And, given that those two elements will need significant amounts of investment over the coming decades - how do we do that in way that is affordable to all of us as customers?

00:54 **Tell me the story behind decarbonisation. What's the history, what is the challenge and what is the risk?**

The story behind de-carbonisation in the U.K in particular is that we've set the targets for our de-carbonisation into legislation. The climate change act of 2008 sets a clear target to reduce our emissions by 80% on 1990 levels by 2050.

01:09 **How has the government and energy industry responded to this challenge?**

The government has responded to the de-carbonisation challenge by trying to secure investment in low carbon technologies; particularly nuclear, renewables and by trying to remove emissions from fossil fuel generation

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Contracts For Difference

The Contracts for Difference system, which will overtime replace the renewables obligation, is looking at how you give certainty to low carbon generators through a contracted price - and the difference between that price and the price they would get on the market, is the income that they can rely on. And it works for the reverse as well. If the market price is higher than that contracted price, then you will see those generators paying back into the system if you like.

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Security of Supply

Looking at the security of supply there are a number of issues within this challenge. Firstly, we live in a modern society, so we expect electricity to work whenever we put the lights on. We expect it 24/7. Secondly, we're losing a lot of capacity generation on the network. We've already lost 30% since 2010. Thirdly, we're seeing an increase in renewable generation. Which is largely dependent on when the sun shines and when the wind blows. So there is an intermittency issue there that the system needs to cope with. If you wrap all that together, there is a significant challenge in making sure that supply and demand meet up on a daily basis.

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Capacity Market

Government has responded to this challenge by introducing what's called the Capacity Market. And the idea is that it gives capacity providers certainty and rewards them for delivering at points in the future. It works via auction four years in advance, where any technology that's fairly technology neutral, can compete into that auction, to get a certain price for the amount of capacity they are going to deliver.

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Affordability

The third challenge is affordability. If you think about all of the investment that is needed for low carbon generation and for the transmission and distribution of that electricity across the network – that's a significant amount of investment over the coming decades, and that's got to be paid for somehow.

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Government's response to Affordability

The government has responded to the affordability issue by a range of measures: range of reforms to the energy market over the last few years; through Contracts for Difference; the Capacity

Market and the Carbon Price Floor. All of which are driving investment but using the auctions to try and drive <down> the cost of the technology in that investment over time. And,< they're> also <going> to try and drive the de-carbonisation element in a way that is affordable for the end user.

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What would your message be to TPIs and business customers going into 2018?

My message to business customers going into 2018 would be. Think about how you can control and manage your consumption through either investment in energy efficiency or self-generation on-site.

And secondly, to keep informed of what's changing in policy and regulation landscape. How that's going to impact on you but more importantly. What opportunities there might be for you to take advantage of.

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