

Transcript of Speech by Ed Gallagher, Chairman of Energywatch

Good evening everyone and thank you very much for your invitation to join you this evening. It is, I must confess, an occasion that I'd approached with some trepidation. I am, as you heard, familiar with some aspects of energy from the previous life, but over the last six months since I joined energywatch, I have grown to realise how complex and difficult the energy market is. I am acutely conscious of the fact that I am now speaking to a remarkably high profile and well informed audience. The upside to me, of course, is that when we have the discussion when I am finished, I am hoping to go out of here a lot wiser than I came in and I am looking forward to that. The second reason I have some trepidation is the whole question of sustainability or sustainable development. The definition is fairly straightforward, we need to think about economic progress without too much damage to the environment, with some degree of social justice and we need to think about future generations and their needs at the same time that we think about ours. The problem with it is that it's not really a solution; it's actually a framework which tends to lead to rather hard choices that people have to make. If you want to reduce greenhouse gas emissions, you can put the price of energy up and that might do it, but it probably does it in a way that is done by taxes that contradicts the government's desires to do something for the poor. It is quite difficult to resolve these things. If you go down that route and then you decide, well what we'll do is give some subsidies to cover the poor, you then get into a rather unsettling in Victorian discussion of the deserving poor, do you give it to the widow of the soldier who was killed in Iraq who's got two young children, or do you give it also to the feckless individual who has drunk and smoked his life away and left his children in penury. It doesn't really solve problems, it leads to hard choices. It is rather an elastic term as well. I have read recently, a fairly senior person in the energy industry who has been talking about sustainability simply as security of supply. That's all it is. For some of us, sustainability, doing your bit for the environment, is driving down a smoothly tarmacked road in our four by four to throw out our whisky and wine bottles in the weekend into the recycling bin. Others who think a lot more seriously about it, they wonder how long they can continue to eat Braebourn apples from New Zealand, delicious apples, but consume an enormous amount of the earth's resources in their refrigerated comfort several thousand miles around the globe when there, just round the road, there should be perfectly acceptable apples to eat. And other people will stand on bridges and watch lorries carrying biscuits made in the south to be eaten in the north of the country, and will stand on that same bridge and watch lorries carrying biscuits made in the north of the country then go to the south of the country. Now, why are we doing all this stuff, why are we wasting resources in this way? This is the argument that those who believe more strongly in sustainable development put forward. It can be expanded even further into a discussion about free trade. It can almost undermine the economic arithmetic which has governed the development of our civilisation for the last 150 years. If you take and factor in the true cost of transport and the damage that is done, you could well end up with rather small centralised economies rather than the global

economy that we have today. So you can understand the civil servants saying this is a rather seditious concept that we ought to be somewhat wary of.

The third problem that I've got that causes me some trepidation is that there isn't a single consumer's view that I can tell you about on sustainability. The Asian community in Bradford, the chattering classes in Surrey, the hill farmers in Wales, the urban poor in Birmingham, the city slicker in his gadget ridden penthouse in Docklands don't all have the same view as to what sustainability is and how important it is in their lives. Single mothers, pensioners, students, all have different views. Often those views change. Margaret Thatcher once famously said, *"it's really great to be dealing with a real problem when most of your life you've been dealing with humdrum things like the environment"*. It wasn't long after that that she started lecturing us on how we were using the globe as a dustbin, and treating the seas, the air, and the land in a very cavalier fashion. Of course there are different sorts of pensioners. The Queen is a pensioner, and she at the moment is lecturing Tony Blair on Climate Change, installing water turbines at Windsor Castle and has several combined heat and power systems in her palaces. So it's understandable I think why I have some trepidation, a well informed audience, a rather difficult subject, no coherent single view that I can put to you and no single solution but rather the elaboration of some hard choices. The additional difficulty is that certainly, as far as the people who talk to energywatch are concerned, sustainability is quite low down the list. Things like pricing, switching and the sort of salesmanship that they disapprove of now rapidly declining are the things that they talk to us about and sustainability and even the discussion about green tariffs is fairly low in the agenda. That doesn't mean that people don't think about it I am sure they think about the individual components, they just don't complain too much to energywatch about this. I have no new insights to bring to you about what consumers think.

So, in order to get myself out of this problem, I am going to take a grammatical liberty? Those of you who have read Lynn Truss's best selling book last year on correct punctuation, she had a few paragraphs on the apostrophe, well, I'm going to firstly have the apostrophe behind the s because there are some common trends that even that very diverse group of people would share, but I am also going to push it between the r and the s, I'm afraid that there will be some aspects of my personal views on sustainability which will drift across the room at various stages and I am pretty hardcore on sustainability, so you will probably be able to see quite easily the differences.

I'll also talk about sustainability in some other industries and some other utilities away from the energy markets, sort of benchmarking purposes or making comparisons and at the end I will get to something more specific on energy and energy consumers.

So, what are these trends that perhaps do apply across this rather diverse group of consumers? The first one is that the environment has rapidly increased its impact. A Mori poll which has been conducted for many many years now, shows a continuous improvement or a continual increase in the

amount of people who have serious concerns on the environment and the way it affects their lives. Some of the groups who organise themselves to protect the environment are remarkably effective and punch well above their weight. Some are very large, the RSPB, for example, has a million members. That's more than all the political parties put together. They will tell you that in the last hundred years, they have lost 90% of our wetlands, 75% of the turtle doves that we sing about at Christmas have gone, as have 50% of the skylarks. They will tell you that all this is happening because of the increasing urbanisation and the intensive agriculture. They will point out to you that of all the world's water, only 3% is fresh, two thirds of that is frozen at the poles, the vast majority of the rest lies deep underground in the aquifers. So, if within this room, we all had wineglasses which were full of the world's fresh water and I had a wineglass with fresh water which would be about that much. If you look at the thin layer of soil on which we scratch out our living and compare it with dense impenetrable mass which was most of the earth, we are living in a layer of dust on a billiard ball, and if you look at the atmosphere which protects us from space there is no more than a few layers in the Bible or a holy book. Environmentalists will say to you that these resources are under threat in population growth. The estimates reduce somewhat but most people feel that there will be a new China every 6 or 7 years and a new Sweden almost every month. It is not only the increasing numbers which will put pressure on this resources but the fact that there are 3 billion people who live at the moment on less than one pound a day. As soon as they begin to aspire to anything like a decent standard of living, environmentalists believe that the pressures on the environment will be absolutely immense.

Issues like Climate Change, Tony Blair's number 1 or number 2 priority now, the rainforest acid rain, the ozone layer, melting ice caps, all these at some stage have had their day in the media, as have local issues where people have complained about pollution they can actually put their foot in. The seals in the Antarctic, environmentalists will tell you, have never seen a human face yet, they have got layers of pollution in their fat. They will also tell you that there have been 40,000 jobs loss in Newfoundland as a result of over fishing and not proper concern to the environment. They will also tell you that the environmental economy, for example, in the West Midlands, is larger than the car industry. So a number of quite powerful points that environmentalists have made. The economic situation is also changing. There are more people employed in the Indian restaurant business in this country now than in ship building, steel and coal mining. Manufacturing jobs have been exported, and our manufacturing is now about 25 % of what it was in the mid 1970s but now we are beginning to see the export of service jobs in addition to manufacturing jobs.

Firstly, IT systems moving to spare time on large computers elsewhere in the world and now, much reported, the removal of customer service organisations abroad. There is much more choice in the shops now. You only have to ask for a coffee in Starbucks to realise the options you've got there for shops and to find the 30 or 40 options you have there. At the same time, there is more choice and less loyalty, less loyalty at the firms and less loyalty from firms to their employees. My father worked for 34 years for the same organisation, I've

worked for 6, my son expects to train and re-train for the rest of his life and the average American, I read recently has 9 jobs by the time he or she is 32. Consumer power has risen, genetically modified food and the effect there, there has been a huge increase in the amount of information available to consumers via the internet and elsewhere. If you look at social changes, the third leg of sustainable development along with environment and economic issues. In 1954, a 15 year old teenager, asked who his favourite woman was, two thirds would have said the Queen. Lord Reith used to asked questions of people he was interviewing: *"Do you believe in the fundamental teachings of Jesus Christ?"* And this was a selection criterion. The wrong answer did not get you the job. I'm always amused when I see on the television a foreign secretary in 1959 returning after a major conference in Europe being questioned by a journalist. *"I understand Foreign Secretary you have been to an important meeting in Germany, have you anything to say? No, he said. Thank you Foreign Secretary"* and he walked away.

The world is very different now. We are less deferential but to some extent we are more vulnerable. We are a trillion pounds in debt; our child poverty is double what it is in Germany and five times what it is in Denmark. There is a widening gap between the poor and the rich. About 13% of society account for 50% of the wealth. We are much less stable now, there are more single households, some of us are more frightened and perhaps more cautious than we used to be. Now, some of that you could say was exaggeration. Environmentalists have been crying wolf about things for many years and we are still here. There were 19 inches of rain in Texas at the turn of the century and the anemometers broke in New Hampshire about 70 years ago because the winds were so strong. The river, which is not so far away from us, which was clinically dead about 30 years ago, now has about 115 species of fish thriving. It's the cleanest metropolitan river in Europe. We are better off we are living longer, we are healthier and we are wealthier. But even if you leaven some of the exaggerated comments back a bit, it seems to me there is still a sensible case to be made for an approach which looks at the environment, social justice, economic growth and thinks about the future more intensively than we do at the moment. There seems to me some sense about that no matter dire your interpretation may or may not be. The problem with getting a legitimate debate conducted is that there is no value system, particularly for the environment. How do you put a value on salmon returning to parts of the Thames where they have not been for the last 100 years? It is very difficult to do that. There is a way of doing it. You ask people how much they are prepared to pay for it, which is not particularly helpful but it's probably the only way we have at the moment. If we look at what's in the business accounting and reporting system there is very, very little in there about the value to a company of having a good environmental reputation and not very much about even tangible liabilities for clean up of contaminated land which they may or may not own. Of course, this concept of dealing with things in the longer terms is extremely difficult. In the private sector, every investment is now discounted. That's fine. A pound now is worth more than a pound in five or ten years' time because you're certain you have got it, you can invest it and there is inflation. Even if you discount a rate of a 5 or 6%, whatever value you place on the environment 30 or 40 years hence, is virtually nil by the time that

discounting process is finished. If you do the same arithmetic in the public sector, you run into this absolute nonsense where a pound spent this year which will last 50 years is treated exactly the same as a pound which will dissipate over the next 5 minutes. So, in terms of the accounting system, the way that the private sector values investments and the way the public sector conducts its finances, was not really a value system which enables a proper debate to take place. Even if you can't put a monetary value on it, what do you do when people actually say I want these benefits? Who is going to pay for these benefits? Our sustainable development started, at least in part, by the realisation that some of the largest multinational companies in the world actually had what would be the equivalent of GDPs, which were greater than about 30 or 40 countries in the world and that their wealth and their activities were not subject to any form of democratic control. And the view of sustainable development devotees at the time was there ought to be some constraints, and indeed responsible companies decided to take on some of the responsibility themselves. It is, of course, a rather difficult thing to enforce internationally. So some countries have taken this out, others, I think, regard the burdens that are being placed on them to socially engineer things as being really not acceptable. In the end, of course, it is the public who pay. We all pay, whether we pay through prices for things we buy, whether we pay through taxes, whether we pay by changing our individual behaviour and acceptance and constraints or whether we pay through litigation. The Government has a big role to play here. When Gladstone asked Faraday what use is electricity Faraday said *"well, at least you can tax it"*. And this is the way Government deals with things, taxes or subsidises. Taxes, as I said, right at the beginning are the particular problem because they tend to affect or can affect poor people more than rich people. That didn't used to be the case because that was dealt with the personal tax system. Now it seems anything other than person taxation is where the taxes go. When you subsidise the poor, like giving them a £200 winter fuel allowance, someone like me gets more benefit from that because of the tax advantage than some poor pensioners. And a method which is probably the fairest of all, fuel direct, where the payments are made from the Department of Work and Pensions for those who need it, is gradually being throttled by the Department because they say it is too complicated to operate, I have been told and the number of people getting paid using this quite sensible method seems to be declining rapidly. The Government is not spending a fortune purchasing in a sustainably demonstrable way and after the launch of EnergySmart which emphasised the benefits to consumers of switching and also the benefits from energy efficiency, at least two newspapers got their usual figure when they show the lights of virtually every government department blazing away at 10:30 at night. The usual comment was made that it was the contract cleaners at work, but we all know that it is not true. So, there is quite a gap between the rhetoric and what actually goes on. It is important to realise that we, as individuals have also got some responsibilities that we need to be aware of. My sons have lectured me on the environment, but they are always leaving the lights on as well. We continue to buy houses which are frightfully inefficiently constructed. And I dare say if someone had £200 extra to spend on winter fuel allowance or whatever, the temptation to spend it on insulation for the home, or a Ryanair trip for a couple of weeks somewhere, most people these

days, seem to be going for Ryanair. Companies, of course, can make considerable savings by acting in a sustainable way. The example that always comes to mind is one involving water, where 11 companies on the river Eyre worked together to reduce their water consumption and amount of pollution they put out into the rivers. The 11 companies between them saved £3 million pounds and reduced their emissions by about 75%. The payback for most of them was less than 9 months and some of them required absolutely no investment at all. The biggest savings were in the world leading soft drinks company in their largest and most modern plant in Europe where they saved over £1 million. Most of these ideas come from people on the factory floor whom they rewarded with a £1,500 bonus and a desire to send more ideas forward. They put their savings across in a particularly graphic way. If they were giving this speech, they would have ostentatiously put on the table a case full of their soft drink. You would think it is a bit of publicity and then they pick up one of the cans and then they pour it into a glass and they sort of drink as they go through the presentation. At the end, there is that much water left in the glass and they say, when we made this amount of drink, we used to drink this amount of water wasted it, and then they did that and said *“that is what we do now”*. Very impressive, but it is also commercially very sensible and there are similar examples, I’m sure, that could be said about the use of energy and not just the use of water. So, for energy companies, what does all this mean? Well, most environmentalists would not put, and I’m hard core sustainable development, so I’m sort of an environmentalist and would not put the next two very high up in their list but I do. The first one is competition. A lot of environmentalists believe in some sort of housey-wowsy way of sorting the world’s problems out and I am not sure if it’s worked that well. So, competition for me is this: What happens in nature? Nature survives with competition. The inefficient need to be driven out of business. That’s what it’s all about – if they’re wasting resources they are acting inefficiently. So competition is what we need more of. But for it to be effective, we need informed consumers. They need to know a lot more than they know at the moment. And they need to be in control of it all. They should be able to take the basics of business for granted. They shouldn’t have to query bills; they shouldn’t have to endure the difficulties of switching. It ought to be a seamless process. It ought to be something where the consumer’s decision very rapidly gets through to the Board Room and the competition should not be simply on things which we should take for granted like getting a bill, getting a meter read. There should be real choices, real differentiation between the companies, in the way they operate in a market segmentation way, which is good for choice but also in the way I mentioned right at the beginning to drive out the inefficiencies. The second one, which most environmentalists will not have on their list is innovation, technology and innovation. A lot of environmentalists will see technology as an enemy of the environment. I don’t. The Stone Age didn’t end because of the lack of stones. It ended because something better came along. And we would not be in our current sustainable state were it not for inventions like fridges and telephones, fax machines and computers. There is a lot of work going on in the innovation in the industry but it all seems to be to a too lower level. There is a lot of work on green energy, a lot of work on energy storage, alternative fuels, combined heat and power and microgeneration, energy efficient light bulbs, various control devices. And I

read about an interesting development that I had not come across before called hybrid lights, where you have a big light collector on the roof of the building with fibre optic cables that takes the light down into the roof when the sun is shining, it also heats photo voltaics which power the lights when the sun is not powerful enough to do that and at the end you've got a 13 amp plug which will supply your needs when the contract cleaners are in late at night.

So, there is a big gap. Lots of ideas there, not enough exploitation, not enough introduction. But I've got here something here from the Royal Academy of Engineering, a flyer for a visit to Beddington Zero Energy Development exactly two years ago. Go and see an environmentally friendly, energy efficiency mix of housing and work space in Sutton. The number of engineering features such as zero heating homes, use of low grade energy storage, on-site combined heat and power, wind power ventilation systems, photovoltaic solar electric collection for powering zero emission electric powers, passive cooling systems, reduced potable water consumption by using rain water after recycling, on-site foul water treatment and recycled ground water. Sustainable and affordable housing for local residents - all residents have broadband access. Now, I'm sure if we were to do that, our costing on that would probably be fairly expensive but if that were to done at a high scale, I'm sure the cost would plummet down, and this is something which was around two years ago, as far as I am aware, there aren't all that many places like that in addition to that pioneering development. And the last bit on innovation is meters. I've got this thing about meters, anything which has stayed pretty much the same for about 40-50 years is right for change. And metering is an area, I think, where competition has failed. It's failed to innovate as well as failing in other areas of the world. We are going to move into a situation where energy is going to get more expensive, we've got to focus on energy efficiency in a sustainable way. The best way of doing that is to give people using energy information about how much is costing to use it and give them the devices so that they can use it at times when it is less expensive or more sustainable.

Lastly, as an important dimension to a sustainable future, we have to realise we live in a civilised society; we have to think about the vulnerable. At the moment, I, as an affluent internet user direct debit consumer, I'm paying with my energy company, for about £40-50 a year less than someone who is on a pre-payment meter. Let's leave aside debt collection from pre-payment meters. The actual gap in the industry is someone paying around £300 a year between me, privilege affluent consumer and some poor (and I mean poor in the financial sense) person who has to use a pre-payment meter who wants to be green. The difference on a £300 bill is £150. I can't believe these figures, they've been checked twice, don't quote them yet, but that to me sounds highly unjust and something ought to be done about it. We live in a civilised society and it is not fair to have the same commodities so differentiated and so skewed against those who have to pay using meters, which are to their liking. But more than that, if we are to solve either the problems of the vulnerable or just have more money to spend on things like the Ryanair cheap flights, we need to adopt a different approach. I believe, and I think luminaries in the industry have said this too, that the era of cheap

energy is over. What we've been able to do for the past ten or so years, is simply say, competition is working, prices are coming down, it's all working, fine; and that's a halo that has covered up a number of things. Now that energy prices are going up. It's no longer sufficient simply to say switching will save some money, but once you switch, the benefits begin to reduce. And some of the factors which are driving the increase in energy prices such as what's happening in the wholesale market are putting increases on bills which I think consumers will feel quite unhappy about paying. We may be prepared to pay £3 per bill for infrastructure improvement; we may be prepared to pay £3 for some of the green things we need to do. We don't want to pay the £30 or £40 which we think is flowing into industries' profit because of various factors at work in the energy markets. We don't like the blurring of all energy into one market where all the things that affect the oil price are an opportunity for similar things to happen with gas and other fuel prices. So, if we are to solve the problems in the future, in my view, we need to understand what's happening in the broader energy markets. We need to encourage people to switch but we also need to provide them with the opportunity to save energy either by traditional means, which energy companies can supply. And I am delighted several of them are doing that now that the 28-rule has disappeared, by proper use of meters and so on. Even that is not enough, because something has to be done about this very large premium which the vulnerable are paying by using their different methods of payment. So much, we can no longer say competition will solve it all. It needs a broader, a softer and more rounded approach and one which I believe should take account of sustainability. Now, if you thought that was a harangue I've got another harangue now. This is about what generators should do and that is people who generate the electricity and the gas at source. Diversity of supply, I think is essential in a sustainable society. We've got to break these links that there is one energy market. They are differentiated and they should be differentiated, there should be alternatives, there should be diversities. I'm personally convinced that coal and nuclear are going to come firmly back on the agenda fairly soon, unless we change the way we behave as individuals. There are several issues around green energy, one of which is the over dependence of our green resources on power which has certain problems associated with when it gets up to 15% to 20% of total energy supply. Generators need to think about the hydrogen economy coming along as well as the low carbon one and security of supply and natural gas being imported on ships. And what might happen to pricing or the threat of terrorists' and of course local supply? People who distribute across the pipes and the wires need to understand in a sustainable world, in fact in any world, this is a low return business, one which is regulated, and one where investment and innovation will pay dividends. What they must not do in the distribution business in a sustainable world is to sweat the assets and not invest. The history of organisations, like RailTrack clearly demonstrate the folly of that, as do the fate of several people who tried to make the insurance industry sexy and attractive to investors. They all fall flat on their faces or end up in jail. This is the low risk, well, you could argue that it's not a low risk business, but it is a business where I think the returns should be modest and it shouldn't be that exciting. And distributors need to provide the countrywide electronics that are needed to manage a huge, I think, eventually multiplicity of supply. Suppliers

improve switching, switching your bank account or your credit card, according to a recent survey was said to be by a third of the people second only to moving home or getting married in terms of stress. I don't, whether that is true or not, it's one of those things with not much that stress but nevertheless the experience of people switching is not a particularly a good one. Suppliers need to narrow the gaps between the tariffs, they need to make the bill easier to understand, they need to begin to sell efficiency services, not just energy, they need to encourage the use of meters, they need to set up trusts which makes commercial sense as well as moral sense for the more vulnerable consumers and obviously there are a couple of companies that have already done that. I think that everybody needs to understand in a sustainable world, a civilised world, a shareholder value is not enough. And certainly, as far as energy is concerned, it will not be enough to say competition will solve all our problems. If you are a vulnerable customer, and you don't like the way your company is treating you, find another one, I'm afraid, it is just not good enough. All need to take a longer term view to incorporate these separate social and environmental reports into the heart of decision making to put customer service right near the top as a prime determination of management bonuses and to invest in technology and Research. Above all, I think, in a sustainable world we need to believe that unlike Nigel Lawson's view a few years ago, energy is not a traded good; it has dimensions to that which we all need to incorporate, in a sustainable world, in a civilised world in the 21 century. And those thoughts have also been echoed by a major player in the energy industry in Utility Week, this week. Now, that's a bit of a harangue and I think it's only right to do two things; one is to recognise that a lot of changes have taken place over the last 15 years. The industry is much more efficient now and there are some players in the industry that have got absolutely outstanding records in terms of some of the things I've been talking about but the industry, I think, has some way to go. I think we have to acknowledge that. I think also, we have to acknowledge that you are entitled to ask what energywatch is going to do about this. And we have decided that in the document we put out for consultation in the New Year where we will be asking the industry, consumers and others to comment on what work we should be doing, one of our four main priorities is sustainability. We want to fully understand the impact of sustainable energy on consumers; we don't at the moment. Of course, consumers are already paying for some of it. Business consumers are paying through the Climate Change Levy and the Renewables Obligation and customers are paying household consumers through the energy efficiency commitment. We need to understand a lot more about what consumers' views are to try to overcome this problem of diversity that I spoke about at the beginning. We want to think about ways that customers can get advice on using energy efficiently. We want to be a strong advocate for consumers in the debate and implementation of sustainable energy policy and we hope to provide evidence based input into that. We are required by the laws that set us up to think about future consumers and that will be something that we need to take very seriously and we need, on the social dimension of sustainability, to think very seriously about how we can ramp up the effort we are already making on vulnerable consumers. Importantly, we will not avoid the hard choices. We will not simply say things which are necessarily popular. There are some hard choices to be made. We will hopefully lead the debate to

enable those hard choices to be made. Our organisation will be moving from an efficient complaint handling organisation to one where we build relationships with companies, regulators and the Government. We, again, are working with them to have a significant beneficial impact on customers' lives and to help them feel better about themselves and remain profitable at the same time. And we do want to get a seat at the table where the significant decisions are being taken on energy policy. So, in partnership, added to information, advice and advocacy, we hope to move this particular agenda significantly forward. A lot has been done, we acknowledge that, but to paraphrase what one of our great wartime leaders said "*this is not the end, this is not the beginning of the end, it's not even the end of the beginning*". Although a lot has been done, so much more to do, I think this is just a beginning. But it's a good beginning, an encouraging beginning, and energywatch will work with all of you, industry, NGOs, Government and others to create the sort of sustainable future that makes sense to all of us.

Thank you

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