

# ***DTI Consultation: Energy Policy – Key Issues for Public Consultation***

## **Response by the UK Business Council for Sustainable Energy**

### **1 INTRODUCTION**

- 1.1 The UK Business Council for Sustainable Energy (UKBCSE) includes Innogy, BP, Shell UK, Powergen, National Grid Transco plc, United Utilities and Scottish Power. It has been created in order to develop an effective dialogue with Government that can help strengthen the UK's strategic agenda for sustainable energy.

These major businesses all have an interest in renewables, energy efficiency and CHP and the UKBCSE is working to build a broad consensus around many of the issues surrounding the development of sustainable energy in the UK.

- 1.2 This submission is the first formal input of the UKBCSE to the Energy White Paper process and is therefore necessarily brief. It outlines the main issues that the UKBCSE believes are key to the development of sustainable energy in the UK and the UKBCSE looks forward to taking these issues further in discussion with Government.
- 1.3 This submission also reflects work done by the UKBCSE in relation to the World Summit on Sustainable Development (WSSD) and links the international priorities for sustainable energy with the development of an effective domestic policy agenda for sustainable energy. This approach was reflected in the Council's pre WSSD letter to the Prime Minister, a copy of which is attached.
- 1.4 The Council has noted with interest the Prime Minister's statements<sup>1</sup> that:

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<sup>1</sup> The Rt. Hon Tony Blair on the World Summit on Sustainable Development. 01 September 2002

For carbon emissions:

*“We need a 60% reduction”*

On UK targets:

*“We will meet, indeed exceed our Kyoto targets; and we must go further.”*

- 1.5 The UKBCSE believes that to achieve not only the UK’s existing goals for sustainable energy, but also to go beyond, will need a clear, firm and consistently delivered policy framework. The UKBCSE is keen to contribute to the achievement of this.

## **2 GENERAL PRINCIPLES**

- 2.1 *Strategic approach.* The UKBCSE believes that there must be a more strategic approach to sustainable energy policy across Government and its agencies. This needs to deliver policies that are ‘joined up’ and mutually reinforcing. Proposed Guidance to OFGEM in particular, and that which already exists for the Environment Agency, should be reviewed to ensure both bodies take decisions consistent with the drive to develop sustainable energy.
- 2.2 *A consistent framework* for sustainable energy must also reflect the international elements of the UK’s energy activities in relation to climate change.
- 2.3 *Carbon valuation.* The UKBCSE favours some form of carbon valuation that can enable the carbon impact of fuels to be reflected in the market. In addition there needs to be better co-ordination between the various mechanisms that exist to promote the development of sustainable energy so that carbon reduction is delivered in the most cost-effective way. The UKBCSE is keen to explore how the existing mechanisms could be brought under a single overarching **zero** carbon instrument to facilitate the transition to full greenhouse gas emissions trading.
- 2.4 *The social dimension and security of supply.* The development of sustainable energy technologies must go in tandem with protection of security of supply and tackling fuel poverty. Developing sustainable energy will bring security benefits but it is important that the UK retains adequate flexible plant to enable generators to respond to demand fluctuations in a cost-effective way. There is a very real need to bring together the various resources at present used to tackle fuel poverty in a more focused way and to utilise these to reinforce the wider use of sustainable energy practices and technologies.
- 2.5 *Transport.* Mechanisms are also required to ensure that other sectors of the economy, notably transport, play their proportionate part in delivering carbon reductions.
- 2.6 *Do not delay.* It is important that Government does not wait until 2010 before future policies and targets are decided, as this could lead to instability and uncertainty in the market.

### **3 TOWARDS A LOW CARBON ENERGY MARKET**

- 3.1 The UKBCSE supports the current mechanisms that exist in the market to drive the development of sustainable energy, namely the Renewables Obligation (RO) and the Energy Efficiency Commitment (EEC). However, there is a need to develop these existing mechanisms in ways that will drive the development of markets forward efficiently. Action is also needed to ensure the development of CHP alongside energy efficiency and renewables.

#### **The Renewables Obligation**

- 3.2 The RO is already having a significant effect with a considerable number of projects coming forward as a result of its introduction. Whilst there are a number of issues (planning, network issues etc. see below) to be resolved before renewables will deliver even the 10 per cent by 2010 target, Government must take action now to ensure there is a platform for renewables to develop rapidly post 2010.
- 3.3 To ensure that the development of renewable energy continues past 2010 the Government should indicate, in the Energy White Paper, its commitment to long-term targets for carbon reduction, and identify the role of renewables within the overall reduction target.
- 3.4 Committing to a long-term target and clear framework for delivery will give greater certainty to the industry and encourage the investment and strategies necessary to ensure that renewables development grows in the future.

#### **Energy Efficiency and CHP**

- 3.5 The UKBCSE believes that there is a huge potential for energy efficiency improvement and that the potential remains largely untapped. To date, the Energy Efficiency Commitment (EEC) (and the earlier SOP scheme) has been a useful instrument in delivering energy efficiency improvements but if the identified potential is to be realised additional measures will be needed. It may also be appropriate to separate the 'social' aims of EEC from its energy saving and carbon reduction aims. EEC resources targeted at the fuel poor could then be combined more effectively with other resources such as HEES and social landlord funding to establish a co-ordinated programme to tackle fuel poverty.
- 3.6 Further measures to promote energy efficiency should include: additional fiscal incentives to encourage take-up; giving customers the freedom to enter into long term energy services contracts with their suppliers; tightening building regulations and appliance standards to reflect available technologies; and reinforcing housing standards to ensure action is taken in the private rented sector. These issues will be developed further in the Council's submission to the Treasury consultation on *Economic instruments to improve household energy efficiency*.
- 3.7 Under the current policy regime, CHP development is severely disadvantaged as there is no corresponding measure to EEC or the RO to support CHP uptake. In the absence of other measures to support CHP the UKBCSE believes that the Energy White Paper should pave the way to a CHP Commitment, as provided for by the

Utilities Act, in order to reverse the current downturn in the CHP industry and ensure that the CHP option is kept open and its benefits secured.

### **The Future Market**

- 3.8 The measures outlined above will help drive the development of sustainable energy technologies in the short term. The UKBCSE believes that going forward there needs to be better co-ordination between the three mechanisms (RO, EEC and CHP Commitment). The Government is understood to be carrying out a review of the most cost-effective way of meeting carbon reduction targets. The analysis needs to be widely debated and in the light of this used to identify appropriate targets and support mechanisms for the relevant technologies (renewables, energy efficiency, CHP). The UKBCSE is keen to explore the idea of an overarching **zero** carbon instrument as part of this process.
- 3.9 As a first step towards this, the review of the EEC in 2005 would present an opportunity to bring CHP and energy efficiency closer together in a way that reflects the carbon reduction benefits.
- 3.10 However, the UKBCSE also recognises that a full integrated carbon market would need to be developed over time and with adequate consultation, in order to avoid creating uncertainty that could curtail investment and halt the progress towards market price convergence of some renewable energy technologies. This is particularly so given that the RO has only been established very recently. In addition, as noted above, resources to tackle fuel poverty should be brought together in a co-ordinated programme that would be outside the sustainable energy mechanisms. Delivery in relation to the Government's fuel poverty target by 2010 will be vital in order to open up other options in the next "Commitment Period" under the International Convention on Climate Change.

## **4 OTHER ISSUES**

### **Planning**

- 4.1 If the technologies necessary to deliver sustainable energy, particularly renewables, are to be developed, then the planning process must become more streamlined to avoid the lengthy delays that have been experienced by many renewable energy projects. The current revision of PPG22 in England is key to this and is long overdue for updating. The UKBCSE believes that the revised guidance should be issued in early 2003, taking a more positive stance on the use of sustainable energy technologies and including a general presumption in favour of sustainable energy developments. Similar guidance should be introduced in Wales and both should be consistent with the guidance that operates in Scotland (NPPG6).
- 4.2 The UKBCSE believes that the revised guidance should indicate: the contribution that sustainable energy developments can make to Community Strategies; where such technologies would not normally raise any planning concerns (e.g. those that are small scale or not visually intrusive); the areas that would be considered generally suitable and acceptable for sustainable energy development (or developments of particular types); the areas where sustainable energy developments (or developments of particular types) would not be suitable.

- 4.3 Such approaches also need to be fully reflected in Unitary Plans and the Master Plans for the new communities the Government is seeking to facilitate.

#### **Network Issues**

- 4.4 Increased amounts of renewables, CHP and other sustainable energy technologies will have major implications for the operation of the transmission and distribution networks – as highlighted in Callum McCarthy’s speech to the OFGEM and Institution of Electrical Engineers conference on Renewables and electricity distribution networks<sup>2</sup>.
- 4.5 Of particular interest to the UKBCSE are the issues of distributed generation versus network investment and shallow charging. These issues must be investigated in an integrated way and the UKBCSE would welcome the opportunity for discussions with DTI and OFGEM.

#### **International**

- 4.6 The UKBCSE has welcomed the Prime Minister’s WSSD announcement that the Export Credit Guarantee Department (ECGD) would allocate at least £50 million per year to cover renewable energy technologies. However, a comprehensive cross-departmental review of the Government’s international activities relating to energy should be implemented in order to ensure consistency with the Government’s domestic targets. This would also assist in moving forward on the Government’s response to the G8 Renewable Energy Taskforce recommendations.

## **5 CONCLUSION**

This submission outlines the key points that the UKBCSE wishes to make to the formulation of the Energy White Paper. It is deliberately brief but the UKBCSE would be pleased to explore its proposals in more detail with the White Paper team.

September 2002

*The views expressed in this paper cannot be taken to represent the views of all parts of all the companies in the UK BCSE. However, they do reflect a general consensus.*

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<sup>2</sup> 10 September 2002. See <http://www.ofgem.gov.uk/public/pub2002.htm> for the full speech