

PRASEG inquiry on the Energy White Paper

Response by the UK Business Council for Sustainable Energy

Introduction

The UK Business Council for Sustainable Energy welcomes the opportunity to be involved in this inquiry.

The Council's general view of the White Paper is that it is a good start and set's out a useful vision of where the Government wants to get to but lacks the definitive policy measures to indicate how the government intends to get there. The key to delivering the aspirations will be the further round of reviews, working groups and consultations that have been set in train by the White Paper.

Response to Specific Questions

The Council's three policy papers released in December 2002 entitled '*Energy Efficiency*', '*Planning for Sustainable Energy*' and '*Moving to a Low Carbon Economy*' cover many of the questions raised by PRASEG. Copies of these are included with this submission and are referred to, where relevant, below.

The Government's approach in the White Paper is based on modelling work that suggests the switch to a low carbon economy can be done at little or no cost to the economy. Have you reviewed their modelling work? Do you consider it robust and realistic?

The UKBCSE agrees with the general conclusions of the Energy White Paper modelling - and that done by numerous other bodies - that the UK can move to a low carbon economy at a relatively low cost to the economy.

However, it is important to note that this conclusion is only reached with a balance of technologies and action on both the demand and supply side. Failure to deliver a balanced mix of actions and in particular failure to deliver demand reductions will dramatically increase the cost of delivering a low carbon economy.

It has been suggested that targets for renewables, CHP and energy efficiency post 2010 are inappropriate at this stage? Is this a view you share? What impact (if any) do you consider the absence of targets will have?

The Council's members believe that whilst long term targets are important, it is also important to ensure that good progress is being made towards current targets in order to increase confidence in the achievement of any new and higher targets. The Council also takes the view that what is important is the achievement of long term greenhouse gas reduction targets, rather than just measuring 'success' by the installation rate of a particular technology. Long term targets must therefore be based on a clear understanding of what they are designed to achieve, and be matched by the specific instruments needed to achieve them.

Do you consider that the measures set out in the White Paper will deliver the 'step change' in energy efficiency that the PIU called for? If not how should this be achieved?

The aspirations in the White Paper to deliver savings of some 15-25 MtC over and above those expected by the current UK Climate Change Programme will require an improvement in energy efficiency some 2_ times the historical rate. This will require innovation in the delivery of energy efficiency services to exploit the potential that exists. The White Paper does not make clear how the Government intends to achieve this, over and beyond its reliance on an extension of existing policies (doubling the Energy Efficiency Commitment (EEC), tightening building regulations etc) to meet these challenging goals.

The Council's policy paper '*Energy Efficiency*' outlines a package of measures that we believe will help incentivise the take-up of energy efficiency. Two of the most important measures in this paper are:

A Revised Energy Efficiency Commitment: The EEC should move to a more market based mechanism that enables the carbon saving potential of energy efficiency investment to be rewarded. This could be achieved through a trading scheme that provides carbon credits to energy suppliers who stimulate energy efficiency investments by their customers. In effect this would be a development of the current Energy Efficiency Commitment scheme that sets energy saving targets for suppliers. Revision of the EEC will also need to take account of the emerging emissions trading market in the UK and across the EU.

Relaxation of the '28-Day Rule': The existence of the 28-day rule is seen as a barrier to the development of more innovative ways of delivering energy efficiency through, for example, the development of Energy Services. Suppliers are currently unwilling to develop these types of services as they are unable to sign long-term contracts with consumers (due to the 28-day rule) and develop packages that enable them to recoup their investment over a number of years.

The 28-day rule is not an absolute barrier to the development of Energy Services but, like many forms of regulation, it raises costs and the price of offering an Energy Service, making it a less attractive proposition.

The Council believes that there is a strong case for giving domestic consumers the freedom to opt for a longer-term energy supply contract, with the appropriate safeguards in place, which would then offer increased scope for the development of energy service packages.

Renewables have been given a central role in the post White Paper energy landscape. Do you consider this realistic? Will the 10% by 2010 target be met on the basis of current measures? If not, what more do you believe needs to be done.

On current trends it is unlikely that the 10% target will be reached. Achieving it requires the installation of some 1250 MW of capacity annually yet to date the UK has only installed 1200 MW in total (excluding large Hydro). This is clearly a challenge and a number of things will need to happen if the 10% target is to be achieved.

Firstly the revision of planning guidance needs to happen very quickly to avoid more delay in getting projects developed (see below for details on what the revised guidance should contain).

Secondly, decisions need to be taken now about the right mechanism to incentivise the development of the necessary infrastructure to support the development of these projects. It may also be necessary to look at support mechanisms in addition to the Renewables Obligation to bring technologies on faster. The 2005/06 review will be key to understanding its effectiveness at bringing on the range of technologies needed to meet the targets.

What else do you believe should be done to ensure the Government achieves its target of 10 GW from CHP by 2010, or do you feel that there are now sufficient measures in place to secure the goal?

The White Paper has done nothing to improve the market conditions for CHP and urgent action is needed to avoid the UK losing a key low carbon technology. One of the main measures that is needed is exemption of CHP from the Renewables Obligation base. This will remove the anomaly whereby a 'light-green' technology is subsidising a 'dark-green technology' and help to bring forward low cost carbon reductions.

What implications do you feel the proposed EU emissions trading regime will have for your work and the delivery of a low-carbon economy?

The introduction of the EU Emissions Trading scheme will be a major driver for the delivery of a low-carbon economy, particularly as its coverage will bring in the generation sector. The introduction of trading will start to send a signal

that carbon emissions have a financial cost attached to them and that reducing carbon emissions has a financial benefit.

The Council supports the introduction of the EU Emissions Trading Scheme and believes that the valuation of carbon and carbon trading will need to become a major plank of future energy policy. However its introduction will need to be managed carefully to ensure there is a smooth transition to a more carbon constrained market. In addition there are questions surrounding the integration of emissions trading with the other 'climate policy' instruments that must be addressed.

Media commentators have suggested that the nuclear option is 'on hold' for five years to see if sustainable energy can deliver. Do you share such a view? Are you confident that sustainable energy will deliver?

The Energy White Paper has laid down a challenge both in terms of long-term carbon reductions and the contributions that energy efficiency and renewables can make to meeting the targets. It is also clear that if in the next few years a step-change in the deployment of these technologies is not achieved then the government will need to look at other measures to deliver its aspirations. Sustainable energy can deliver if it is given the right support from all levels of government and getting that support will be key to ensuring that renewables and energy efficiency do deliver.

Are you satisfied with the current departmental split between the DTI and DEFRA? If not, what would you like to see happen? What do you think the long-term role should be of the Energy Saving Trust, the Carbon Trust and Renewables UK? Should they all remain separate.

It is clear that delivering the aspirations in the Energy White Paper is going to require co-ordinated action at government level not just between DTI and DEFRA but also with the ODPM and the Treasury both of whom have key roles to play. It is also clear that delivering the White Paper itself required a level of joined-up government perhaps not seen before in the energy policy arena.

What changes to the planning system do you think are needed to help assist sustainable energy options?

The planning system has a key role to play in delivering the governments sustainable energy targets. The UKBCSE policy paper '*Planning for Sustainable Energy*' lays out in more detail what we see as the key issues for developing the planning system. The two main measures are: revising the current planning guidance for renewables (PPG22) to ease the problems faced by some developments; and more 'positive planning' for sustainable energy across the planning system.

Reform of PPG22: The current PPG22 needs to be revised to take a more positive stance on the use of sustainable energy technologies and including a general presumption in favour of sustainable energy developments.

In particular, the emphasis needs to be changed from the developer needing to justify why the development does not impact the local community significantly, to opponents justifying why the development does have a detrimental impact at local level which overrides any broader national benefits. It should provide real practical help to local planning authorities and encourage a positive approach to sustainable energy in recognition of the national commitment to sustainable development. This should be reflected in the planning policies and guidance across Wales and Scotland as well as England.

Positive Planning: The current process of revising planning guidance provides the opportunity for the planning system as a whole to be more positive towards the development of sustainable energy. PPG22 is very much about guiding the development of large-scale stand alone renewable projects but this does not recognise the potential for small-scale energy technologies to be integrated into other developments. Guidance for the development of housing and other buildings should require that, wherever possible, new developments include some form of sustainable energy generation within their design, e.g. solar panels or CHP that can not only supply the development in question, but may also provide sustainable energy to surrounding buildings and the local community.

What is your analysis of the performance of OFGEM in helping to deliver an increase in sustainable energy? What changes to our transmission, distribution and supply systems do you think are necessary to help deliver the White Paper?

OFGEM's prime objective is to *'protect and advance the interests of consumers present and future.'* OFGEM see this being achieved by developing highly competitive energy markets that result in low prices to consumers. In this respect OFGEM have been successful.

OFGEM have also been successful in delivering the administrative and reporting procedures required under the Renewables Obligation, Climate Change Levy etc. However it cannot be said that OFGEM have been proactive in helping to deliver an increase in sustainable energy. If the targets within the White Paper are to be achieved OFGEM are going to need to view sustainable energy differently and pro-actively support its development. This will probably require a change in legislation to redefine the objectives to increase the weight that OFGEM must give to the environment in exercising its duties.

The UK's transmission and distribution networks are not designed to accommodate the large number of small-scale (relatively) remotely sited developments that will be needed to meet the White Paper targets. Incentivising the investment that is needed to develop the necessary infrastructure is key to taking forward the White Paper targets. Swift action is needed through the Distribution Price Review and the work of the

Transmission Issues Steering Group to ensure that the right incentives are in place to allow for the necessary infrastructure developments to take place.

Conclusion

The Council welcomes this opportunity to respond to PRASEG's inquiry. It is a timely and considered initiative. The Council would be willing to give evidence directly as well.

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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.