

LORD WHITTY SPEECH TO UKBCSE

I am very pleased to be here today and that Patricia Hewitt came here to kick off the conference this morning and set out the goals of our new energy policy. The cheapest, cleanest, safest way of addressing these objectives is to simply use less energy. The financial and environmental benefits of doing so are clear. Better insulated buildings and more energy efficient work places reduce energy use and cut energy bills for householders and business. And we know that energy efficiency works – over the last thirty years our economy has doubled in size but overall energy use has barely increased.

But we also know we still need to do more. We will have to improve energy efficiency far more in the next twenty years than we have done in the last twenty if we are to meet the challenging goals set out in the White Paper. More than half the emissions reductions - around 10 Mtc per annum by 2010 – to come from energy efficiency. And looking ahead we believe that energy efficiency can contribute around half of the additional 15-25 Mtc savings we are likely to need by 2020 – with half to come from households, the other from business and the public sector. To put this into perspective, savings of this magnitude would represent roughly a doubling of the energy efficiency improvements already achieved over the last thirty years.

So, how are we going to achieve this? We need to recognise there will be a step change in energy efficiency right across the economy. Clearly, we will need a mixture of measures and policy instruments.

For business, the new EU emissions trading scheme will play a central role from 2005. By setting strict limits on carbon emissions, it will spur large energy users to find ways to reduce emissions – and greater energy efficiency is likely to be the most cost-effective means of achieving this. Overall, we believe emissions trading has the potential to save a further 2-4 MtC by 2020. However, we will need to work closely with Europe to ensure that the detailed implementation plans for the scheme help deliver this order of outcome.

We will also need to manage the transition from our existing domestic trading scheme into the EU scheme. Only last week, Michael Meacher announced that nearly a thousand companies have already transferred over seven million tonnes of carbon dioxide through the UK Emissions Trading Scheme – that is the first clear confirmation that this has been a very successful first year for the Scheme. Through participation in the domestic scheme, UK firms will also have gained valuable experience of trading in environmental markets which will serve them well when the EU scheme is introduced.

The Climate Change Levy can also act as a powerful incentive for businesses to reduce their energy use. Linked to the levy, the Climate Change Agreements with energy intensive industries have also already been a notable success story. They have delivered a total reduction in CO₂ emissions of 13.5 million tonnes against an estimated 2000 baseline (or 15.8 million tonnes against pre-2000 baselines). Of 12,000 individual sites covered by CCAs, 10,500 (88 per cent) met targets and have had their Climate Change Levy discounts renewed. This is quite a success in the first year and clearly shows that real gains in energy efficiency can be achieved in a cost-effective way.

The other area I want to talk about is energy efficiency savings delivered by Combined Heat and Power. We remain committed to our target of 10,000 MW of installed Good Quality CHP. Nevertheless, we recognise that CHP faces very difficult market conditions

at present and in the White Paper we therefore announced a range of further support measures which will help put us back on track to achieve our target. These include:

- Reviewing existing power station consent guidance to ensure applicants have considered all economically viable options for CHP and community heating;
- Working with Ofgem to ensure that NETA does not discriminate against smaller generators; and
- Supporting field trials to evaluate the benefits of Micro-CHP.

All these measures will be developed in the final version of our CHP Strategy which will be published later this year and we will continue to engage in a constructive dialogue with the industry.

Helping us to deliver that target is the £50m Community Energy programme, which provides support for schemes that link several buildings to a single heat source, mainly using CHP. I am pleased to announce today that the third bidding round has built on the strength of the earlier rounds and that eleven new schemes costing £26m have been approved by government and with Government support of £6.7m. Government support is therefore being matched almost three to one from other sources and will add 23 mega watts of CHP capacity, delivering carbon savings of almost 13,000 tonnes. We will also extend the duration of the bidding rounds under the programme into a third year, 2004-5, to ensure that all the resources available from Government are fully taken up and to allow time for fresh ideas to be fully developed. This will help ensure a steady stream of quality bids as with those that were successful with this 3rd bidding round. The successful schemes will benefit all sorts of people in many communities, including the elderly and schoolchildren. As well as providing heat they will make cost-effective energy savings.

The Carbon Trust will also continue to offer advice and information to businesses to accelerate the take up of energy efficiency measures – through their ‘Action Energy’ programme, the provision of interest-free loans to small businesses and supporting and stimulating innovation in new low-carbon technologies. And I am pleased to say that, in spite of heavy pressure on Defra's overall spending, we have maintained the budgets of both the Carbon Trust and the Energy Saving Trust. We also made clear in the Energy White Paper, and also when I approved the funding by Defra for this years work programme, the importance we attach to the work of the Carbon Trust in helping us achieve our CHP target.

In the domestic sector, we have already introduced the Energy Efficiency Commitment placing energy-saving targets on domestic energy suppliers which run until 2005. Targets can be met by encouraging householders to install energy saving measures, for example by subsidising the cost of installing insulation or fitting energy efficient lighting.

After a year, the current Commitment has got off to good start. The energy suppliers have responded positively to the Commitment and have made good progress towards achieving their own targets to promote improvements in domestic energy efficiency. The Government wants this good work to continue and for energy saving to become an integral part of suppliers’ long-term business strategies in a way which perhaps had not been in the past. Ofgem monitoring of the EEC shows that it is on course to deliver the predicted carbon savings.

We will be consulting on an expansion of the EEC to run from 2005 to at least 2008, at possibly twice its current level of activity. We have already started discussions with stakeholders so we can deliver “EEC2” in a viable way.

The operation of building engineering services such as space heating, hot water, mechanical ventilation, air conditioning, lighting etc consumes energy responsible for about 46% of total national carbon dioxide emissions - 27% from the domestic sector and 19% from the commercial and industrial sector. It is therefore vital that when looking for energy efficiency savings we do not neglect the vital role building standards have to play.

At present, and even taking into account recent revisions of the Building Regulations, building standards elsewhere in Northern Europe remain higher than in the UK. For example, a detached house built to the latest standards in England and Wales consumes 20% more energy than an equivalent home in Denmark. We will therefore continue to raise standards over the next decade, learning lessons from comparable countries elsewhere in Europe.

That process will begin with the next major revision of the Building Regulations – we have already started work and will aim to bring the new requirements into effect in 2005. We will also use the Regulations to further raise the standards required for new and replacement boilers to the level of the most efficient A and B rated condensing boilers.

We do not pretend that this timetable won't be challenging and achieving these bigger, faster changes will require the concerted efforts of all the key stakeholders – customers, architects and designers, the construction industry, manufacturers and suppliers, the professional bodies, energy companies and, of course Government itself. We will therefore be bringing all these players together at the Better Buildings Summit on 21 October this year to consider how best we can improve the sustainability of all aspects of construction.

This will require new skills as we move towards a low carbon economy employing new and innovative technologies. We therefore welcome the proposed creation of an Energy Utility Sector Skills Council and look forward to Working with the Council and the Sector Skills Development Agency to develop new ways of enhancing the skills and training of employees in all aspects of the energy efficiency industry.

We must also not forget the vast range of energy-hungry products with which now fill our homes. Each year we spend £5 billion on electricity to power lights and appliances. That's about a quarter of total UK electricity consumption. We need to ensure that these products are as energy efficient as possible. We need to remove the least efficient products from the market, develop improved products and make it easier for consumers to choose the most efficient. Product standards are usually set at a European-level and we will therefore to continue to work within the EU to further improve product standards.

In Government firmly believe that we must also practice what we preach and take steps to ensure improved energy efficiency in the public sector. We already have an interim target to reduce carbon emissions from the Government estate by 1% a year and we will be setting new targets this year, including a new target for the use of CHP-generated electricity. We will also continue to work with local authorities to deliver energy efficiency improvements at a local level.

So, I think it is clear that delivering the energy efficiency savings that we envisage over the next twenty years will undoubtedly be challenging. No single measure that on its own can

deliver those savings but we believe that the package of measures which we have set out in the White Paper, including those to support CHP, will put us firmly on track. However, if we are to succeed we will also need stakeholders from right across the economy to demonstrate the same sort of commitment and engagement that the UK Business Council on Sustainable Energy has shown in their leadership in helping us to take forward these issues. From energy suppliers to energy consumers, from multi-national companies to individuals, only by working together in partnership will we achieve our important goals – goals which I know all of you share. Thank You