

EIUG welcomes the attempt to clarify the contribution the Gas and Electricity Markets Authority (Ofgem) is expected to make in supporting the government's social and environmental policies and the opportunity for consumers to comment on the draft guidance.

EIUG agrees with the proposition that Ofgem should have a facilitating role to helping achieve social and environmental aims, and equally that it would be counterproductive for the government to specify in detail how this should be done.

EIUG believes that maintaining secure, internationally competitive energy supplies is essential for any modern economy to thrive and that, without economic growth, reductions in fuel poverty and environmental improvements will be harder to achieve. We therefore believe that energy policy objectives should be prioritised accordingly.

The government has stated that it believes its economic and environmental objectives, specifically those to reduce anthropogenic CO₂ emissions, can be achieved together. Whether this assumption is reasonable depends on international factors only partly within the influence of the UK government. We note that the world's largest economy, the USA, will not ratify the Kyoto protocol to limit greenhouse gas emissions; nor will Australia; that the Russian position is currently in doubt; that the protocol places no practical limits on the emissions of any developing country; and that there is no international consensus as to what restrictions might realistically be applied after 2012. So long as these circumstances persist, the assumption that substantial cuts in CO₂ emissions can be achieved without damaging competitiveness, as envisaged by the RCEP, is untenable. Whilst supporting the government's efforts to press for international action, we believe the immediate priorities for energy policy should reflect this reality, as should any related guidance to Ofgem.

EIUG believes that energy mix should be market led. Recent government pronouncements on renewables, particularly offshore wind generation, have come perilously close to the practice of 'picking winners' that has proved so costly to consumers in the past. The draft guidance states that 'investment in renewables is needed now ... to meet our longer term carbon targets'. Yet the evidence is to the contrary, as there is no technical reason why future low carbon energy supplies should not continue to come from nuclear as well as, or in preference to renewable sources. As the government is well aware, the UK cannot satisfy its existing international commitments to reduce CO₂ emissions, let alone its more ambitious long-term objectives, without a continuing nuclear component in generation for the foreseeable future. The guidance to Ofgem should not obscure this reality.

It might assist Ofgem in its duties if the government expressed its opinion as to how environmental benefits of reductions in CO₂ emissions might best be

quantified. An obvious option would be to refer to the forward price of carbon in the EU market, assuming the emissions trading scheme becomes active in 2005 as planned. The market price can be expected to reflect progress in key industrial sectors relative to existing UK/EU targets, but would this necessarily be the most appropriate reference point for analysis purposes?

EIUG supports the removal of artificial barriers to participation in the electricity market and welcomes the ongoing work by Ofgem and others to accommodate the needs of industrial CHP, which makes an important contribution to energy efficiency. We would not expect Ofgem to be put under pressure to intervene where barriers to participation are purely commercial, e.g. where a particular form of generation is demonstrably uneconomic. It is important to consumers that, should subsidies be required to meet the government's environmental objectives, they should be explicit and fully reflect externalities (such as the costs of intermittency) that would otherwise be borne by other market participants.

EIUG supports the proposition that 'social or environmental measures which would have significant implications for consumers ... will be implemented by Ministers'. Such changes should clearly remain a government responsibility, not that of a market regulator.