

Q1. What more could the government do on the demand or supply side to ensure that the UK's long-term goal of reducing carbon emissions is met?

EIUG accepts that the UK has a significant role to play in facilitating a long-term transition towards a low carbon global economy. However, for this to be sustainable:

- Security of supply should be restored to being a priority objective of energy policy – not subordinated with respect to environmental objectives.
- All sections of the economy should be required to contribute to reductions in emissions – not just industry.
- Measures that impact on energy intensive industries exposed to international competition should be proportionate and result in a net reduction of global carbon emissions, not merely their redistribution to other parts of the world.

Government initiatives to encourage this transition should be economically efficient and free from ideological constraint, so as to deliver best value for money for the consumers that are obliged to fund them. Current measures that fail this test include:

- A 'Climate Change' levy that perversely taxes sales of electricity from low carbon sources (e.g. nuclear) at the same rate as carbon-intensive sources (e.g. coal) and applies only to business consumers whilst exempting the domestic sector entirely.
- A Renewables Obligation on electricity supplies, based around arbitrary and unrealistic targets, which the National Audit Office has confirmed will cost consumers £1bn pa by 2010, and which Ofgem has estimated comes with an implied cost of carbon to consumers in the range £198-£515/tC (by any rational analysis, an exceptionally inefficient means of reducing carbon emissions).
- An EU Emissions Trading Scheme that, as currently constituted, results in windfall profits for the most carbon intensive generators and consequent losses to consumers, fails to ensure emissions are reduced in the short term or to provide the requisite signal to investors that ensures they will be reduced in the long term, and hence risks bringing the practice of emissions trading (which in principle we support) into disrepute internationally.

The current confusion of trading, targets and non-carbon based taxes has succeeded in distorting the energy markets and raising consumer prices, whilst failing to deliver a significant benefit in terms of reduced carbon emissions. EIUG argues that a simpler, more rational approach is needed – ideally built around a single measure to internalise the cost of carbon in power generation (the EU emissions trading scheme, if it can be adequately reformed) but, if necessary, supplemented by a technologically neutral UK support measure (whether in the form of a government-underwritten carbon contract, carbon price guarantee or low carbon obligation on suppliers) to ensure that investors have the long term incentive they need to invest with confidence in competitive low carbon generation.

On the demand side, the government should ensure that domestic consumers are subject to the same sort of incentives to conserve energy as are applied to industry, and receive timely and accurate information on their consumption.

On the supply side, the government should ensure that nuclear and clean coal technologies are able to compete on an equitable basis with other low carbon options.

Q2. With the UK becoming a net energy importer and with big investments to be made over the next twenty years in generating capacity and networks, what further steps, if any, should the government take to develop our market framework for delivering reliable energy supplies?

There is no fundamental reason why the UK should fear import dependence in itself, but the level of risk this poses to consumers depends on the adequacy of import infrastructure (which the market appears to be addressing), long range gas storage (which the market is largely failing to address under the current framework) and the ability to source gas from external markets (many of which are heavily cartelised and/or politicised). This last factor is critical, since the existence of import capacity is not in itself sufficient to ensure that gas deliveries can be relied upon if the right contractual arrangements are not in place at either end of the link.

EIUG strongly supports the efforts of the UK government and Ofgem in pressing for full liberalisation of European energy markets, but progress to date has been disappointing and there is effectively no timetable for completion in which consumers can have any confidence. It is imprudent therefore for the UK government to gamble on European liberalisation solving our energy security needs since the solution, if indeed it ever arrives, is certain to be many years away. Ultimately, if other Member States unable or unwilling to make the necessary reforms, the UK must be prepared to put its own national interests first. EIUG believes transitional arrangements may be required to enable the UK's liberalised markets to function within a largely unliberalised European whole, at least until such time as broad parity in market liberalisation is achieved.

The government should recognise that markets will not deliver the sort of levels of long range gas storage or other 'strategic' infrastructure that is (rightly, in our view) regarded as a social and political necessity in other import-dependent countries. Some form of intervention is therefore required if these facilities are to be built and operated in the UK. The cost of not having access to such facilities, as recent events have demonstrated, is a growing vulnerability of supply, leading to volatile and increasingly uncompetitive consumer prices. The Commission's recent Green Paper contains some broadly sensible proposals on this subject, although the suggested metric for determining the required level of storage may be unduly inflexible, especially for countries like the UK with indigenous production and a diversity of supply sources. The costs of building and operating these facilities would ideally be recovered from the consumer base that most benefits from their existence and use, perhaps through network charges or a compulsory levy on suppliers.

Current energy policy will lead to a very high dependence on gas-fired generation as existing nuclear and coal plant is retired, increasing gas demand at a time when import dependence is already growing rapidly. EIUG believes the government should endorse a balanced energy policy, recognising the potential benefits to security of supply from retaining nuclear base load capacity and a continuing role for coal (especially, but not necessarily confined to, providing peak flexibility), which would reduce some of the risks associated with high gas dependence.

Q3. The Energy White Paper left open the option of nuclear new build. Are there particular considerations that should apply to nuclear, as the government re-examines the issues bearing on new build, including long-term liabilities and waste management? If so, what are these, and how should the government address them?

EIUG supported leaving the nuclear option open at the time that the Energy White Paper was published. Recent developments (increases in gas and oil prices, continued failure of renewables to compete in the absence of massive and continuing subsidies, potential threats to security of imported gas supplies, increasing demand, rising emissions) make the case for new build seem compelling.

EIUG believes that industrial consumers in the UK should have access to the same opportunities for long-term contracts or stake holdings in predictably priced, low carbon power supplies as are available to their competitors in countries like France and Finland, whose governments have already accepted the need to retain and develop base load nuclear power as part of a balanced energy policy.

EIUG does not see why the nuclear industry should require different treatment from other generating technologies, whether in respect of subsidies for fuel production, waste management, decommissioning, or otherwise. However, government has a responsibility to act to address a number of potential barriers to investment in nuclear power, including:

- Streamlining the licensing regime to speed up approval of new designs, particularly where these have already been licensed elsewhere in the EU, the USA or other countries with comparable safety requirements.
- Reforming the planning regime so that local planning inquiries deal with local issues and avoid becoming embroiled in lengthy and costly debate on matters that are more appropriately dealt with at a national level (this principle should apply to nationally significant energy developments generally, not solely to nuclear).
- Adopting a strategy for the long term management of nuclear waste, taking into account the recommendations of the Committee on Radioactive Waste Management.
- Ensuring nuclear power generation is treated equitably with other low carbon technologies in terms of taxation, obligations on suppliers, treatment under national and international carbon trading schemes, and public endorsement by government.
- Providing assurances to potential investors about compensation in the event that government policy towards on nuclear power suffers a fundamentalist reverse.

Addressing these issues would significantly reduce risk to investors and hence the cost of finance (a key factor in determining whether or not capital intensive technologies like nuclear can be competitive).

Q4. Are there particular considerations that should apply to carbon abatement and other low-carbon technologies?

EIUG believes the interests of consumers are best served by maximising the number of low carbon abatement technologies and enabling them to compete on a level playing field. Choice between abatement options should be left to the market wherever possible. The government's current policy of picking losers (wind generation, bio fuel, etc.) and distorting the markets to appease the relevant lobby groups should be abandoned. Technologies that require permanent subsidy are not sustainable – it is improper to compel taxpayers or consumers to support them.

There is a role for government in supporting research to accelerate the development of new carbon abatement technologies, whether in research institutions or private industry. Sustainable technologies do not require further preferential government support to achieve successful commercial exploitation.

The government is right to consider what might be done to develop carbon capture and storage (an abatement option with a potentially massive global significance). It would be unwise, however, to make assumptions as to the rate of progress on CCS, or to attempt to estimate long term abatement costs, on the basis of current knowledge. Policy should not therefore be framed on the assumption that CCS will render carbon free coal or gas fired generation practical or economic within the foreseeable future.

Q5. What further steps should be taken towards meeting the government's goals for ensuring that every home is adequately and affordably heated?

No comments.