



House of Commons
Environmental Audit
Committee

Energy White Paper – Empowering Change?

Eighth Report of Session 2002-03



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written evidence*

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The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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A list of Reports of the Committee in the present Parliament is at the back of this volume.

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References

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by page number as in 'Ev12'.

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Conclusions and recommendations

1. The Energy White Paper represents a major shift in the approach to UK energy strategy. We welcome the priority which it gives to environmental objectives and the extent to which it endorses the role of renewables and energy efficiency in a future energy strategy. (Paragraph 10)
2. By including in the White Paper a specific commitment to a 60% reduction in carbon emissions by 2050, the UK Government has set a clear goal for domestic policy. It has also led the way internationally by emphasising to other nations the need to address the challenge of global warming. (Paragraph 11)
3. We believe that, just as the UK is setting a precedent in terms of adopting a long-term target, it could also exert greater influence over other nations by setting out and promoting more clearly what approach it favours in terms of an international framework for reducing carbon emissions. (Paragraph 13)
4. Departments are already required to screen new policy proposals for environmental impacts and conduct appraisals where necessary. We recommend that they should include within this screening process specific consideration of any implications arising from the adoption of the 60% carbon reduction target. (Paragraph 14)
5. Our fears about implementation have proved largely justified. The Energy White Paper is weak on specific measures and contains little that is new. (Paragraph 18)
6. We find it incomprehensible that the Government was unable to publish an implementation plan as a supporting document to the White Paper. We recommend that the Government does so as soon as possible, and includes within it not only an implementation plan for energy efficiency but a similar plan for renewables. (Paragraph 20)
7. The existing target in the Public Service Agreements of both the Department of Trade and Industry and Department for Environment, Food and Rural Affairs for carbon reductions is very weak. The Government should strengthen it and accord it far higher priority, particularly with regard to the Department of Trade and Industry. It should also incorporate the 20% renewables aspiration as a target in both Public Service Agreements. (Paragraph 27)
8. We note that the Government plans to review the operation of the Renewables Obligation in 2005-06. It should do so earlier. It should also clarify at the earliest opportunity how the Obligation will relate to other policy instruments. (Paragraph 29)
9. The Government does not have a strategy for other renewables, including biomass and solar photo-voltaic, which adequately reflects the massive challenge posed by the objectives set out in the White Paper. (Paragraph 34)

10. The development of an implementation plan for renewables will provide an opportunity for the Government to set out how it intends to achieve its aspirations. (Paragraph 34)
11. It is disappointing that there has been so much delay in issuing revised planning guidance on renewables (formerly PPG 22). We urge the Government to publish it as soon as possible. (Paragraph 35)
12. Given the importance of energy efficiency in a future energy strategy, the Government must include a clear overall target and specific sectoral targets within the energy efficiency implementation plan which it is developing (Paragraph 39)
13. We urge the Government to take into account the comments made on its draft CHP strategy and publish a final strategy as soon as possible. (Paragraph 44)
14. We recommend that the Treasury re-examines as soon as possible the possibility of introducing a reduced rate of VAT for micro-CHP. (Paragraph 47)
15. We urge the Government to ensure that sufficient funding is available to deliver the 50% increase in current fuel poverty programmes recommended by the Fuel Poverty Action Group. (Paragraph 50)
16. The Government must re-evaluate the effectiveness of schemes to address fuel poverty, and ensure that—in the longer term—the domestic sector bears its proper share of the costs of reducing greenhouse gas emissions. The best way forward is for the Government to initiate a proper public debate on this issue. (Paragraph 53)
17. In reviewing the building regulations, the Office of the Deputy Prime Minister must incorporate not only far higher standards of energy efficiency requirements, but also requirements for the use of renewables where possible, with a view to moving towards zero space heating requirement for buildings. (Paragraph 55)
18. Large-scale investment is likely to be needed to modernise the grid to accommodate higher levels of distributed processing and major new sources such as offshore wind farms. This needs a clear strategy and charging framework. The White Paper does little to resolve these major issues or give direction to Ofgem. (Paragraph 58)
19. Responsibilities for all forms of generation should be brought together within Ofgem in order to provide a coherent approach to charging issues and enable an appropriate balance to be struck between the interests of new and traditional forms of generation. (Paragraph 59)
20. Ofgem's next distribution price review, to be completed in 2005, will be of enormous importance. The Government should set out clearly, as a fundamental objective for the price review, that positive and substantial incentives must be provided for all forms of renewable and distributed generation. (Paragraph 60)
21. The creation of yet more ad hoc groups, such as the Sustainable Energy Policy Network and the Sustainable Energy Policy Advisory Board, does not provide an

effective response to the Performance and Innovation Unit's criticism that the present allocation of departmental responsibilities is incoherent. These new groups are likely simply to add to the confusing plethora of bodies and organisations already involved in the energy sector. (Paragraph 76)

22. The Government should alter the objectives of the Department of Trade and Industry so as to place a higher importance on environmental objectives in any trade-off with economic or social objectives, in line with the recommendation made by the Performance and Innovation Unit. This change must also be fully reflected in the Department of Trade and Industry's Public Service Agreement. (Paragraph 77)
23. We highlighted last year our conviction that a transition to an environmentally benign energy system could not be achieved on the basis of unsustainably 'cheap' energy, as the Prime Minister's foreword to the PIU report indicated was a priority. The Government's approach remains inconsistent, and the price of energy is likely to rise. (Paragraph 80)

Introduction

1. In its drive to put sustainable development at its heart, over the last 6 years the Government has put in place various strategies—including, for example, an overarching sustainable development strategy, a climate change strategy, and an air quality strategy. An energy strategy has been conspicuous by its absence—an omission which the Energy White Paper now seeks to address.

2. The Energy White Paper concludes a long process of consultation and reports. One of the earliest of these—the study conducted by the Royal Commission for Environmental Pollution (RCEP) and published in June 2000—was seminal, setting out the need for a dramatic reduction in carbon emissions and presenting hard choices through a series of different future energy scenarios.¹ Subsequently, the Cabinet Office Performance and Innovation Unit (PIU—now the Strategy Unit) produced in February 2002 its own report to help inform the Government response.² The PIU conducted a thorough consultation on the basis of a series of excellent briefing notes, and around 400 submissions were received.³ In turn, this was followed by yet another major consultation conducted this time by the Government itself, and on 24 February 2003 the Government finally published the long-awaited Energy White Paper.⁴

3. Parliament too has been actively exploring this issue. Our July 2002 report, *A Sustainable Energy Strategy? Renewables and the PIU Review*, examined the requirements of an energy strategy in the light of the PIU report, and focussed in particular on renewables.⁵ This followed an earlier report on Energy Efficiency which the EAC published in 1999.⁶ The Trade and Industry Committee and the Science and Technology Committee have also reported on energy issues over the last two years.⁷

4. The Government provided its formal responses to the reports of both our report and the RCEP on the day the Energy White Paper was published.⁸ At the same time, the Environmental Audit Committee announced that it would hold a follow-up inquiry on the Energy White Paper.⁹ The main aim of this inquiry was to investigate the extent to which the Energy White Paper met the recommendations of key previous reports—including those of the Committee itself, the RCEP, and the PIU.

¹ Twenty-second report of the Royal Commission on Environmental Pollution, *Energy – the Changing Climate*, June 2000.

² *The Energy Review*, Performance and Innovation Unit (Cabinet Office), February 2002.

³ *Ibid.* Paragraph 1.10. Annex 3, however, lists over 550 organisations which submitted responses or were consulted.

⁴ The Energy White Paper, *Our energy future – creating a low carbon economy*, February 2002, Cm 5761.

⁵ Fifth Report of Session 2001-02 from the Environmental Audit Committee, *A sustainable energy strategy? Renewables and the PIU review*, HC 582, July 2002. References to the Committee are abbreviated hereafter to 'EAC'.

⁶ Seventh Report of Session 1998-99 from the EAC, *Energy Efficiency*, HC 159, July 1999.

⁷ Second Report of Session 2001-02 from the Trade and Industry Committee, *Security of Energy Supply*, HC 364, February 2002. Fourth Report of Session 2002-03 from the Science and Technology Committee, *Towards a non-carbon fuel economy: Research, Development and Demonstration*, HC 55-1, April 2003.

⁸ Second Special Report of Session 2002-03 from the EAC, *Government Response*, HC 471, March 2003.

⁹ EAC press notice, *Responses to the Energy White Paper*, 24 February 2003.

5. We received over 25 memoranda from various organisations, and also took evidence from Brian Wilson, the Minister for Energy, on 2 April. The DTI subsequently provided a supplementary memorandum in response to further written questions.

The strategy

The vision

6. The impact of climate change is in danger of becoming a cliché. Yet for all that it is real and potentially catastrophic. Current projections are based on mathematical models, and yet the parameters underpinning them and the complex interaction between these parameters are inadequately understood. Huge potential changes could result from, for example, the cessation of the Gulf Stream, the melting of the West Antarctic ice sheet, or the release of methane locked in the Arctic seabed, within the lifetime of those already born.¹⁰

7. There is a broad scientific consensus that man-made emissions of greenhouse gases are a major contributor to global warming. On the basis of the available scientific evidence, the RCEP concluded that carbon dioxide levels should be contained globally to 550 parts per million (ppm)—twice their pre-industrial level and a substantial increase on the existing level of 370 ppm—if the most damaging effects of climate change were to be avoided.¹¹ Even if this were to be achieved, the global temperature increase could still range from 2C to 5C and regional impacts could be significant. More recent evidence suggests that even this limit could give rise to more serious effects than previously thought.¹²

8. For developed nations, limiting emissions globally to 550 ppm is likely to require a reduction of 70% from current levels (60% for the UK).¹³ The Kyoto agreement represented a first step in this direction, but the difficulty of achieving an international agreement limited the scale of the targets adopted—and indeed the Protocol has still not come into legal force. The UK's own target for the first commitment period (2008-12) is only 12.5% against the 1990 baseline, and the UK is in the fortunate position of having met this target already partly as a result of the “dash for gas” in the 1990s. But if more challenging reductions are to be achieved, the UK and other developed nations will need to develop radically new energy strategies based not on fossil fuels but on renewable sources of energy and on using energy more efficiently.

9. In the long process of public discussion and consultation following the RCEP report, a broad consensus has emerged that priority needs to be given to environmental objectives in UK energy policy, and that renewables and energy efficiency—if pursued with sufficient commitment—could make up for the shortfall caused by the decline of our nuclear and

¹⁰ The Energy White Paper, p23. See also the speech by Michael Meacher at Newcastle University on 10 February 2003, entitled *Earth, Wind, Fire Water, God – A statement of concern*. A full text of the speech can be found at: <http://www.gci.org.uk/speeches/Meacher.pdf>.

¹¹ *Energy – the Changing Climate*, RCEP, June 2000.

¹² *Third Assessment Report of the Intergovernmental Panel on Climate Change*, IPCC, 2001.

¹³ *Energy – the Changing Climate*, RCEP, June 2000.

coal fired-power stations. This was the major theme of the PIU report (February 2002), endorsed strongly by the EAC in its July 2002 report, *A Sustainable Energy Strategy?*, and now finally by the Government itself in the Energy White Paper.

10. The Energy White Paper represents a major shift in the approach to UK energy strategy. We welcome the priority which it gives to environmental objectives and the extent to which it endorses the role of renewables and energy efficiency in a future energy strategy. Much of the language of the White Paper, the vision and the aspirations expressed in it, is very positive in this respect. Though we have concerns about the absence of specific details, we accept the point made by the Minister in his evidence to us—that one should not underestimate its significance and that the strategic level at which it was pitched was therefore appropriate.

The 60% target for 2050

11. The Government's commitment to a new direction in energy policy is specifically reflected by its adoption of a long-term carbon reduction target—in direct response to the RCEP recommendation.¹⁴ **By including in the White Paper a specific commitment to a 60% reduction in carbon emissions by 2050, the UK Government has set a clear goal for domestic policy. It has also led the way internationally by emphasising to other nations the need to address the challenge of global warming.** The Government deserves praise for doing so.

12. The impact of this internationally was reflected in comments made by the Chairman and members of the Environment Committee of the Canadian Federal Parliament, when they came to give evidence to us on another inquiry. In referring to the Government's 60% target for 2050, the Chairman stated:

“We would like, as parliamentarians, to congratulate you for your initiative, which we find far reaching and very enlightened and it sends out a signal also to us in Canada, which we will take seriously. We would like also to congratulate not only you in this room but outside this room those in the Energy Department of the UK who produced the White Paper in which the target of 2050 is elaborated for a reduction of greenhouse gases by 60 per cent. Although the choice of 2050 is a very bold initiative it forces us to think into the future more than we usually do and that 60 per cent reduction is a stunning item”.¹⁵

13. However, the RCEP pointed out that the 60% target was in the context of an international agreement to a “contraction and convergence” (C&C) framework, and it recommended the adoption of such an approach, combined with international trading in emission permits, as offering the best long-term prospect of securing equity, economy and international consensus. The Energy White Paper says nothing about the latter, and the Government response to the RCEP recommendation is non-committal, citing C&C as only

¹⁴ The Energy White Paper, paragraph 2.12.

¹⁵ Oral evidence given to the EAC on 26 March 2003 in relation to its inquiry on the World Summit for Sustainable Development. See HC98-139, Q309 (forthcoming).

one of a number of possible approaches which could be adopted.¹⁶ While we understand the need for some flexibility in international negotiations, we are aware of the difficulties of achieving a consensus. **We believe that, just as the UK is setting a precedent in terms of adopting a long-term target, it could also exert greater influence over other nations by setting out and promoting more clearly what approach it favours in terms of an international framework for reducing carbon emissions.**

14. The adoption of a 60% target also has considerable implications for domestic policies. The White Paper clearly addresses some aspects of this—such as the proposal to bring forward the review of building regulations. However, there are other major areas, particularly relating to the continuing growth in the transport sector, which present far greater challenges and remain largely unaddressed. A specific example of this is the future expansion in aviation which is the subject of a separate inquiry by the Environmental Audit Committee.¹⁷ While the White Paper includes a proposal for integrating carbon screening within regulatory impact assessments,¹⁸ this is still insufficient. **Departments are already required to screen new policy proposals for environmental impacts and conduct appraisals where necessary. We recommend that they should include within this screening process specific consideration of any implications arising from the adoption of the 60% carbon reduction target.**

A lack of substance?

15. The strategic vision which the White Paper offers is laudable. However, in our report last year, we expressed strongly the view that the Energy White Paper should not simply be a bland statement of policy, as there had already been a huge level of detailed consultation in this area through the RCEP report and the PIU. Instead, we argued that it should constitute an action plan, setting out clearly and specifically how the Government intended to achieve its objectives.¹⁹

16. In this context, we expressed concern that the DTI consultation—launched following the publication of the PIU report—would fail to take forward the debate and was in danger of simply revisiting all the issues which the PIU themselves covered.²⁰ We note that Brian Wilson, in his last speech as Energy Minister, stated in the House that he did not understand why the DTI had embarked on its May 2002 consultation, endorsing our own concerns on this point—which the Government response to our report has done nothing to allay.²¹

17. The need for urgent action is highlighted by the scale of the challenges facing the UK. We forecast last year that the Government would miss its renewable target of 5% by 2003, and was unlikely—on the basis of present trends—to reach more than half the 10% target

¹⁶ *The UK Government Response to the Royal Commission on Environmental Pollution's Twenty-Second Report*, Cm 5755, February 2003, page 3.

¹⁷ EAC press notice, *Budget 2003 and Aviation*, 1 April 2003. The Committee's report is to be published shortly.

¹⁸ The Energy White Paper, paragraph 9.12.

¹⁹ EAC, *A Sustainable Energy Strategy? Renewables and the PIU Review*, HC 582-I, 2001-02, paragraphs 118-119.

²⁰ *Ibid.* Paragraph 115.

²¹ House of Commons Hansard, 12 June 2003, col 350 WH – see also Second Special Report of Session 2003-03 from the EAC, Government Response, HC 471, March 2003, page 13.

for 2010. Similarly, a huge step change in energy efficiency improvements is also required if the Government's energy strategy is to be realised. The Government has acknowledged these points, referring to the “extremely challenging” nature of the 2010 targets, and more generally to the “massive challenge” posed by the White Paper.²²

18. Our fears about implementation have proved largely justified. The Energy White Paper is weak on specific measures and contains little that is new. As the Energy Minister himself acknowledged, the DTI consultation following the PIU report was a waste of time.²³ Resources could have been better used to plan in detail how it was to achieve the hugely challenging objectives it intended to set. It remains largely an act of faith on the Government's part that present policies, with their reliance on market mechanisms, will in fact deliver.

19. The White Paper does in fact include a commitment to publish an implementation plan for energy efficiency, though this may not be for another year.²⁴ It does not include a similar commitment for renewables—despite the complexity and range of the various activities, initiatives, and processes which need to be coordinated in order to boost their implementation. We are also alarmed at any suggestion that renewables might have perhaps five years to prove themselves.²⁵ Renewables are likely to assume an ever increasing importance in the context of the UK's growing dependency on imported energy. The Government needs to be fully committed, and we would like to see this commitment reflected in an implementation plan which would provide leadership, direction and confidence that the strategic objectives can be achieved.

20. The Minister, in his evidence to us, downplayed the extent to which the Energy White Paper should contain detailed targets and specific proposals, given the radical strategic change in direction which it heralded.²⁶ While we have some sympathy for such a view, **we find it incomprehensible that the Government was unable to publish an implementation plan as a supporting document to the White Paper. We recommend that the Government does so as soon as possible, and includes within it not only an implementation plan for energy efficiency but a similar plan for renewables.**

A lack of resources?

21. The White Paper offers little in the way of new resources. The extra £60 million brings the total capital grant spending on renewable energy to £350 million—but this is over a four year period and therefore amounts to less than £90 million a year on average.²⁷ This compares poorly with the support extended in the past to, for example, the nuclear

²² See, for example, The Energy White Paper paragraph 1.48.

²³ See paragraph 16 above.

²⁴ The Energy White Paper, paragraph 3.49.

²⁵ The Guardian, 25 February 2003 quoted Brian Wilson as saying “If renewables and energy efficiency can prove themselves over the next 5 years there will be no need for nuclear power stations.”.

²⁶ Ev1; Q2.

²⁷ The Energy White Paper, paragraph 7.30.

industry.²⁸ It is also far less than the amounts being spent by other countries such as Germany and Japan.²⁹

22. Furthermore, these multi-annual figures are somewhat chimerical. Data provided by the DTI shows that the capital expenditure on renewables in 2002-03 was only £1.7 million (out of a budget of £15 million), while the budgets for 2003-04 and 2004-05 are still only £43 million and £98 million respectively.³⁰ We have commented previously on the difficulties of tracing budgets and expenditure when funding streams are rebranded, amalgamated, and reannounced.³¹ We recommend that the Government should publish an annual explanatory statement setting out funding available and spent on renewables and energy efficiency, with reconciliations to previous years.

23. The successful promotion of renewables may involve substantial Government support over many years—as the growth of wind energy in Denmark demonstrates.³² We are concerned that that the level of resources made available within the UK are inadequate and that the DTI's vision is not reflected in Treasury funding. Additional resources for both renewables and energy efficiency should be made available as part of Spending Review 2004. The Treasury should also ensure that staff resources devoted to energy efficiency within DEFRA are adequate. Indeed, a lack of adequate resources may be one reason for the delay in producing an implementation plan for energy efficiency.

Renewables

The 2010 targets

24. We pointed out last year that the 5% renewables target for 2003 was unachievable, and that the Government would miss it probably by as much as 2%. We also showed that—to meet the long-standing 10% target—there would need to be a step change in the installation of new renewables; and that to meet the 10.4% Renewable Obligation target by 2010 represented an even greater challenge.³³ We have updated the graph we produced last year, and it confirms the absence of any step-change in deployment so far.

²⁸ EAC, *A Sustainable Energy Strategy? Renewables and the PIU Review*, HC 582-I of session 2001-02, paragraph 42.

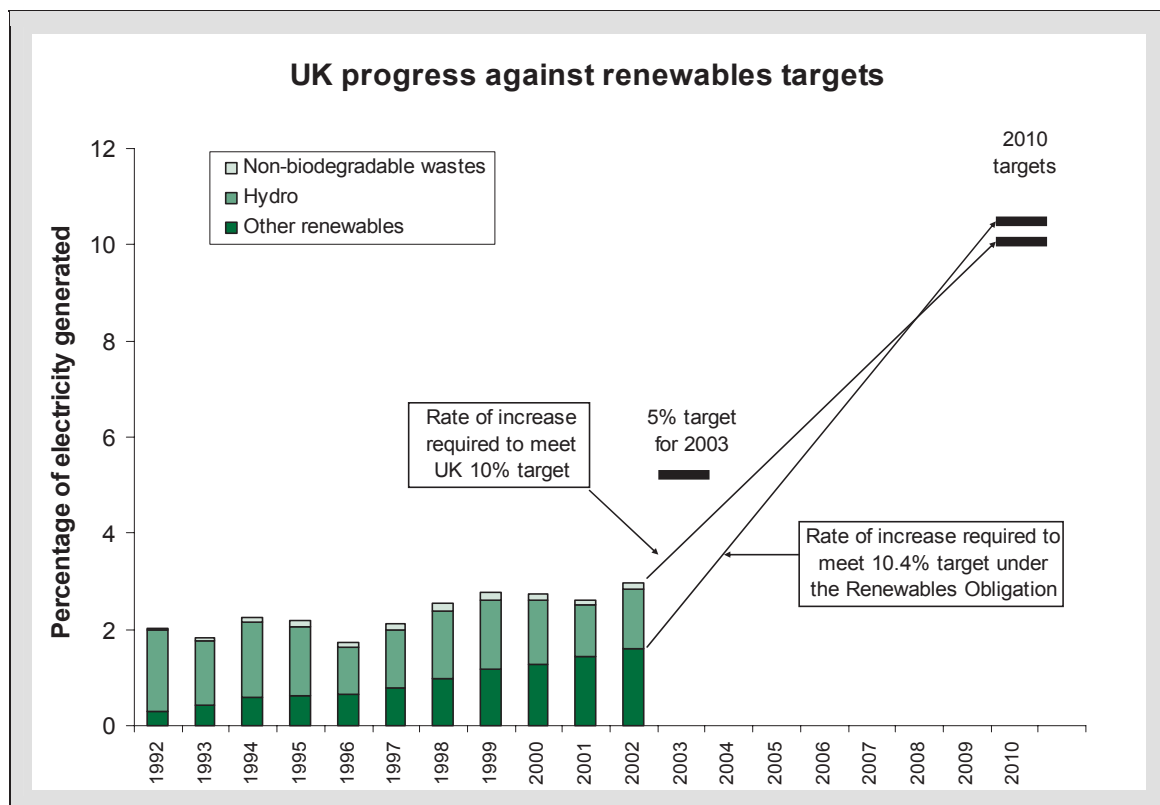
²⁹ See for example the report from the Science and Technology Committee, *Towards a non-carbon fuel economy: Research, Development and Demonstration*, HC 55-I, April 2003, pages 26-28.

³⁰ Ev17.

³¹ EAC, *Pre-Budget Report 2001: A New Agenda?*, HC363-I of session 2001-02, paragraph 63 and table 2.

³² *Resource Productivity: Making More with Less*, Strategy Unit (Cabinet Office), November 2001, page 35 box 4.

³³ EAC, *A Sustainable Energy Strategy? Renewables and the PIU Review*, HC 582-I of session 2001-02, paragraphs 52-52.



Source: Environmental Audit Committee

25. The Government has acknowledged that there is now no chance of meeting the 2003 target.³⁴ Success on this score depended mainly on increasing the take-up of NFFO schemes, but the most recent data shows that this has not occurred to any significant extent.³⁵ Indeed, many undeveloped NFFO schemes remain unattractive to contract holders and we note that the White Paper does nothing to address the issue of the sterility of sites which we raised last year.

A target for 2020?

26. During the period of consultation leading up to the PIU report, one of the major issues was the size of the 2020 target which should be set for renewables. Indeed, the PIU review itself referred to this debate and whether it would be more appropriate to set a more ambitious target of 30% or a more conservative target of 20%.³⁶ It finally recommended the latter,³⁷ and the EAC endorsed this as a realistic approach. However, the Energy White Paper does not set an explicit target for renewables for 2020, stating only that “our aspiration is by 2020 to double renewables’ share of electricity”.³⁸

³⁴ EAC, Second Special Report of Session 2002-03, *Government Response*, HC 471, February 2003, page 7.

³⁵ Analysis of data contained in DTI Energy Trends, June 2003.

³⁶ Scoping note on renewable energy, August 2001, Strategy Unit (Cabinet Office).

³⁷ *The Energy Review*, February 2002, Strategy Unit (Cabinet Office), paragraph 7.63.

³⁸ The Energy White Paper, paragraph 4.11.

27. The Energy Minister expressed some scepticism about the value of setting too many targets.³⁹ Notwithstanding his comments, we consider targets to be a vital aspect of any serious strategy—as indeed demonstrated by the seriousness with which both departments and the Treasury view those targets contained in Public Service Agreements. While there is a reference to the 20% carbon reduction target in the PSAs of both the DTI and DEFRA, in the DTI PSA it is appended to a target to ensure that the UK ranks in the top 3 most competitive energy markets in the EU and G7. In addition, the wording refers only to “moving towards” a 20% reduction.⁴⁰ **The existing target in the Public Service Agreements of both the Department of Trade and Industry and Department for Environment, Food and Rural Affairs for carbon reductions is very weak. The Government should strengthen it and accord it far higher priority, particularly with regard to the Department of Trade and Industry. It should also incorporate the 20% renewables aspiration as a target in both Public Service Agreements.**

28. The share of renewable energy which energy supply companies are required to purchase will rise to 10.4% by 2010, but will remain at that level until 2027. However, a rising profile after 2010 will be essential if financial markets are to have sufficient confidence to invest extensively in renewable projects. We are astonished that the Government has not taken the opportunity to build higher targets into the Renewables Obligation. The failure of the Government to do so is likely to dampen investment in these technologies by creating greater uncertainty about the Government’s longer term intentions. This will also affect progress towards even the 2010 target.

29. The Energy Minister considered that it would be unwise to set statutory targets under the Obligation too far ahead—given the uncertainties arising from, for example, the development of the EU Emissions Trading Scheme (due to begin in 2005). He did, however, express some enthusiasm for the possibility of a rolling incremental target, a suggestion also made by others.⁴¹ We can understand the Minister’s concern in the light of evidence that the EU ETS may conflict with a number of UK policies and necessitate extensive modifications.⁴² **We note that the Government plans to review the operation of the Renewables Obligation in 2005-06. It should do so earlier. It should also clarify at the earliest opportunity how the Obligation will relate to other policy instruments.**

A portfolio of renewables?

30. While the Government has put in place a number of policy instruments to promote renewables, we remain unconvinced that this amounts to a coherent and robust strategy for achieving its objectives. The Government’s approach still appears to rely too much on wind energy alone. Other forms of renewable energy—such as solar PV, biomass, and micro-CHP—will need to play a major role, and we have no confidence that sufficient incentives exist for developing them.

³⁹ Ev5, Q21.

⁴⁰ Spending Review 2002, Public Service Agreements White Paper. chapters 12-13.

⁴¹ Ev10, Q66. Ev5, Q21, Q33. A rolling target was also suggested by the Renewable Power Association—see Ev89.

⁴² *Back to the Drawing Board?* SPRU (Sussex University), January 2003.

31. A substantial contribution from biomass, in particular, is widely seen as essential to the achievement of the renewable targets. We pointed out last year that DEFRA expected biomass to make only a limited contribution of 100 MW capacity to the 2010 target (in addition to biomass schemes undertaken under NFFO).⁴³ Since then, the flagship ARBRE project has gone bankrupt. We raised this with the Energy Minister and subsequently requested further information on the circumstances surrounding the bankruptcy and the steps being taken to rescue the project.⁴⁴

32. The DTI expressed the hope that ARBRE will be brought into full commercial operation soon under new ownership. But the average price for gasification contracts under NFFO-3 was 8.65p/kWh.⁴⁵ If ARBRE did not prove economic at that price, it would certainly not be economic under the Renewables Obligation. The failure of the project therefore raises substantial concerns about the adequacy of the Renewables Obligation as the main vehicle for stimulating technologies which are less economically competitive than wind. It also raises questions about the role of capital funding. Despite the impression that significant amounts of capital grants are apparently available for biomass, ARBRE still failed and we note that no capital grants for bioenergy were apparently available in 2002-03.⁴⁶

33. A similar situation exists with solar PV. We note that the Government committed itself in February 2001 to achieve a solar PV demonstration programme in line with those of our major competitors.⁴⁷ However, the current programme is worth only £20 million over three years and is forecast to deliver only 3500 roofs and 9MWp by 2005.⁴⁸ This contrasts with Japan, which had achieved 400 MWp by 2001, and Germany, which had achieved 200 MWp by 2002.⁴⁹ We noted the comment made by Solar Century that, in just one month (April 2001) more applications were approved under the German programme than the predicted total for the entire three year UK Major Demonstration Programme.⁵⁰ We welcomed the Minister's assurance that there would not be a funding gap after the three year Major Demonstration Programme.⁵¹ However, the White Paper does nothing to help realise the Government's aspiration of rivalling our competitors' solar PV programmes.

34. The Government does not have a strategy for other renewables, including biomass and solar photo-voltaic, which adequately reflects the massive challenge posed by the objectives set out in the White Paper. In our view, this partly stems from the approach adopted by the Government in developing the Renewables Obligation as a "one-size fits all" incentive. **The development of an implementation plan for renewables will provide an opportunity for the Government to set out how it intends to achieve its aspirations.**

⁴³ EAC, *A Sustainable Energy Strategy? Renewables and the PIU Review*, HC 582-I of session 2001-02, paragraph 57.

⁴⁴ Ev6 QQ35, 36. See Ev18 for DTI's supplementary note on ARBRE.

⁴⁵ Ev18.

⁴⁶ Ev17.

⁴⁷ *Opportunities for all in a World of Change*, DTI 2001.

⁴⁸ The Energy White Paper, paragraph 4.56

⁴⁹ Ev103-104.

⁵⁰ *Ibid.*

⁵¹ Ev7, Q46.

35. Planning still remains a substantial obstacle and we raised this issue with the Energy Minister.⁵² We are glad to see further support from the parliamentary Renewable and Sustainable Energy Group (PRASEG) for our recommendation that there should now be a presumption in favour of renewables.⁵³ However, **it is disappointing that there has been so much delay in issuing revised planning guidance on renewables (formerly PPG 22). We urge the Government to publish it as soon as possible.** The Office of the Deputy Prime Minister (ODPM) should also consider what other measures need to be taken to supplement this guidance. These could include, for example, more comprehensive training for planning officers on renewable energy and the Government's strategy.

Energy Efficiency

Energy efficiency targets

36. The second major pillar of the Government's energy strategy is the emphasis placed on energy efficiency and the need to achieve a step-change in the annual rate of improvement here. We welcome this emphasis, as also we welcome the specific initiatives—including the promise to bring forward the revision of building regulations, and the commitments on industrial and consumer appliances, and on greening government operations. However, the White Paper contains relatively little in the way of radical new policy initiatives, while some of the measures it does contain—such as the review of building regulations—will only have a limited effect.

37. While we accept that there have been substantial improvements in energy efficiency in the UK over the last 30 years, to achieve the aspirations set out in the White Paper will require a step-change in the rate of improvement. Energy use will need to be decoupled still more from the overall growth in the economy, and absolute reductions year on year may be required. We are concerned that DEFRA could not point to any examples where this had been achieved, but we note the point made that the countries which had done best were those where the price of energy was high.⁵⁴ We trust that the implementation plan for energy efficiency will clarify how the required level of decoupling can be achieved.

38. The Energy White Paper does not include clear and specific targets for 2010 and 2020, though we do note the point made by DEFRA that the level of savings suggested was broadly similar to the 20% target for 2010 suggested by the PIU.⁵⁵ We are also concerned about the absence of sectoral targets, and asked the Energy Minister whether the table on page 33 of the White Paper represented targets. We noted with some surprise the confusion which ensued—with Brian Wilson first of all acknowledging that these were

⁵² Ev2, QQ6-9. Ev6, QQ 40-45.

⁵³ PRASEG press release dated 8 July 2003.

⁵⁴ Ev10, QQ 66-77.

⁵⁵ Ev9, Q62.

indeed targets, only to be corrected by a supporting official who pointed out that there was a typographical error in the printed copies of the White Paper.⁵⁶

39. We are particularly concerned about the absence of targets for energy efficiency.⁵⁷ **Given the importance of energy efficiency in a future energy strategy, the Government must include a clear overall target and specific sectoral targets within the energy efficiency implementation plan which it is developing.**

Combined Heat and Power (CHP)

40. CHP offers significant gains in efficiency over traditional power generation by exploiting the heat produced which is usually wasted. Efficiencies of up to 80% can be achieved in contrast to the 40-50% which is normally associated with power generators. However, most modern CHP is gas-driven and its economic viability varies with the changes in the relative price of gas and electricity. For the last few years, falling electricity prices combined with higher gas prices have rendered most CHP uneconomic in purely commercial terms—despite its environmental benefits. As we noted in our Sustainable Energy report, this has had dire consequences on the industry—with major CHP developers axing or attempting to sell their development teams and businesses.

41. Furthermore, there is genuine concern in the industry that not only are CHP developments not going ahead, but that projects originally involving CHP schemes are in fact going ahead on a non-CHP basis. Supplementary information provided to us by the DTI suggested that, apart from the huge Conoco scheme, there is virtually no current interest in developing schemes: those cited by the DTI in their memorandum involve contracts signed several years ago when market conditions were very different.⁵⁸

42. The Government has a long-standing target of 10GWe from CHP by 2010. Current installed capacity is about 4.7GWe. DEFRA is responsible for energy efficiency, and it released a draft CHP strategy last year which estimated on the basis of modelling work undertaken that the Government would reach nearly 10 GWe on the basis of present policies.⁵⁹ However, the CHP industry considers the Government's figures a flight of fantasy based on fundamentally flawed assumptions. We note that, in the face of such hostile criticism, DEFRA has agreed to work with the industry to reconsider its future forecasts and the assumptions on which they are based.⁶⁰

43. The White Paper offers relatively little new for CHP other than the commitment that planning involving power generation must show that it has taken into account the possibilities of CHP. The Government's attitude seems to be that the current difficulties of CHP are due to market conditions, and that these will change for the better in due course. What this means in practice is that the Government expects an increase in energy prices to

⁵⁶ Ev9, QQ 61-62.

⁵⁷ See also Ev20, response to question 15.

⁵⁸ Ev15-16.

⁵⁹ *The Government's Strategy for Combined Heat and Power to 2010 – Public Consultation Draft*, DEFRA, May 2002., paragraphs 3.6-3.7.

⁶⁰ The commitment was made by DEFRA officials at a CHPA seminar held on 11 March 2003.

save the industry.⁶¹ Yet this flies entirely in the face of its desire to maintain low energy prices, and indeed reduce them, due to concerns about fuel poverty and international competitiveness.

44. We are disappointed that the White Paper did not do more to promote the development of CHP. The Government's modelling of future CHP growth appears unrealistic, and we look forward to the results of further work in this area which DEFRA are undertaking in conjunction with the industry. **We urge the Government to take into account the comments made on its draft CHP strategy and publish a final strategy as soon as possible.**

Micro-CHP

45. Micro-CHP represents a further development of CHP whereby small domestic boilers will provide both heat and residual power. While the power generation capacity may not be enough for peak domestic loads, it would generally be more than enough for off-peak and could therefore supply power to the local network. Micro-CHP could deliver very significant savings in the order of 1.5 tonnes of CO₂ per household, and was identified by the PIU as one of the most promising ways of addressing fuel poverty in those homes which are hardest to heat.⁶² We also note that micro-CHP will complement larger CHP schemes very well, with micro-CHP being particularly suitable for lower density housing.

46. In view of the large contribution which micro-CHP can make towards reducing both fuel poverty and carbon emissions, we are particularly surprised that the Government is not doing more to help promote rapid take-up of this technology. Take-up will depend on the extent to which the DTI and Ofgem overcome various barriers—including the provision of sufficient training to enable suppliers, when installing micro-CHP in domestic homes, to deal with both gas and electricity connections at the same time. It will also depend on the extent of Government support in order to trial the technology more extensively and bring about further cost reductions through mass production. The White Paper offers nothing to overcome such difficulties: the Government's approach here appears to be characterised by a marked lack of urgency.

47. One specific measure the Government could undertake is to reduce the rate of VAT on micro-CHP boilers. The position of the Treasury on this is reflected in a written response to those Members of the House who wrote to it on the topic of VAT. The Treasury appears to acknowledge that it is perfectly possible to reduce the rate of VAT on micro-CHP boilers but that it is not going to do so as it does not consider that this would constitute an energy saving measure.⁶³ We find this approach extraordinary. **We recommend that the Treasury re-examines as soon as possible the possibility of introducing a reduced rate of VAT for micro-CHP.**

⁶¹ The Energy White Paper, paragraph 4.16, states for example that "a number of proposed new [CHP] power stations, which already have planning approval, are awaiting electricity price rises and/or gas price reductions before they go ahead."

⁶² *The Energy Review*, February 2002, Strategy Unit (Cabinet Office), paragraph 7.113. See also Ev53.

⁶³ Letter from John Healey MP to Joan Walley MP dated 10 February 2003. The wording used is as follows: "A reduced rate is potentially available in these circumstances, but we have always made clear that our current policy is to restrict the relief to the installation of materials whose primary purpose is to save energy."

Fuel poverty

48. In our 1999 report on Energy Efficiency, we termed the continuing existence of fuel poverty a national scandal. Since then, there has been welcome progress in some areas, with the issuing of a Fuel Poverty Strategy in 2001 and the creation of a Fuel Poverty Action Group. The numbers of households in fuel poverty has also fallen to 3 million—a reduction of 2-5 million since 1996.⁶⁴ In its Fuel Poverty Strategy, the Government set a target to take the most disadvantaged households out of fuel poverty by 2010, and to eliminate it completely by 2016. This target is reflected in departmental Public Service Agreements.

49. In March 2003, the Fuel Poverty Action Group released its first annual report. One of its key conclusions was: “Current programmes, even if made more cost-effective, and if continued to 2010 and beyond, will not on their own be adequate to meet the Government’s targets, and its statutory 2016 targets. It is the Group’s judgement—subject to considerable uncertainty—that an increase in current programmes of at least 50% is needed. We are concerned that there is currently not enough Government drive to move the programmes forward and that the PSA targets for DTI and Defra on Fuel Poverty are rather weak.”⁶⁵

50. The White Paper includes no new proposals for reducing fuel poverty. We were also particularly alarmed that the Energy Minister—so far from being able to announce any increases in funding—told us that the DEFRA budget for the Warm Homes scheme was likely to be reduced.⁶⁶ **We urge the Government to ensure that sufficient funding is available to deliver the 50% increase in current fuel poverty programmes recommended by the Fuel Poverty Action Group.**

51. Fuel poverty continues to shape the Government’s approach to energy policies. Indeed, the complex structure of the Climate Change Levy—levied as a downstream tax with exemptions for renewables—was adopted precisely because the Government wished to avoid increases in energy prices for domestic consumers. Similarly, increased competition and the introduction of NETA have led to significant falls in the real cost of energy over the last decade, and the DTI has acknowledged that much of the reduction in fuel poverty is due to this factor.

52. However, current energy prices are unrealistically low, and even the Government in its draft CHP strategy has acknowledged that electricity prices are likely to rise to pre-NEEA levels within the next few years.⁶⁷ We were interested in the supplementary information provided by the DTI on the impacts of possible future increases in energy prices in terms of an increase in the number of households in fuel poverty.⁶⁸ We also noted the recent National Audit Office report on the Warm Front scheme, which highlighted the fact that only 14% of grants reach the least energy efficient homes.⁶⁹ As a DEFRA official

⁶⁴ *The UK Food Poverty Strategy: 1st Annual Progress Report 2003*, DEFRA/DTI, paragraph 3.1.

⁶⁵ Fuel Poverty Advisory Group. *First Annual Report, 2002/3*.

⁶⁶ Ev12, Q86.

⁶⁷ *The Government’s Strategy for Combined Heat and Power to 2010 – Public Consultation Draft*, DEFRA, May 2002., paragraph 3.9.

⁶⁸ Ev20, response to question 16.

⁶⁹ *Warm Front: Helping to combat fuel poverty*, June 2003, National Audit Office, HC 769 2002-03.

acknowledged in his evidence to us, those countries which have pursued energy efficiency most aggressively are those where energy prices are high.⁷⁰

53. While we entirely support the Government's drive to eliminate fuel poverty, we consider that the Government's approach needs to be revisited. **The Government must re-evaluate the effectiveness of schemes to address fuel poverty, and ensure that—in the longer term—the domestic sector bears its proper share of the costs of reducing greenhouse gas emissions. The best way forward is for the Government to initiate a proper public debate on this issue.**

Energy services and building regulations

54. In our 1999 report on Energy Efficiency, we emphasised the importance of developing energy services.⁷¹ In the White Paper, the Government has acknowledged that little has happened on this score, and it proposes to establish a working party with OFGEM, energy suppliers and others to explore how to create an effective market in energy services.⁷² We welcome this proposal, but regret that it has taken nearly four years for any action to be taken.

55. We also welcome the commitment to bring forward the review of building regulations. The Energy Minister expressed the hope that it that this would address not only issues of energy efficiency but also the role that renewables such as solar PV could play in reducing energy demands.⁷³ We entirely agree and would point out that the PIU recommended that we consider moving towards the concept of zero space heating requirement for buildings.⁷⁴ **In reviewing the building regulations, the Office of the Deputy Prime Minister must incorporate not only far higher standards of energy efficiency requirements, but also requirements for the use of renewables where possible, with a view to moving towards zero space heating requirement for buildings.**

Energy systems and Ofgem

Grid distribution issues

56. Insofar as the thrust of the White Paper endorses a growing reliance on renewable energy and energy efficiency, it also endorses the view expressed by the PIU that a high degree of dependency on imported gas is not in itself an issue.⁷⁵ We accept this approach though it is obviously not without its own risks in terms of the security of supplies and, in particular, the price of imported energy.⁷⁶ In our view, these risks make it still more

⁷⁰ Ev10, Q70.

⁷¹ EAC, *Energy Efficiency*, HC 159-I 1998-99, paragraphs 56ff.

⁷² The Energy White Paper, 3.35.

⁷³ Ev8, Q50.

⁷⁴ *The Energy Review*, Strategy Unit (Cabinet Office), February 2002, paragraph 7.25.

⁷⁵ *The Energy Review*, Strategy Unit (Cabinet Office), February 2002, chapter 4.

⁷⁶ cf EAC, *A Sustainable Energy Strategy?, Renewables ant the PIU Review*, July 2002, HC 582-I 2001-02, paragraphs 77-78.

important that rapid progress is made on the agenda set out in the White Paper. Increased energy from renewables will have major implications for the National Grid, and attention has therefore tended to focus more on the infrastructure for electricity rather than gas.

57. The present structure of the National Grid has evolved for historical reasons—to transmit power from large and remote power stations long distances to population centres where it is required. In addition, the lower voltage distribution networks which feed off the grid are designed to provide electricity in one direction only—from the grid to individual homes and businesses. The growth of renewables will require major changes in this structure for two reasons:

- New sources of renewable power in remote areas (eg large offshore wind farms off the coast of Scotland) will require major infrastructure investment in order to connect them to the grid.
- The growth of many small renewable power sources within distribution systems (eg isolated wind turbines, biomass, CHP, solar PV and micro-CHP systems) will require investment in local network infrastructure – in particular to enable the more active management of networks as a result of two-way, rather than one-way, flows of electricity.

58. Large-scale investment is likely to be needed to modernise the grid to accommodate higher levels of distributed processing and major new sources such as offshore wind farms. This needs a clear strategy and charging framework. The White Paper does little to resolve these major issues or give direction to Ofgem.

59. With regard to the charging framework, we expressed concern in our report last year that Ofgem were treating major network generators differently to—and more favourably than—smaller distributed generators.⁷⁷ We welcome the Government’s acknowledgement that this inconsistency exists.⁷⁸ We are not convinced that Ofgem’s interim proposals—to allow renewable generators to spread over a number of years the “deep” charges which they alone have to pay—are adequate. In our view, part of the problem here is that responsibility for renewables is located in Ofgem with those staff dealing with supply and distribution, rather than those dealing with large network generation issues. **Responsibilities for all forms of generation should be brought together within Ofgem in order to provide a coherent approach to charging issues and enable an appropriate balance to be struck between the interests of new and traditional forms of generation.**

60. Ofgem’s next distribution price review, to be completed in 2005, will be of enormous importance. The Government should set out clearly, as a fundamental objective for the price review, that positive and substantial incentives must be provided for all forms of renewable and distributed generation.

⁷⁷ EAC, *A Sustainable Energy Strategy?*, July 2002, HC 582-I 2001-02, paragraph 97.

⁷⁸ EAC, *Second Special Report*, HC 471 2002-03, pages 11-12.

The New Electricity Trading Arrangements (NETA)

61. On the contentious issue of NETA, the Government's response to our report points out that an environmental appraisal was carried out in 2000 in the course of preparing the Utilities Act 2000.⁷⁹ We had already noted this. Our point—which the Government has failed to address—is that, had the environmental appraisal been carried out earlier, the inconsistency between its findings and the environmental objectives set for NETA by the Minister could have been taken into account and the proposals redesigned.

62. While we accept the Government's arguments that some beneficial modifications have been introduced since NETA went live, we also note that Ofgem have rejected many of the recommendations put to it by the Balancing and Settlement Code panel. We therefore welcome the proposals contained in the White Paper to strengthen the role of industry code panels and consult on a possible appeals procedure.⁸⁰

63. Moreover, NETA remains a system for very big players, and because of the way that only licensed electricity suppliers can redeem ROCs, they are in a strong position to discount the Renewable Obligation premium and not pass it on to smaller renewable generators. In this context, the main mechanism proposed by Ofgem to remedy this problem—the concept of independent consolidation—has failed. Ofgem are currently developing a UK-wide electricity trading system (BETTA), and we hope this may provide an opportunity to incorporate further improvements to assist renewable generators.

64. The main reason for the dramatic fall in electricity prices over the last few years is the substantial excess generating capacity which NETA had exposed. But the Energy Minister pointed out that excess capacity is falling.⁸¹ Indeed, as an indication of the Government's concern, the White Paper includes a requirement for Ofgem to produce six monthly reports on security of supply.⁸² NETA was intended to produce a range of open trading markets—including long-term markets—so that the market itself would provide signals to trigger investment in additional generating capacity when necessary. However, apart from the very short-term spot market in electricity, transparent long-term markets have not developed. It is not clear that the market will indeed respond within the timescales necessary and there is now some debate on the need for further modifications to the NETA system—including the possibility of some form of capacity payments.

Emissions and carbon capture

65. In our sustainable energy report published in July 2002, we pointed out that emissions from the generating sector had risen rather than fallen, partly due to NETA. Demand for coal is still increasing on the basis of the latest available energy statistics.⁸³ While we accept that the contribution of coal will decline due to the introduction of the EU Emissions Trading System in 2005 and tighter regulatory controls coming into force over the next decade, the short-term environmental impacts are worrying.

⁷⁹ EAC, Second Special Report, HC 471 2002-03, page 9.

⁸⁰ The Energy White Paper, paragraph 9.16.

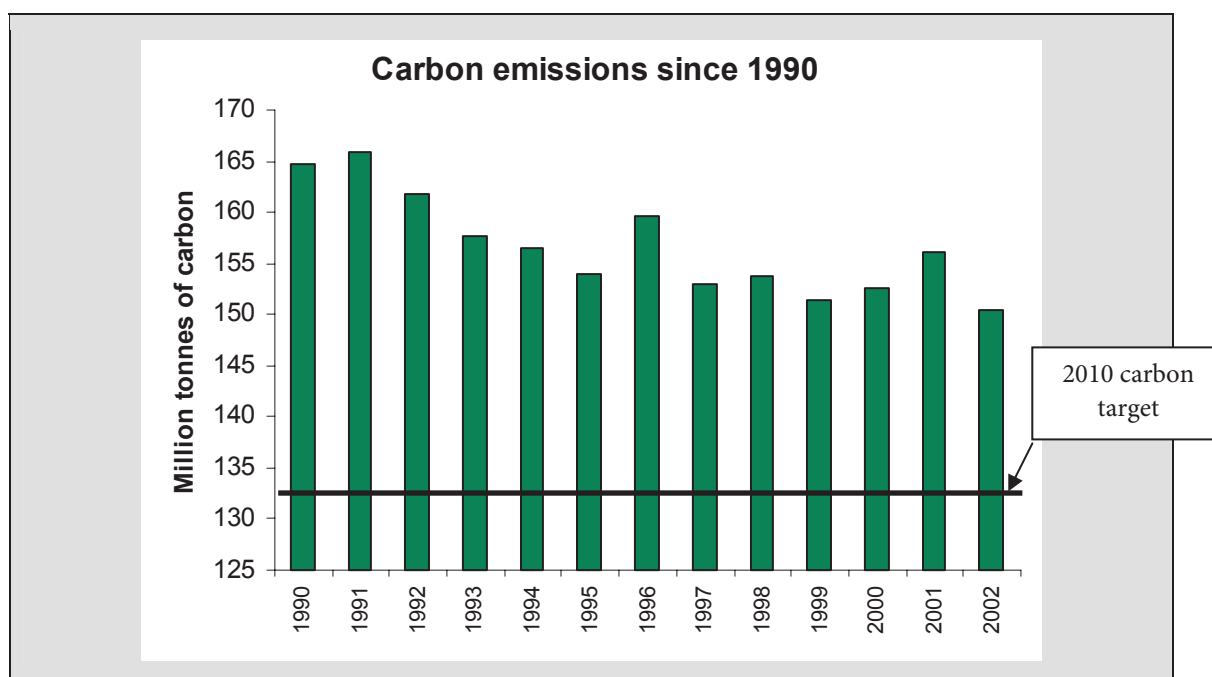
⁸¹ Ev3, Q12.

⁸² The Energy White Paper, paragraph 6.46.

⁸³ *Energy Trends*, July 2003, DTI.

66. In view of the fact that coal remains the most polluting form of generation, we note with some concern the proposals in the White Paper to provide direct investment assistance to the coal industry to help existing pits develop new reserves.⁸⁴ Such intervention also directly contradicts the reliance on markets which the Government espouses elsewhere. We note, for example, that the Government has not provided similar assistance for the recovery of coal mine methane.⁸⁵ Moreover, the White Paper also includes a commitment to set up an urgent detailed implementation plan to develop the use of carbon capture from coal-fired power stations in order to enhance oil recovery from North Sea reserves. It is interesting that the Government sees this as necessary because studies suggest that the industry would not view enhanced recovery as cost-effective.⁸⁶

67. We expressed concern in our Pre-Budget Report that the Government's Climate Change Strategy for UK was seriously off-course, and current progress and future projections must be reviewed as a matter of urgency.⁸⁷ Data released by the DTI after the publication of our report showed that carbon emissions had fallen by 3.5% in 2002 compared to the previous year (150.4 MtC compared to 156.1 MtC). Pointing to this, the Treasury in its response to our report suggested that total greenhouse gas emissions in 2002 were some 15% below 1990 levels.⁸⁸ But we are not convinced that one swallow can make a summer. The following graph shows carbon emissions since 1990 and the 2010 target.



Source: Environmental Audit Committee

⁸⁴ The Energy White Paper, paragraph 6.72; DTI press release, *£60 million boost secures a future for coal*, 3 March 2003.

⁸⁵ The Energy White Paper, paragraph 6.68.

⁸⁶ The Energy White Paper, paragraph 6.63.

⁸⁷ EAC, *Pre-Budget Report 2002*, HC 167 2002-03, paragraphs 32-34.

⁸⁸ EAC, *Third Special Report, Response to the Committee's Fourth Report of Session 2002-03*. HC 688 2002-03, page 9.

68. The Government has claimed that it is on track to reach its UK domestic target of a 20% reduction in carbon dioxide by 2010. But carbon emissions would need to fall to 132 MtC for this to happen, and the trend since 1997 gives no indication that this is remotely achievable. Moreover, the DTI has acknowledged that the particularly low value for 2002 is partly because that year was unusually warm—it was in fact the second warmest on record. We also note that the production difficulties facing Corus may also have had significant impact on reducing emissions during the year.⁸⁹

The role of Ofgem

69. Last year we expressed concern about the extent to which Ofgem could respond to a far greater strategic emphasis on prioritising renewables and energy efficiency, and we recommended amending their objectives to incorporate as a primary objective the need to promote sustainable development. The Government felt that it would be premature to do so, but we are glad that its response at least seems to indicate that such an option warrants serious consideration.⁹⁰ The Government has indicated its intention to amend primary legislation to require Ofgem to carry out regulatory impact assessments, including environmental impact assessments, for all significant new policies.⁹¹ It should also take this opportunity to amend Ofgem’s objectives to incorporate sustainable development as a primary duty.

70. In the meantime, the Government has promised to strengthen the social and environmental guidance to Ofgem—a direct response to recommendations made by the PIU and ourselves.⁹² We look forward to seeing what the revised guidance will contain, and hope that it amounts to more than the welcome requirement for Ofgem to complete environmental assessments of its policy initiatives—as Ofgem are already doing this within the framework of regulatory impact assessments. It would also be useful if the guidance could clarify the extent to which Ofgem’s programmes and initiatives should be subject to the Strategic Environmental Assessment directive.

71. In its memorandum, Ofgem argues that incorporating sustainable development as a primary objective would not make any substantial difference to its decision making process, as all elements of sustainable development were already fully reflected in Ofgem’s duties.⁹³ This seems to us to contradict their comments elsewhere that their primary role is economic and to protect the interests of consumer. In addition, Ofgem comment acknowledge that:

“To be effective, this guidance [on social and environmental issues] must help Ofgem by indicating the relative priorities of the government’s social and environmental objectives, particularly where there is an implicit or explicit conflict between them, and indicate as clearly as possible the relative weight that Ofgem should attach to

⁸⁹ Energy Trends, DTI, June 2003, page 8.

⁹⁰ EAC, Second Special Report, *Government Response to the Committee’s Fifth Report of Session 2002-03*. HC 471 2002-03, page 12.

⁹¹ The Energy White Paper, paragraph 9.15.

⁹² *Ibid.*

⁹³ Ev82-83.

different initiatives to reduce carbon emissions (or indicate a mechanism by which Ofgem could do this)".⁹⁴

This amounts to an admission that Ofgem are not in fact currently reflecting the priorities set out in the White Paper. We also do not consider that it is realistic for Ofgem to expect detailed directions from the Government, given the complexity of the decisions and processes it is involved in. Indeed, this is why we consider a statutory duty to promote sustainable development to be so important.

72. We also consider that, as part of an enhanced environmental role, Ofgem need to place a higher priority on monitoring the environmental impacts of its policies and reporting on progress more generally in this context. In particular, given the importance of the next distribution price review and the multitude of other ongoing initiatives which Ofgem is involved in, we suggest that Ofgem should produce regular six monthly reports to Parliament. In addition, on an annual basis it should report comprehensively on the environmental impacts of its policies in terms of the effects on renewable generators, carbon emissions, and energy efficiency.

Organisations and structures

73. The PIU criticised the present balance of departmental responsibilities as being incoherent. It recommended that a cross-cutting unit should be set up to draw together existing energy policy responsibilities, and that over time a separate department should be set up. Indeed, it considered this proposal so important that it recommended it should be carried out within a matter of months—and well before the White Paper. We noted last year with irony that this entire proposal was conveniently forgotten in the Government's May 2002 consultation.⁹⁵

74. The Energy Minister told us that he favoured bringing together responsibilities in a Department of Energy. Indeed, many organisations have recommended the creation of either a department or a powerful Sustainable Energy Agency to drive forward the Government's policies in a balanced and coherent manner.⁹⁶

75. We are therefore disappointed that the White Paper proposes to retain the existing structure, while adding to the bureaucratic complexity with the addition of a Sustainable Energy Policy Network (SEPN), a Sustainable Energy Policy Advisory Board (SEPAB), and a new ad hoc Ministerial group. We asked the DTI what would be the role of the SEPN. Their response indicated that it would not have a policy development role but would simply coordinate and monitor action. We are at a loss as to how the new ad hoc ministerial group will relate to the Cabinet Committees ENV and ENV(G), for example, or

⁹⁴ *Ibid.*

⁹⁵ EAC, *A Sustainable Energy Strategy? Renewables and the PIU Review*. HC 582-I 2001-02, paragraphs 110 and 114.

⁹⁶ Ev13, Q93, Ev106.

how the SEPN or SEPAB will relate to each other and to other bodies such as the Renewables Advisory Board and Renewables UK.⁹⁷

76. The creation of yet more ad hoc groups, such as the Sustainable Energy Policy Network and the Sustainable Energy Policy Advisory Board, does not provide an effective response to the Performance and Innovation Unit’s criticism that the present allocation of departmental responsibilities is incoherent. These new groups are likely simply to add to the confusing plethora of bodies and organisations already involved in the energy sector.

77. It is also disappointing that the White Paper has not included a specific commitment to alter the objectives of the DTI in the way the PIU recommended—so as to put a higher importance on environmental objectives in any trade-off with economic or social objectives. The latter was one of the most important aspects of the PIU report.⁹⁸ By contrast, the Government has studiously maintained its stated objective for energy—which Mr Wilson reiterated in his evidence to us—namely, to attain all four goals of its energy policy *at the same time*.⁹⁹ In our view, this is a cop-out: the Government is not facing up to the real issue as in some situations trade-offs will almost certainly have to be made. **The Government should alter the objectives of the Department of Trade and Industry so as to place a higher importance on environmental objectives in any trade-off with economic or social objectives, in line with the recommendation made by the Performance and Innovation Unit. This change must also be fully reflected in the Department of Trade and Industry’s Public Service Agreement.**

78. The Energy Minister told us that the Government should be judged on the actions it took in the next 12 to 18 months.¹⁰⁰ Although we note that many of the 139 commitments Mr Wilson referred to are aspirational or rather vague, some are very specific.¹⁰¹ The Government has committed itself to monitoring progress comprehensively through annual reports from the Sustainable Energy Policy Group. It must state when we can expect its first report. In view of the very considerable overlap between the Government’s Energy Strategy and its Climate Change Strategy, we would also welcome clarification from the Government on the relationship between the two—particularly in terms of reporting arrangements.

The price of energy

79. The price of energy is an issue which has surfaced on various occasions throughout this report. Wholesale electricity prices have fallen to unsustainably low levels, and this is having a significant negative impact in various areas:

⁹⁷ Ev13-14, QQ 93-94, Ev20, response to question 17.

⁹⁸ *The Energy Review*, Strategy Unit (Cabinet Office), February 2002, paragraph 3.37.

⁹⁹ Ev4, Q18.

¹⁰⁰ Ev2, Q4.

¹⁰¹ Ev21-28.

- It is unclear whether market forces will provide timely enough signals to prompt investment when required—with the result that security of supply might be compromised.
- It has damaged the economic competitiveness of CHP, and to a lesser extent renewable forms of generation.
- It makes investment in energy efficiency difficult to justify, and provides conflicting signals to the public about the need for energy savings.

80. The Government does not want prices of energy to rise—mainly because of concerns about fuel poverty. **We highlighted last year our conviction that a transition to an environmentally benign energy system could not be achieved on the basis of unsustainably ‘cheap’ energy, as the Prime Minister’s foreword to the PIU report indicated was a priority. The Government’s approach remains inconsistent, and the price of energy is likely to rise.** Reasons for this include:

- the introduction of the Renewables Obligation;
- the introduction of the EU Emissions Trading System from 2005;
- the gradual phasing out of nuclear and some coal-fired power stations over the next decade; and
- the increasing reliance on foreign markets for our energy needs.

81. In our view, the Government is straight-jacketed by its approach to addressing fuel poverty and by the ‘one-size fits all’ approach adopted in the Renewables Obligation. And yet it is also inconsistent in the extent to which it maintains its non-interventionist approach, as the commitment to provide direct investment aid for coal demonstrates.

Formal minutes

Wednesday 9 July 2003

Members present:

Mr John Horam, in the Chair

Mr Peter Ainsworth
Mr Gregory Barker
Mr Colin Challen

Mr Mark Francois
Joan Walley
Mr David Wright

The Committee deliberated.

Draft Report (The Energy White Paper – Empowering Change?), proposed by the Chairman, brought up and read.

Ordered, That the Chairman’s draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 81 read and agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (reports)) be applied to the Report.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

The Committee further deliberated.

[Adjourned till Wednesday 16 July at half-past Three o’clock

Witnesses

Wednesday 2 April 2003

Page

Mr Brian Wilson MP, Minister of Energy and Construction, Department of Trade and Industry; **Mr David Hayes**, **Mr Mark Hutton**, and **Mr John Thorpe**, Department of Trade and Industry; and **Mr Jeremy Eppel**, Department for Environment, Food and Rural Affairs.

Ev1

List of written evidence

1	Department for Trade and Industry	Ev5
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