The Energy Bill

March 2013

Update following Commons Committee Stage

Summary

The Energy Bill will shape the energy sources used to power Britain for the next forty years. We need to attract over £100 billion investment over the next decade to replace and upgrade our energy infrastructure and diversify the energy mix. The choices made now will have long-standing consequences for the future competitiveness of the economy, energy prices and consumer bills – and our climate targets. The International Energy Agency has warned that the world faces serious risks from climate change unless the world makes a significant and urgent shift in investment patterns towards energy efficiency and renewable energy technologies, and away from fossil fuels.

There is a strong consensus across businesses, investors and civil society that the best way to position the UK as a modern, efficient economy attracting investment and creating jobs, while cutting carbon emissions and controlling energy costs, is to decarbonise our electricity supply by 2030.

However, as it stands the Energy Bill will not deliver this.

Three issues dominated Second Reading and Committee Stage that if addressed would ensure the Energy Bill delivers for the economy, consumers and the environment:

1. the need for a power sector decarbonisation target in 2030;
2. the lack of energy efficiency measures in the Bill;
3. the dangers of dependence on expensive, volatile, imported fossil fuels.

Furthermore, the Bill is a major opportunity to deliver a more sustainable, transparent and fair energy industry. We're calling for amendments that would make energy markets more transparent, ensure only sustainable bioenergy is supported in the future, and to help new entrants into the market.

> "We are in a global race and the countries that succeed in that race, the economies in Europe that will prosper, are those that are the greenest and the most energy efficient."
>
> **Prime Minister David Cameron**
> **4 February 2013**

A decarbonisation target for the power sector

The Energy Bill must put the UK power sector back on track after a turbulent 18 months of Coalition infighting and policy confusion. The perception of political risk is deterring major investors, manufacturers and banks. In the global race, the UK must work hard to be open for business, otherwise companies and investors will go elsewhere. It is imperative that the Government restores confidence, actively removes political risk, and creates a long-term framework to attract investment in energy infrastructure.

There is a strong case for a sector-specific decarbonisation target for electricity in 2030 to provide that longer-term clarity, attract investment, and bolster our carbon targets. The Government has accepted all these points at Committee stage, and agreed in principle that a carbon intensity target for 2030 "would be useful and of value".[1] Energy Minister John Hayes said explicitly that there was no disagreement about the principle, only the mechanism and timing of the target.[2]

[1] Energy Public Bill Committee, 5 February 2013; C.489
[2] Energy Public Bill Committee, 5 February 2013; C.498

However, the Government's new Chapter 1 is weak on both the mechanism and the timing: it merely gives a power to consider setting a decarbonisation target in 2016 or any year thereafter, with too few details. This has not satisfied the calls of businesses, investors, manufacturers or suppliers who want a long-term investment signal beyond 2020.

Indeed, the proposal would lock in further uncertainty until 2016 and increase risk and borrowing costs because:

1. it fails to set a target now. Indeed the Government's proposal would block the setting of a target until, at the earliest, 2016 following the publication of the 5th carbon budget;

2. it has no requirement for the Secretary of State to set a target - it remains a 'may' not a 'must'.

3. a target could be set in any year after 2016, at any level, to be met by any date, and without taking into account the Committee on Climate Change's advice.

We believe Britain needs a strong decarbonisation target now

A 2030 decarbonisation target is all about maximising investment and jobs and accelerating the reductions in the cost of renewable technologies for the benefit of consumers. It would give investors a clear signal about the direction of energy policy after 2020 and drive greater investment in UK-based supply chains, factories and jobs.

"If we wait until 2016 to get the certainty that would help us to make a decision, particularly around the Hull investment [a new factory for offshore wind turbines] – this is for other companies with other technologies as well – we would probably miss the boat." **Michael Rolls, Siemens**

A strong target is supported by the nuclear industry, the CCS industry, the renewable energy trade bodies, the TUC, the Church of England and other faith groups.[3] It has widespread support from many sectors of the economy including investors, manufacturers, engineering firms, consumer groups, faith groups, charities and wider civil society. See for example, the joint statement by over 35 groups released last month.[4]

"The vast majority [of companies] do appear to support a decarbonisation target in the Bill."

Ed Davey, Secretary of State, DECC

The Levy Control Framework is important, but it does not give long-term clarity – the current agreement only goes up to 2020, and a signal beyond 2020 is needed if companies are to locate operations and factories here in the UK, with all the jobs and benefits that brings. Otherwise we face a cliff edge in investment.

The economy-wide carbon budgets do not in themselves give a clear signal to the direction of energy policy. Investors and developers have seen their confidence in the long-term low-carbon transition undermined by mixed messages from the Government such as the review of the Fourth Carbon Budget and the inclusion in the Gas Strategy of scenarios that are incompatible with meeting the UK's carbon budgets.[5]

Both the Liberal Democrats and the Labour Party support a 2030 power sector decarbonisation target, along with the Scottish Nationalist and Green Parties. The Government itself has admitted that a target would be valuable.

It is time to accept that the Quad got it wrong, and Parliament must correct the mistake.

A cross-party group of MPs has put down amendments at Report Stage which put a proper decarbonisation target in the Bill – led by Tim Yeo (chair of Energy & Climate Change Select Committee) Barry Gardiner, Dr Julian Huppert and Caroline Lucas.[6]

These amendments require that a target must be set by April 2014, follow the advice from the CCC, and publish a delivery plan setting out proposals to achieve the target.

We urge MPs of all parties to add their name to and vote for these amendments.

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[3] See the joint energy industry letter in the Guardian, 5 November 2012.
[4] Joint statement by 36 organisations on 20 February 2013.
[5] DECC, Gas Generation Strategy, December 2012.
[6] House of Commons, Notice of amendments given on 7 February 2013.

Putting energy saving at the heart of the Bill

In February, the Prime Minister set out the ambition to be "the most energy efficient country in Europe"[7] and at Committee stage MPs from all parties spoke in favour of an amendment requiring the Government to introduce a demand reduction incentive within a year of the passing of the Act.[8] Climate Change Minister Greg Barker welcomed the intention behind the amendment, and suggested that the Government might bring forward its own amendments at a later stage – but there is nothing in the Bill as yet.

Saving energy is a 'no regrets' policy. It is the quickest and cheapest way to protect consumers from rising bills, cut carbon emissions and improve security of supply without building expensive new power stations. Germany has planned to cut its energy demand by half and its electricity demand by a quarter by 2050, with sector-specific and economy-wide targets to get there.[9] The Government's own analysis shows that the UK could reduce its demand for electricity by 36% by 2030, but current policies will achieve only 37% of this potential.[10] Even a relatively modest 10% reduction in electricity demand could by 2030 save electricity equivalent to that generated by five power stations.[11]

As the Energy & Climate Change Select Committee have said[12], further measures to bring about electricity demand reduction are therefore needed (both in the Bill and beyond it), including tough energy efficiency regulations and standards for buildings and products, and significant public funding for energy efficiency programmes, including the recycling of carbon revenues into energy saving programmes.

Members should continue to call for measures to deliver ambitious savings at scale in the Energy Bill and beyond, and for DECC to respond to the electricity saving consultation in time for proper scrutiny of amendments.

Avoiding dependence on fossil fuels

A "dash for gas" would leave the UK heavily exposed to gas price increases and shocks which would hit consumers hard, damage business and be a drag on the economy. Most projections suggest that gas prices will remain high and volatile over the coming decade, irrespective of shale gas exploitation. To protect consumers and limit consumer bills, it is therefore wise to reduce dependence on gas and use more low carbon and renewable energy sources.

Gas prices were responsible for 62% of the increase in household energy bills since 2004 and are expected to continue to be the largest cause of energy price increases for the rest of the decade.[13] Ofgem has warned that heavy gas reliance could drive bills up by 60% from 2009 to 2016.[14] This compares to an expected increase of £100 for low carbon power generation between now and 2020.[15]

UK production of conventional gas has steadily declined since 2000, so the UK is increasingly dependent on imported gas. Even if there is substantial exploitation of shale gas, the IEA forecast that gas imports will total 75% of total EU demand by 2030.[16]

> "Early decarbonisation of the power sector should be Plan A – and the dash for gas Plan Z"
>
> **David Kennedy, Committee on Climate Change**

The Committee on Climate Change found that a virtually carbon free power sector by 2030 would cost consumers £23 billion less than relying predominantly on gas during the 2020s.[17]

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[7] BusinessGreen, David Cameron's green Economy speech in full, February 2013
[8] Energy Public Bill Committee, 29 January 2013; C.337
[9] German Federal Ministry for the Environment, The Energy Concept, 2011
[10] DECC, 2012. *Electricity Demand Reduction: Consultation on options to encourage permanent reductions in electricity use*.
[11] Ibid.
[12] Energy & Climate Change Select Committee, *Draft Energy Bill: Pre-Legislative Scrutiny*, July 2012.
[13] CCC, Energy price and bills: the impacts of meeting carbon budgets, December 2012.
[14] Ofgem, Project Discovery Energy Scenarios, 2009.
[15] CCC, Energy price and bills: the impacts of meeting carbon budgets, December 2012.
[16] IEA, World Energy Outlook: Special Report on Unconventional Gas, May 2012.
[17] Committee on Climate Change, Response to the Gas Strategy December 2012.

However, the Bill does not contain the tools to do manage the transition away from fossil fuels efficiently or cost-effectively. The proposed Emissions Performance Standard (EPS) as "at best pointless"[18] and has not been amended to tackle existing high-carbon coal stations.

To provide future system security and flexibility the proposed Capacity Market will pay generation capacity simply for being there (with penalties if it doesn't deliver when needed), but the current design risks creating large incentives for unnecessary new fossil fuel plants, giving windfalls to existing plant, and holding back lower carbon and often cheaper solutions like interconnection, electricity storage and demand side response. The Government should make these demand-side measures a higher priority than new generation capacity. If further generation capacity is then still needed to guarantee security and flexibility, DECC's modelling showed a targeted strategic reserve composed initially of rarely-used older plant could prove cheaper, yet this option is excluded from the Bill. See our update on the Capacity Market for more details.

Other key issues for the Energy Bill

The Energy Bill provides a major opportunity to make the energy industry more sustainable, transparent and fair. We're calling for amendments that would:

1) Make energy markets transparent

UK energy policy for all technologies should be determined in a transparent, evidence-based process that maximises investor and public confidence. The Bill not only risks giving nuclear a large subsidy in violation of the Coalition Agreement, but seeing it set behind closed doors.

2) Ensure that only sustainable bioenergy is supported

Electricity from biomass is expected to make up a significant proportion of the future energy mix. As drafted, the Energy Bill will continue to allow support through mechanisms like Contracts for Different to high carbon, unsustainable electricity generation from biomass, such as burning of whole trees. Members should support measures to ensure that only sustainable biomass qualifies as clean energy.

3) Support new entrants into the energy market

It is important to increase competition in the energy market, but the proposed Contracts for Difference risk locking out small, independent and community energy generators. They are calling on Government to introduce a green power auction market for independent renewable generators and raise the cap on small-scale feed-in tariff to 20MW to cater for community schemes, increasing competition and directly benefitting communities.

Further briefings on all of these issues are available on the following websites:

www.wwf.org.uk/parliamentary

www.foe.co.uk

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[18] Energy & Climate Change Select Committee, *Draft Energy Bill: Pre-Legislative Scrutiny*, July 2012.