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House of Commons Debate on Energy Market Reform

24 October 2012

Summary

- Energy market reform must set a clear, stable framework for a secure, low carbon and affordable energy mix for the future – balancing all three goals.
- WWF believes these goals can all be met by ambitious policies for energy efficiency and renewable technologies, and will be harmed by a ‘dash for gas’.
- Huge investment is needed for new energy infrastructure, but political infighting and policy confusion are raising costs, deterring investors, and losing us jobs. The Government must speak with a united voice about energy, consumer pressures and climate policies.
- The public deserve transparency and honest political debate about the future costs of electricity and the best measures to save energy and reduce their bills.
- The best way to protect consumers is through ambitious energy saving measures, which are more cost-effective than building new power plants. The Energy Bill must include ambitious energy saving measures.
- Consumer bill rises are mostly driven by the increasing cost of gas. Overreliance on gas is risky as import dependence and prices are expected to rise.

The causes of increasing costs to consumers

Consumers’ main contact with climate policies is through their fuel bills. The public deserve an honest and transparent debate from politicians and the media. Average domestic energy bills increased from £605 in 2004 to £1,060 in 2010. 63% of this increase was caused by rising gas prices.¹ Environmental policies are responsible for only a small part of consumer bills at present. Looking forward, the Committee on Climate Change expects gas prices to add £175 to bills by 2020, and low-carbon policies to add £110. Both can be reduced by ambitious energy efficiency policies to keep usage down. Consumer bills will rise under any scenario – but scenarios that involve greater energy efficiency can help significantly limit cost to consumers to approximately 2010 levels.

Energy saving is the cheapest way to low-carbon, secure and affordable energy

The UK has huge potential for greater efficiency savings because we have some of the worst insulated housing stock in Europe.² The Committee on Climate Change suggests that the right

¹ CCC, [Households Energy Bills – impacts of meeting carbon budgets](#), December 2011.

² CCC, [Renewable Energy Review](#), May 2011.



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energy efficiency policies could keep domestic energy bills close to 2010 levels by 2020. McKinsey estimates that electricity-saving measures in the domestic, commercial and industrial sectors could cut 40% of total electricity demand by 2030, a massive 155TWh, equivalent to the output of 15 nuclear power plants, thereby saving in excess of £10 billion per year.³ But current policy will only deliver savings 14% (54TWh), barely one third of the total potential.

WWF believes energy saving should be on equal footing with supply-side measures. The Energy Bill should incentivise energy efficiency and create a 'market' for electricity savings through an electricity efficiency feed-in tariff.⁴ All parties should give full support to amendments in the Bill.

A secure, diverse low-carbon energy mix without nuclear

The electricity sector already has the technologies to remove most carbon emissions by 2030 in a cost-effective and socially acceptable way. The CCC advises that the power sector should be near-decarbonised by 2030 to 50gCO₂/kWh.⁵ The British Isles have world-beating renewable energy resources. WWF believes our ageing energy infrastructure should be replaced by a mixed portfolio of renewable technologies which could provide over 60% of UK electricity demand by 2030 if the renewable energy sector is allowed to grow steadily over the next two decades.⁶ This model passes rigorous stress tests showing that a system mainly based on renewables could be just as secure as one based on fossil fuels and nuclear.

The withdrawal of key players in the nuclear market and continually rising cost estimates for new plant make it unlikely that nuclear will be able to significantly increase low-carbon capacity by 2030. Delays to the Carbon Capture and Storage demonstration programme suggest CCS may not be available a commercial scale for 2030. Renewables, interconnectors, and energy saving are better.

The UK is currently over-reliant on gas which comprises 41% of electricity and 80% of domestic heating. This exposes us to high bills, volatile prices and insecurity. Gas will play a useful role in the energy mix in the near term, but by 2030 will need a substantially different role. The CCC states 'the role for unabated gas fired power generation should be limited to balancing the system in 2030, by which time the share of unabated gas generation in the total should be no more than 10%, compared to 40% today. A second dash for gas... would neither be economically sensible nor compatible with our legislated carbon budgets.'⁷ DECC's announcement of 20GW of new capacity to 2030 is unlikely to be compatible with the 50g target for 2030 unless the plant runs at very low load factors.

Energy investment creates jobs and growth, but policy must be stable

The UK energy market needs to attract over £100bn in private sector investment, but policy confusion and high-profile political battles are deterring investment, raising the cost of borrowing, and jeopardising our energy security going forwards. In 2012 companies like General Electric, Vestas and Doosan Power Systems delayed or cancelled projects because of policy uncertainty. Investors and industry need a clear policy framework with strong targets and stable financial support. The CCC, Liberal Democrats, Labour Party, and industry leaders from nuclear to renewables all support an ambitious 2030 decarbonisation target in the Energy Bill. The Government should heed this call and ensure the Bill gives the right support for industry to attract investment in low carbon, secure and affordable energy.

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³ McKinsey for DECC, [Capturing the full electricity efficiency potential of the UK](#), 2012

⁴ WWF/Green Alliance: [Creating a market for electricity savings](#), October 2012.

⁵ See in particular the CCC's [Fourth Carbon Budget report](#), July 2011.

⁶ WWF-UK, [Positive Energy](#), November 2011

⁷ CCC, [Statement by David Kennedy on Unabated Gas Fired Generation](#), 24 May 2012

