

## A response to Joan Ruddock's letter on the Energy Bill – dated 22<sup>nd</sup> February 2010

*“Both the TUC and CBI have written to MPs to explain the threat to investment posed by the introduction of an EPS at this time. It could mean **no investment in new coal at all** thus making the development of carbon capture and storage (CCS) technology impossible in the UK. It would also apply to gas and thus could seriously undermine investment in gas as well.”*

Claims that new regulations will lead to disinvestment have been heard many times before – particularly from the CBI. Were Government to simply heed them uncritically we would not have a minimum wage among other things. Energy companies hardly have a proud record of providing public goods at the lowest possible cost – only today OFGEM reported they had widened margins on fuel bills to a level Ed Miliband described on Channel 4 News as “pretty much record highs”.

The Energy Bill will introduce a charge on every consumer's electricity bill to provide money for energy companies to build CCS demonstration plants. This fund will also support retrofitting of these plants in future. We believe handing over such large amounts of public money to companies to cut carbon emissions, without a requirement for the companies to meet certain carbon emissions standards from that plant is wrong.

*“It is **not** true that only an EPS can deal with CO2 emissions from new coal. The Energy Bill provides for a levy to be raised which will support four coal stations demonstrating CCS and for the future retrofitting of those stations to 100%. CCS has the potential to remove 90% of CO2 emissions from coal generation.”*

We support a balanced approach where **financial support for energy companies is matched by requirements for them to meet certain standards**. That means the levy to help energy companies invest in new technology and an EPS ensuring the new plant is built in a way that maximises cuts in carbon emissions. Currently the Energy Bill only has the levy – it hands over public money without regulations to guarantee results. It may be that a different regulatory structure to an EPS could be proposed and could be as effective – but the Government has chosen not to come forward with one. We are proposing an EPS structure because it is tried and tested in other countries.

*“There is no EPS anywhere in the world that operates along the lines of NC6. For example, in California, exemption can be given if the investment is necessary to ensure reliable service. Compliance is not monitored. It is also the case, in the California example, that existing gas-fired power stations with higher emissions than EPS are nevertheless deemed to be compliant and do not face any sanctions.”*

This is a rather confusing point. For a start it is unclear if the Minister thinks we should have a scheme that operates somewhere like California, but the amendments propose something different, or if the California scheme is useless and we actually need something different.

In fact, while both New Clause 6 and New Clause 15 (which now looks more likely to be voted on) require Ministers to set up an EPS through regulations passed within a fixed period of time, both amendments leave enormous flexibility as to what such regulations would say. Ministers would decide on compliance methods, sanctions, and emission levels – none of this is specified in the New Clauses. We would of course make the case for a robust EPS during the period in which these regulations are being drawn up – but it is wrong to claim that the amendments specify a particular type of scheme. We therefore do not understand the claim that no EPS operates along these lines.

*“It is **not** true that the independent Climate Change Committee said that we need to stop emissions from coal plants in the next 10 years. They did say that there will only be a limited role for unabated coal in the 2020’s. We agree.”*

We also agree with what the Committee on Climate Change said – which was (in fuller form) that for unabated coal “**the Government should provide a very clear signal** that this will have a limited role in the 2020s” (our emphasis). An appropriately set EPS would be such a signal. Simply agreeing with the Committee is not in our view a “very clear signal”.

*“They [the CCC] have said in relation to EPS, “the CCC does not yet have a view on which measure would best tackle the risks.” Our new reporting arrangements will ensure that Parliament has the opportunity to examine progress on CCS and the CCC’s advice and ensure the government considers whether policy changes are required. Such changes could include introducing an EPS once some experience of CCS has been gained.”*

Again, it is helpful to more fully quote the Committee. First the “risk” referred to is that power sector decarbonisation is so “central” to meeting carbon targets at affordable cost that “the Committee believes that we should not accept the **significant risks and costs associated with the current market arrangements**” (our emphasis).

It is because current market arrangements are so plainly considered insufficient by the Committee that further measures are proposed. The Committee says “We are not confident that current market arrangements will deliver required investments in low-carbon generation through the 2020s. We propose a set of options for power market intervention to support low-carbon investments and urge that these are seriously considered in the near term.”

The Committee go on to propose six options, of which the Government has so far committed to introduce just one: Feed-in Tariffs for small-scale renewables (due to begin in April). While welcome, this has little relevance to the large scale power stations this Energy Bill affects. The Bill is therefore a key opportunity to introduce another of the six ideas the Committee propose – an Emissions Performance Standard.

The Minister’s quotation from the Committee is entirely accurate – though it is a shame there was not space for the full sentence which says “The CCC does not yet have a view on which measure would best tackle the risks posed by the current market structure, **but believes that all should be seriously considered in the near term**” (our emphasis). This echoes an earlier recommendation in the Committee’s first report in December 2008, which also suggested an EPS be considered as a possible solution.

We do not consider a review process ending in 2018 – some ten years after the CCC first suggested an EPS – to be serious consideration in the “near term”. The CCC has been recommending further regulation in this area since it was first formed – yet neither an EPS, nor any alternative regulation has been announced. Far more urgency is required to correct unsatisfactory market arrangements if climate targets are to be met.

*“Legislation is **not** required to introduce an EPS as government already has the powers to do so.”*

This is irrelevant. The aim of the amendment is to **require** the Government to introduce an EPS not to allow it to. The fact the Government has powers to introduce an EPS is of no consequence if it has no plans to use them. Only if Ministers announced that the Government will use existing powers to introduce an EPS on the same timescale could the amendment be considered unnecessary.

*“Fossil fuel emissions overall are controlled by the EU ETS with a cap that tightens over time in line with Europe’s emissions reductions targets to deliver an overall reduction of 21% below 2005 emissions by 2020.”*

The Climate Change Committee explicitly rejects this argument when they begin their advice on decarbonising the power sector as follows: “There is an approach to power generation that says emissions from the sector are capped and that we can entirely rely on the market to determine the appropriate path to decarbonisation. This is not, however, an approach that the Committee accepts.”

*“Over the next decade we need to find a way to include clean coal in our energy mix to ensure energy security. The UK already has the toughest regulatory conditions in the world for new coal and the Energy Bill provides the world’s first funding mechanism of its kind to support CCS. We also cannot risk an EPS undermining investment in new gas fired power stations.”*

We finish where we began with threats of disinvestment. However one might at least suspect that the “world’s first funding mechanism of its kind to support CCS” would go quite some way towards overcoming the disinvestment problems it is alleged regulation will cause.

Energy companies cannot have it both ways. They cannot be so confident CCS will deliver such large cuts in emissions that they demand their consumer’s stump up hefty sums through a new levy to fund it – and simultaneously be so worried about cutting emissions to meet a new regulation that they dare not invest.

We simply want a balanced approach – support for energy companies to build new technologies, and requirements for them to deliver the carbon savings they claim the technologies will deliver.

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