



House of Commons  
Environmental Audit  
Committee

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# Government Response to the Committee's Eighth Report on the Energy White Paper— Empowering Change?

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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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### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at: [www.parliament.uk/parliamentary\\_committees/environmental\\_audit\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/environmental_audit_committee.cfm). A list of Reports of the Committee in the present Parliament is at the back of this volume.

### Committee staff

The current staff of the Committee are: Mike Hennessy (Clerk); Emma Downing (Committee Specialist); Eric Lewis (Committee Specialist); Anna O'Rourke (Committee Assistant); and Caroline McElwee (Secretary to the Clerk of the Committee).

### Contacts

All correspondence should be addressed to The Clerk, Environmental Audit Committee, Committee Office, 7 Millbank, London SW1P 3JA. The telephone number for general inquiries is: 020 7219 6150; the Committee's e-mail address is: [eacom@parliament.uk](mailto:eacom@parliament.uk)





# Eighth Special Report

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## Energy White Paper—Empowering Change? Government Response

1. The Environmental Audit Committee published its report on the *Energy White Paper—Empowering Change?* on 9 July 2003 as HC 618.
2. The Government's Response to the Committee's Report was received on 10 November 2003 in the form of a memorandum to the Committee. It is reproduced as an Appendix to this Special Report.

## Appendix

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### HOUSE OF COMMONS ENVIRONMENTAL AUDIT COMMITTEE REPORT “ENERGY WHITE PAPER—EMPOWERING CHANGE?”

#### GOVERNMENT RESPONSE

1. The Environmental Audit Committee published a report on its findings from this inquiry on 22 July 2003. This note sets out the Government's response to the Committee's conclusions and recommendations.
2. We are grateful to the Committee for its report. We welcome the Committee's support for the fundamental shift in UK energy strategy set out in the Energy White Paper and for the new goal for the UK to put itself on a path to cut its carbon dioxide emissions by 60% by about 2050 with real progress by 2020. We welcome the Committee's strong endorsement of the adoption of a long-term emissions reduction target. As the Committee recognizes, this reflects the Government's determination that the UK will continue to show firm leadership internationally in tackling climate change.
3. The Government does not however accept the Chairman's criticism of the energy White Paper. The White Paper sets out a detailed and long-term strategy for achieving its objectives including over 130 commitments. We have published an implementation plan on the Sustainable Energy Policy Network web site with the key milestones for implementing the commitments as well as the names and contact details of the officials responsible.
4. We agree that the price of energy is likely to rise as a result of measures to reduce carbon emissions. Over the period to 2020, the policy measures proposed in the White Paper—on emissions trading, renewables and energy efficiency— might add around 5-15% to household electricity prices and less than 5% to household gas prices. It is important to put these potential rises in context. Electricity prices have fallen significantly in real terms over the last 20 years to their current historically low level. Such price increases would not necessarily translate into similar increases in the total amount consumers pay for energy. Part of the price impact reflects energy efficiency measures which should lead to reductions

in energy use. The impact of the measures to promote energy efficiency proposed in the White Paper should mean that, for many households and business users, energy bills fall as the amount of energy consumed is reduced.

5. We have established the Sustainable Energy Policy Network to ensure that the White Paper commitments will be delivered. The Network represents a new way of working together for central government, devolved administrations, energy regulators, key delivery bodies and, shortly, regional organisations. We believe this improves co-ordination, and brings together in a single vehicle, responsibility for implementing the White Paper's commitments. The new Ministerial Group, chaired by the Secretaries of State for Trade and Industry and for Environment, Food and Rural Affairs, provides high-level oversight. The proposed new Sustainable Energy Policy Advisory Board will provide senior, independent external advice to Government on implementation.

**Recommendation 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)**

6. We welcome the Committee's recognition that the Energy White Paper fundamentally changes UK energy strategy. We also welcome the Committee's support for the priority the White Paper gives to environmental objectives including the new goal for the UK to put itself on a path to cut its carbon dioxide emissions by 60% by about 2050 with real progress by 2020. We are pleased that the Committee supports the proposed strategic role for renewables and energy efficiency set out in the White Paper.

**Recommendation 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) &**

**Recommendation 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)**

7. The Government welcomes the Committee's strong endorsement of the adoption of a long-term emissions reduction target. As the Committee recognizes, this reflects the Government's determination that the UK will continue to show firm leadership internationally in tackling climate change. This will be vital as UK emissions account for only 2% of those globally and our actions need to be part of a concerted international effort. We will do this on the one hand through the action we take domestically, to demonstrate by example to other developed countries the level of ambition required in responding to this challenge, and to demonstrate also to developing countries that the UK as a developed economy is committed to taking a lead in combating climate change.

8. We will also show leadership through full and constructive engagement in negotiations, both formal and informal, on the form and ambition of global action to cut emissions after

the end of the first Kyoto Protocol commitment period. As the Government pointed out in its response to the Royal Commission on Environmental Pollution (RCEP), preliminary, and largely informal, discussions on this are only just beginning. Any framework for future action must respect the core principles set out in the UN Framework Convention on Climate Change: that Parties to the Convention should protect the climate system on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities, with developed countries taking the lead. A future framework must also build on what we have achieved to date through the UNFCCC and the Kyoto Protocol. There are, however, a wide range of possible options for doing this and many different perspectives among the Parties— the majority of which have yet to begin considering the issue in any depth. The Government believes that it will be essential for the success of the post 2012 framework to promote a frank debate based on thorough, technically-sound and objective analysis of the options, and that for the UK position to command credibility, it needs to be seen to be based on such detailed analysis and consultation with other Parties. The Government certainly intends, with our European partners, to develop and promote our preferred approach, but believes, as it explained in the response to the RCEP, that it is still premature to do so at this stage.

**Recommendation 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)**

9. The Government believes that the analysis of the impact of policies on emissions of carbon dioxide is vital to help inform us about progress towards (and threats to) our targets to reduce emissions of greenhouse gases. A thorough analysis of all benefits and costs is essential to deliver on the Government's commitment to sustainable development. This requires policy to be appraised against its anticipated economic, social and environmental impacts. The recently updated guidance for regulatory impact assessments states that where relevant, any environmental impacts should be included among the costs and benefits of all proposed new policies and regulations.

10. The Energy White Paper builds on this commitment by stating that "carbon impact assessment will in future be an integral part of assessing environmental impacts". The Government agrees that in assessing major or strategic policy decisions, consideration should be given to the potential implications both for the domestic goal to reduce carbon dioxide emissions by 20% by 2010 and for the longer term aim set by the Energy White Paper to put ourselves on a path to cut carbon dioxide emissions by 60% by about 2050, with real progress towards this target by 2020. The Government is currently considering how this might best be applied in practice.

**Recommendation 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);**

**Recommendation 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);**

**Recommendation 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. The White Paper sets out a long-term strategy for achieving its objectives including over 130 commitments and the means for delivering them. We have published an implementation plan on the Sustainable Energy Policy Network web site [www.dti.gov.uk/energy/sepn/index.shtml](http://www.dti.gov.uk/energy/sepn/index.shtml) It sets out details on the 11 individual workstreams and lists some 100 key milestones for implementing the commitments in the Energy White Paper as well as the names and contact details of the officials responsible. The website is updated regularly to show progress on implementing the milestones.

12. In the area of renewables the White Paper describes the substantial help already in train through the Renewables Obligation and the Climate Change Levy and the further help likely to come from the EU Emissions Trading Scheme. It also analyses the barriers to achieving the Government's targets and aspirations. It then sets out a clear programme for tackling these barriers including proposals for:

- £60 million in new money for renewables projects bringing the spending on renewable energy up to £348 million in total over four years;
- reforming the guidance for local planning authorities and developers about the best way to promote renewables through the planning system;
- simplifying the procedures MOD applies to wind farm developers while still accommodating our national security needs;
- the publication by OFGEM of an incentive framework for connecting and utilising distributed generation later this year for implementation in April 2005.

13. We expect the industry to respond to the framework established by the Government and demonstrate they can achieve our goals for renewables at an acceptable cost. We remain firmly committed to the Renewables Obligation and will maintain the level of support it provides as planned until 2027. In 2005/06, we shall review progress and will elaborate a strategy for the decade to 2020. We published a consultation document on a technical review of the Renewables Obligation on 29 August to ensure the Obligation works as intended and to review co-firing rules with the aim of encouraging the development of energy crops.

14. We are also currently conducting a review of renewables innovation spending across Government. This review will consider what Government needs to spend on renewables innovation to achieve the 2010 target and create options for achieving the 2020 aspiration and the 2050 carbon reduction aspiration. It will examine which are the key renewable technologies for the delivery of the 2010 target and the 2020 aspiration, what are the barriers to the development and deployment of these key renewables technologies and

what Government measures are needed to facilitate delivery of the targets and aspirations, and the level of resources needed.

15. We shall publish an Implementation Plan for energy efficiency within a year of the White Paper's publication, setting out in more detail how we will deliver the energy efficiency strategy set out in the White Paper, as well as a strategy on CHP to 2010 and an Implementation Plan for the Government's Fuel Poverty Strategy.

**Recommendation 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)**

16. DTI and Defra hold jointly the target "to improve the environment and sustainable use of natural resources, including through the use of energy saving technologies, to help reduce greenhouse gas emissions by 12.5% from 1990 levels and moving towards a 20% reduction in carbon dioxide emissions by 2010". Both Departments take this (and each) Public Service Agreement (PSA) target extremely seriously and also keep it under regular review to ensure that we are on course to achieve it.

17. The Government and the Devolved Administrations are confident that the UK Climate Change Programme and the Energy White Paper provide an effective policy framework for reducing the UK's greenhouse gas emissions. Current projections suggest that we are well on course to meet our commitment under the Kyoto Protocol to reduce greenhouse gas emissions by 12.5% from 1990 levels. Achieving the domestic goal to reduce carbon dioxide emissions by 20% from 1990 levels will be more challenging but the integrated package of measures set out in the Climate Change Programme and the Energy White Paper demonstrate that the Government remains committed to delivering it. The formal review of the Climate Change Programme in 2004 provides an opportunity to introduce new policies and measures, or to strengthen existing ones, if the conclusion is that more needs to be done to keep us on track towards the domestic goal.

18. The Energy White Paper made the environment one of the four key pillars of energy policy and restated our commitment to achieving our 10% renewables target, while describing it as "very challenging". The mechanisms we have put in place demonstrate our commitment to meeting this target, which can also play an important part in delivery of the security of supply and competitiveness aspects of the current PSA target. We are working hard to address the barriers and to encourage renewable developments and there are signs that the market is responding. More onshore wind projects have been given consent in the first half of 2003 than in the previous decade, and Ernst and Young, for example, have announced Britain as the most attractive location for offshore wind investment. We believe it is premature to incorporate the White Paper's 20% renewables aspiration into the PSA target.

**Recommendation 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)**

19. A review in 2005-06 will enable us to review progress, and set out a strategy for the period between 2010 and 2020. A review on this timescale will be able to take account of the experience of carbon prices arising from the emissions trading scheme and any changes in the costs of renewable technologies following the introduction of the Renewables Obligation. The review will also need to consider how we reach our aspirations for 2020. It is too early at this stage to commit ourselves to measures for a further expansion of renewables for the years after 2010. It is also too early to reach conclusions on a long-term policy, set for 25 years, just after the first year of the operation of the Obligation.

20. The review planned for 2005-06 will also clarify how the Obligation will relate to other policy instruments, in particular the Emissions Trading Scheme.

**Recommendation 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)**

21. The strategy for individual renewable technologies is set out in technology route maps (key technological milestones) which have been prepared for each of the main new and renewable energy technologies (including biofuels and photovoltaics) to cover the period up to 2020. Each route map is the result of extensive consultation with industry and other key stakeholders. The route maps are available on the DTI's website at [www.dti.gov.uk/renewables/technologies/routemap.shtml](http://www.dti.gov.uk/renewables/technologies/routemap.shtml)

22. Biomass is an important part of our renewables strategy, and to assist the growth of biomass-fuelled generation we launched last year the £66 million Bioenergy Capital Grants Scheme, jointly funded by DTI and the New Opportunities Fund. A key aim of the Scheme is to stimulate early deployment of biomass technologies. This has proven to be a very popular scheme and has become over-subscribed, with funds now fully allocated. Defra supports the development of dedicated fuel supply for these projects through the Energy Crops Scheme which allocated £29 million to planting grants for short-rotation coppice (SRC) and miscanthus and support for SRC producer groups in England. However, uptake for this scheme has so far been low. A further £3.5 million is being made available by Defra to develop supply chains. While the Government has done a lot on biomass already, there are still a number of problems to address (in particularly its viability in current market conditions). More work is needed for biomass to play the role envisaged in the White Paper.

23. We are also seeking to develop a stronger stimulus to provide a biomass supply chain by increasing the amount of electricity generation from energy crops through co-firing. The co-firing rules under the Renewables Obligation allow power stations to burn biomass alongside fossil fuel. Energy crops are envisaged as a major source of the biomass eligible under the Obligation as a fuel for the generation of renewable electricity.

24. The strategy for the deployment of photovoltaics is largely set out in the 14 recommendations of the Government-Industry PV Group Report of March 2001. The

principal recommendation was for a 10 year, £150 million programme with a target of 70-100,000 roofs. Since April 2002 grants have been provided through the £20 million first phase of the Major Photovoltaics Demonstration Programme (MDP). Under the MDP, grants totalling £10 million have so far been allocated to 300 individual householders and to 66 medium and large-scale projects with housing groups and on non-residential buildings. The Government will consider the case for increased funding for the next phase following an interim evaluation at the mid-way point of the first phase of the MDP.

25. There are other recommendations which we are still working on, including changes to Building Regulations, encouragement of equal tariffs, and PV on Government buildings. These issues are all part of the long-term development of the market and overcoming the barriers to deployment.

**Recommendation 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)**

26. We aim to publish a revised draft as soon as possible in the autumn, once Parliament has returned. If we are to produce a message for planning authorities and developers consistent with the emphasis on renewables in the Energy White Paper, then as well as taking on board the views of stakeholders, we need to make substantial revision to the current document. Furthermore, we intend to shorten and focus the guidance in order to honour a commitment made in the Planning Green Paper last year.

**Recommendation 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)**

27. The Energy White Paper set out the contribution that could come from energy efficiency between now and 2010, and between 2010 and 2020—around 10 million tonnes of carbon per annum each decade, split equally between household and non-household energy use. It made clear that these savings would need roughly a doubling of the rate of energy efficiency improvement compared to recent decades. It included indicative figures for carbon savings for key sectors, and for some individual measures, but these are not targets as such. Subject to the passage of Brian White's Sustainable Energy Bill, the Government expects to publish an energy efficiency aim for residential accommodation in England as part of the Energy Efficiency Implementation Plan, to be published in February 2004. The Bill would also require the National Assembly for Wales to designate a comparable aim for residential accommodation in Wales. The Government will also set a new target in 2003 for energy efficiency in the central Government estate.

**Recommendation 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)**

28. All responses to the draft CHP Strategy provided an important input to the measures for CHP announced in the Energy White Paper, supporting achievement of the 2010 target

of 10GW installed Good Quality CHP capacity. The Government intends to publish the full CHP Strategy before the end of 2003/04.

29. We recognise the difficulties currently facing the CHP industry, and are working in close partnership with industry to take the CHP support measures forward, conscious that only sustained effort from the private and public sector will allow the benefits of the measures to be fully realised. We have commissioned Cambridge Econometrics to update the econometric modelling to inform the publication of the final CHP Strategy and the National Allocation Plan under the EU Emissions Trading Scheme. We are also working to facilitate the implementation of micro-CHP. The Government will consider what further measures might be needed to help progress towards our target.

**Recommendation 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)**

30. In the recently published consultation document, *Economic Instruments to improve household energy efficiency - consultation document on specific measures* (August 2003), HM Treasury invited views on a number of measures including the possible introduction of a reduced rate of VAT for micro-CHP.

31. Views are invited by 24 October 2003, and will be taken into account in the formulation of government policy in this area, as part of the Chancellor's decision making process for the Pre-Budget Report and the Budget.

**Recommendation 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)**

32. The Government has not endorsed the calculations of the Fuel Poverty Advisory Group, but is committed to the targets for fuel poverty set out in the UK Fuel Poverty Strategy and is considering future spending requirements in the course of the current spending review.

**Recommendation 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)**

33. Two major reviews of Warm Front, Government's main fuel poverty programme for the private sector in England, were recently completed, to evaluate its delivery effectiveness. The findings are currently being considered. Key areas of focus are improved targeting, enhancements to eligibility and the use of appropriate energy efficiency measures. Discussion with stakeholders on the way forward is planned later this year.

34. The Energy White Paper identifies the domestic sector as delivering around half of total energy efficiency savings to 2020. A key programme for promoting energy efficiency in households is the Energy Efficiency Commitment (EEC), primarily a carbon savings

programme that commits licensed energy suppliers to meet targets for the promotion of improvements in domestic energy efficiency. EEC helps low-income consumers in receipt of certain benefits, many of whom are likely to be living in fuel poverty, because suppliers must focus at least 50% of energy savings on that group. There will be a consultation in spring 2004 on proposals for the Energy Efficiency Commitment post 2005. Other important policies and measures for this sector include economic instruments, on which HM Treasury and Defra are currently consulting, revisions to Building Regulations, and advice and information.

**Recommendation 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)**

35. The Building Regulations energy efficiency provisions were recently amended as part of our Climate Change Programme, and the new provisions, representing significant improvements over previous standards, came into effect in April 2002.

36. The Energy White Paper indicates our intention of raising standards even further over the next decade learning lessons from the standards in comparable European countries. As part of this, the Energy White Paper also indicated our aim of bringing the next major revision of the energy efficiency provisions in the Building Regulations into effect by 2005, and to raise the standards for boilers to the highest levels—Class A and B condensing types. In pursuing these aims we shall of course ensure that the Regulations remain proportionate, and that the performance standards they set are cost-effective (taking more account of the energy savings benefits and including the social cost of carbon emissions), sufficiently flexible for designers and without excessive technical risks. The legal requirements will continue to be given in functional terms and we are seeking to expand the guidance in the Approved documents, L1 and L2, to cover ways of compliance when proposing proven low-carbon and zero-carbon systems. This will allow for sufficient design discretion and for technical innovation.

**Recommendation 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)**

37. The Government and Ofgem recognise that both the transmission and distribution networks need to be developed as newer forms of generation start to make significant contributions to the overall generation mix. The extent to which new investment in networks will be required will depend to a large extent on where new generation, of whatever type, is located.

38. Within the framework set by the Energy White Paper and energy legislation, setting price controls that create appropriate incentives for any investment needed to enable generation to connect to the network is a matter for Ofgem.

39. The Government has made it clear in both its draft Social and Environmental Guidance to Ofgem, and the Energy White Paper, that Ofgem has an important role in achieving the White Paper's goals. The Government believes that the achievement of its objectives may be dependent on a radical transformation of the energy system, especially electricity sources and technologies, and greater diversity in supply and control and management of demand, including the growth of energy services. The Government gives high priority to monitoring the progress of these issues and has established the appropriate working groups to do this.

40. DTI and Ofgem have also recently published a document on transmission charging and the Great Britain wholesale electricity market. This document sets out how transmission licences need to be amended to create a Great Britain regime for transmission charging to replace the separate charging regimes that apply in England & Wales, Scotland and in respect of use of the Scotland-England interconnector. The creation of a Great Britain electricity market (with the introduction of BETTA) will ensure that the costs of transmission investment can be spread across all users of the transmission system.

41. The Transmission Issues Working Group (TIWG), chaired by DTI and comprising Ofgem, Transmission Assets Owners and the devolved administrations, commissioned studies on the costs of upgrading the transmission network for new renewable energy generation in Scotland and offshore England/Wales. Planning work has started on initial upgrades of the system. TIWG will continue to monitor the progress of this work and will monitor the level of developer demand for new renewable generation projects, including the infrastructure required for offshore wind hubs.

42. Ofgem recently published its initial consultation paper on the electricity distribution price control. Setting the new price control for 2005 is a major project for Ofgem over the next 18 months. The expected growth of distributed generation—typically smaller renewable generators—which will be needed to help meet Government environmental targets raises challenges and opportunities for the companies and Ofgem. Ofgem will be looking to set a price control framework for the next five years that will incentivise distribution companies to respond to the needs of new generators, including connecting them to the network in an efficient way, as well as protecting the interests of electricity customers. These proposals will of course be subjected by Ofgem to an environmental impact assessment.

43. DTI and Ofgem through the Distributed Generation Co-ordinating Group are engaging with distribution network operators to ensure that no unnecessary technical barriers exist that could constrain the connection of renewable and other generation to the distribution networks.

**Recommendation 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)**

44. Transmission and distribution charges are established by the relevant companies, within the requirements of their licences as monitored and enforced by Ofgem. At present, transmission connected generators are required to pay use of system charges from which

smaller distributed generators are exempt. Further, smaller distribution connected generators are eligible for ‘embedded benefits’, which may include payments from NGC.

45. In June 2003, Ofgem published the initial conclusions of its review into the structure of distribution charges. This paper proposed a move to shallower connection charges and the introduction of generator distribution use of system charges. Ofgem’s March 2002 proposal to allow renewable generators to pay “deep” charges over a number of years was an interim arrangement that will be superseded by this new charging regime with effect from April 2005. Taken in conjunction with new distribution price controls that come into effect at the same time and the introduction of new schemes to incentivise innovation in network development, Ofgem expects that the new charging arrangements will improve the current regulatory arrangements.

46. The comments on the detail of Ofgem’s internal management structure are based on a misunderstanding. Ofgem’s Competition and Trading Arrangements Division covers all forms of generation, including small generators. In particular, it is responsible for monitoring the wholesale market and for scrutinising the Balancing and Settlement Code modification proposals. Separately from this, as part of the Climate Change Programme, Ofgem has an important role in administering Government schemes to promote renewables and energy efficiency. These schemes are administered by Ofgem’s Social and Environmental Directorate. Ofgem believes that its current structure enables it to carry out all its environmental responsibilities in a coherent and responsible way.

**Recommendation 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)**

47. The Government concurs with the Committee’s view that the 2005 Distribution Price Control review is of enormous importance. The review, together with Ofgem’s ongoing review of distribution connection charges and proposals to reduce distribution losses, represents a unique opportunity to ensure that, in future, distribution network operators see the connection of renewable and other distributed generation as a business opportunity—this being the most effective way of ensuring that generation is welcomed on to the distribution networks.

48. Ofgem have recently published their initial consultation on the Distribution Price Control review. The primary objectives of the review are set by Ofgem’s statutory duties. Ofgem recognise a key issue will be the development of the regulatory framework to deal with the increasing levels of distributed generation implied by the Government’s targets and aspirations. The Government will continue to engage positively with Ofgem to ensure that the promising concepts set out in Price Control and related reviews evolve into substantive and effective incentives to connect generation.

**Recommendation 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)**

49. The Sustainable Energy Policy Network represents a new way of working for central government, devolved administrations, energy regulators, key delivery bodies and shortly regional organisations. We believe this improves co-ordination, and brings together in a single vehicle, responsibility for implementing the White Paper's commitments. The new Ministerial Group chaired by the Secretaries of State for Trade and Industry and for Environment, Food and Rural Affairs provides high-level oversight. The proposed Sustainable Energy Policy Advisory Board will provide senior, independent external advice to Government on implementation.

**Recommendation 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)**

50. The Department of Trade and Industry's objectives already recognise the sometimes complex tradeoffs that have to be made between the four primary goals of energy policy. This is illustrated, for example, in the Department's current Public Service Agreement target to *"ensure the UK ranks in the top three most competitive energy markets in the EU and G7 in each year, whilst on course to maintain energy security, to achieve fuel poverty objectives; and improve the environment and the sustainable use of natural resources, including through the use of energy saving technologies, to help to reduce greenhouse gas emissions by 12.5% from 1990 levels and moving towards a 20% reduction in carbon dioxide emissions by 2010"*. This and the Department's other Public Service Agreement targets will be reviewed in the context of the next Spending Review.

51. The Energy White Paper recognises explicitly that environmental objectives are a key pillar of energy policy. The acceptance of the RCEP's recommendation for 2050 creates a central, long-term aim to which the energy system must contribute. But the Government believes it is right, consistent with approaches to sustainable development more generally, to keep under close review the essential trade-offs between the economic, environmental, security of supply and social goals of energy policy as decisions are made. It would not be right necessarily, for example, to place a higher importance on the environmental objectives than on the economic or social objectives, as suggested by the Committee, in all circumstances. The balance of these tradeoffs will change over time and in different circumstances. The important thing is that there is a clear set of objectives to be achieved over time, and a clear strategy to achieve them, to provide a backdrop against which the necessary tradeoffs can be made. That is what the White Paper provides.

**Recommendation 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)**

52. The White Paper acknowledges that prices are likely to rise as a result of measures to reduce carbon emissions and internalise environmental costs. Measures already introduced, such as the Renewables Obligation, will have associated price impacts, for which estimates have been made. Over the period to 2020, the policy measures proposed in the White Paper—on emissions trading, renewables and energy efficiency—might add around 5-15% to household electricity prices, less than 5% to household gas prices, 10-25% to industrial electricity prices and 15-30% to industrial gas prices.

53. It is important to put these potential rises in context. Electricity prices have fallen significantly in real terms over the last 20 years to their current historically low level. Even under a high case scenario the price of electricity to domestic consumers should remain below that for the 20 year period up to 1995. For industrial consumers, prices might return to the levels of the early 1990s but remain below those for the whole of the 1970s and 1980s. For domestic consumers a high case scenario could see prices rising to their levels of the late 1990s, although this would still be below the level during nearly all the 1970s and 1980s. Industrial gas prices have already increased from a historically low level in the mid 1990s. The high case scenario is that they might return to the level of the late 1980s.

54. Such price increases would not necessarily translate into similar increases in energy costs. A part of the price impact reflects energy efficiency measures which should lead to reductions in energy use. The impact of the measures to promote energy efficiency proposed in the White Paper should mean that, for many households and users, energy bills fall as the amount of energy consumed is reduced.

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