

MONDAY 9 FEBRUARY 2009

Present

Bradshaw, L. (Chairman)
Dykes, L.
James of Blackheath, L.
Paul, L.
Powell of Bayswater, L.
Rowe-Beddoe, L.
Ryder of Wensum, L.
Walpole, L.

Witnesses: **Mr Tim Abraham**, Director, European Energy, **Mr Tom Bastin**, Assistant Director, European and International Energy Efficiency, and **Mr Duarte Figueira**, Director, Office for Renewable Energy Deployment, Department for Energy and Climate Change, examined.

Q1 Chairman: Good afternoon. I think we are concerned there are lots of possible actions and lots of possible Community action, but is there any mechanism whereby all these actions are shown to complement one another?

Mr Abraham: Thank you, my Lord Chairman. I am Tim Abraham and I am Director of EU issues at the Department for Energy and Climate Change. My colleagues will introduce themselves as we go along. It is important to put this whole package in context because you are quite right to observe that it is a very large package of what might appear to be fairly disparate measures all related to energy security. Going back a couple of years, you will recall that the European Commission tabled its First Strategic Energy Review back in January 2007 with essentially four objectives: competitive integrated energy market; security of energy supply; reduction of greenhouse gas emissions; and a common external EU policy. Over the last couple of years we have had legislation proposed for the competitive integrated energy market, the so-called Third Package of energy liberalisation, and that was proposed

back in September 2007 and, we hope, is towards the end of its legislative passage through the EU institutions at the moment. Then we had the 2020 package of climate change last year. This Second Strategic Energy Review very much concentrates on energy security as being the third element. Energy security and the external dimension are the third and fourth elements of that. That is how it fits into the wider picture. In terms of are there mechanisms, there is, as it were, the bureaucratic mechanism within the European Union. From a British Government point of view, we are very keen to get the various parts of the Commission to talk to each other, in this case the lead is obviously taken by DG TREN - Trade, Transport and Energy - but also a big input from RELEX, External Relations and the Environment. They are bringing together bureaucratically back to Whitehall very much an integrated approach across government departments. Perhaps the most recent events in terms of the dispute between Ukraine and Russia over gas supply, and I am sure we will come to this, which resulted in gas supplies being cut off to the European Union, has shown that most of the elements of this package are actually just the sorts of things that are needed and, if anything, it has put an acceleration on what is being proposed.

Q2 Chairman: We looked carefully at the various papers and some of the proposals to strengthen the security of supply involve, shall we say, countries of somewhat uncertain governments. Is something being done to make sure that it really is built on solid ground because building supplies from some energies is problematic and could be very dangerous, I think.

Mr Abraham: You are quite right to say that if we chose places that we could get our fuel from maybe some of them would be different from what, unfortunately, the geography and the geology determine. The important thing here is to encourage diversification and that is very much the name of the game in terms of energy security. Diversification of types of energy but also diversification of sources of energy. That is sometimes easier said than done

because of the geography and the geology, as I have said, but that is what lies behind most of what is in this Package and certainly what HMG is trying to achieve.

Q3 Lord Powell of Bayswater: That was very helpful, thank you. I think energy security is now very much top of the agenda. I was at the Munich Security Conference at the weekend and it featured very largely there for the first time. On the other hand, it was very clear from comments made by President Sarkozy and others that every European country has a different view of the constraints and what is needed and there are those who think Russia is what it is all about, and they have to keep very close to Russia, and others who are busy promoting other schemes. Do you think there is really a coherent unity of approach achievable in Europe on this given the different geographic positions of the Member States and their dependence on different sources of energy?

Mr Abraham: You are never going to get, as it were, a totally integrated approach where the EU deals on behalf of all Member States with third countries. That clearly will not happen. I think, and I guess the crisis has helped this, there is an increasing feeling of solidarity. There will always be a balance and clearly if you are a country that has got good relations with a particular third country you are not going to give those up, but you might not use them, as it were, against the interests of other Member States. In terms of Russia, clearly Russia, whatever way you look at it, is going to be the major external source of gas for the European Union for the foreseeable future, so we have to have a constructive relationship with them, although clearly since the dispute both they and, indeed, Ukraine have somewhat undermined their reliability as suppliers, so things have changed. Yes, there will be a tension but I think it is moving in a more coherent direction.

Q4 Lord Powell of Bayswater: Will it not be an obstacle to getting agreed positions on some of the projects like alternative pipelines and so on? It is going to be pretty difficult, is it not, to get people to sign up to some of these?

Mr Abraham: Yes. In many cases they are not necessarily alternatives, for instance, from the so-called southern corridor route through Turkey from the Caspian and trans-Caspian, but potentially in time from other countries in the Middle East if the politics are right at the far end, and that is the big question, whether there is enough gas - there is potentially enough gas - then those pipelines can co-exist. That will not be true necessarily everywhere but, for instance, there is the Nord Stream pipeline going from Russia to Germany and it should be possible for that to co-exist. There is perhaps an outside possibility that Russians could try and get some of the Caspian gas for that. We just need to manage that.

Q5 Lord Powell of Bayswater: Does that mean there is a conflict, or there will be occasional conflict, between the geopolitical needs of the Western Alliance and the strict interpretation of what the requirements of energy policy will dictate?

Mr Abraham: I think that is inevitable and it is true at the moment. There are countries in the Middle East which have supplies of oil and gas that we are not using, for good geopolitical reasons.

Q6 Lord Powell of Bayswater: It does seem to me to be a flaw at the heart of the European Energy Security Strategy if those contradictions do exist.

Mr Abraham: It is part of the climate and we have to work around it.

Q7 Chairman: So it is an uncertain climate in many ways, despite the aim of legislators to not put it all into neat boxes. Are you confident that the various economic operators who are involved do receive, and are receiving, clear signals from governments?

Mr Abraham: I would hesitate to be too complacent here, but we certainly do our bit to explain the broad philosophy behind the measures. I am pretty confident that the major operators understand this and that this Package as a whole and its position in the overall EU energy policy over the last two or three years does hang together.

Chairman: Thank you. May we move on to Lord Paul.

Q8 Lord Paul: The proposals contained in the Review would require very large additional infrastructure to be built. What action is being taken to ensure that sufficient industrial supply chain is available for these projects?

Mr Abraham: You are quite right, my Lord, there is a lot of infrastructure here. I would make two main points. One, clearly in the current economic situation there are many bits of the infrastructure which use fairly traditional supply chains and those supply chains are only too delighted to have the chance of business at this particular time. More generally, it is important for us to put the regulatory framework in place; it provides the signals to the market, and that should at least signal what is expected. There are areas, and I think perhaps offshore wind is the most significant, where there has been, and is, tightness in the market. The amount of offshore wind, and indeed wind energy as a whole, as a result of the other measures that have been taken within the European Union, is going to go up enormously. There are limits at the moment to those supply chains. Within the UK we have a number of measures which try to help British supply chains, or help British businesses enter those supply chains. Our colleagues in BERR published the low carbon industrial strategy at the back end of last year which is, amongst other things, setting up an Office of Renewable Energy Deployment and my colleague, Duarte, is heading that. If we want to go down that route I am sure Duarte will be able to help on that. We have a number of other incentives to develop the R&D that is necessary to produce those supply chains.

Lord Paul: In the case of these strange times can I declare an interest in that I am a Chairman of a manufacturing company, but I do not think so far they have thought of this.

Q9 Lord Dykes: In that context, with the recession building everywhere, unfortunately, how would you in clear terms describe the present state of the EU energy market, particularly to lay people who are not sure whether there is sufficient supply or not over the next few years?

Mr Abraham: In terms particularly of supply and its reliability?

Q10 Lord Dykes: Yes.

Mr Abraham: Recent events have shown that it is actually quite robust to a fairly significant reduction in gas supply in that particular case. What that has shown is real areas where there are gaps in the real infrastructure and in pipelines. There was probably enough gas around Europe but in a few cases, particularly in Central and South Eastern Europe, it was just impossible to get the gas to the right places. More generally, in terms of what we are trying to do in the Third Package of liberalisation, the overall aim has always been to have a single integrated market. That has to be both integrated physically, which it is not yet, and then integrated in a market sense and the Third Package is trying to help that move in both directions. It does not have to be totally integrated and totally liberal to be robust, but that is the aim. As we will come on to later, there are a number of infrastructure projects.

Q11 Lord Dykes: Thank you for that. Are you therefore confident that the Third Energy Package does meet the Commission's aims? Do you feel that it will satisfy the Commission?

Mr Abraham: I think it will. There was long debate particularly about the detail of unbundling of companies on the market side, as it were. I think a combination of good implementation of the Third Package, and we are pushing for early implementation before the legal requirement in some of the softer areas of collaboration between countries to encourage

those links to be made, and what has been done up until now, which has been DG Comp, who have been looking at particular areas where operators have appeared to act anti-competitively, should push this continuously in the right direction.

Q12 Lord Dykes: Bearing in mind your initial words, when you started, about what was given to the Commission to try and draw up the common energy policy at the beginning of 2007, do you feel that the clear signals that were given to the Commission by the Council of Ministers have been, as it were, eroded by the external circumstances of the recession and the slowing down of markets, and the conflicts and difficulties between different suppliers and different countries with all the politics involved in that? Is the Commission feeling slightly disillusioned that its original objective has slipped as a result of these inevitable real world factors?

Mr Abraham: I think your last words are probably the important ones, “inevitable real world factors”. Having said that, if we get the Third Package through, and at the moment it is with the European Parliament who, incidentally, are on the whole very supportive of it and, indeed, in terms of some of the unbundling and so forth are rather more encouraging of that than the final position, we will have done pretty well. But that is not the end of it because then there is the implementation; and, as I said, some of the work of DG Comp has shown there is still work to be done in fully implementing the Second Package, so it is a continuing effort.

Q13 Lord Paul: There are six key infrastructure projects in the Action Plan. What is the current status of these projects and how long have these projects been under discussion?

Mr Abraham: Essentially they are six project areas, project concepts, they are not all specific projects. They are very different in form but all contribute to the energy security. For instance, you have got the Baltic Interconnection Plan which is essentially to get the Baltic States physically within the European ambit, because at the moment essentially they are still

in the Russian ambit. We have mentioned the southern corridor, which has been discussed for a number of years, and I think the UK Government has taken quite a lead here and has succeeded in persuading the Union and other Member States that this is a very good way of reaching our aim of diversification, as I was explaining. The Mediterranean Energy Ring, essentially the idea there is diversification. It is bringing particularly solar and wind energy, so this is not typical gas and oil, but using some of the renewable energy of particularly North Africa and the Middle East and incorporating that into the mix in the EU. There is an LNG - liquid natural gas - Action Plan. Again, that is very much diversification of sources of supply, allowing European countries to get liquid gas from much further afield. Going back to your first remark, my Lord Chairman, about unreliable countries, you then get into slightly more reliable countries perhaps, like Trinidad and Tobago, Malaysia and others. Again, increasing the diversity here of sources of supply. The fifth one is gas and electricity connections in Central and Eastern Europe. As I was saying to Lord Dykes, what was shown from the recent problems with Ukraine and Russia was a lack of certain interconnections there, so that is important. Finally, what is described as a blueprint for a North Sea offshore grid where, clearly, the UK has a big interest, here. This idea is a very imaginative and quite long-term one, to have a grid right across the North Sea, and the idea of connecting a number of offshore wind supplies around the North Sea is a very attractive one. And if that can be done in a way that each Member State can take account of what the others are doing and move towards improving the security supply for the EU as a whole, that is something to be supported. They are all very different; they are all at different stages, but they all have broadly the same objective.

Q14 Lord Walpole: Lord Dykes and I are not clear when you are talking about a North Sea grid whether you are talking about gas or electricity.

Mr Abraham: I am sorry, my apologies. We are talking about an electricity grid connecting offshore wind farms.

Lord Dykes: That was what we thought.

Q15 Lord Paul: In all probability these things must have been planned at a time when the financial market was very strong. Will these have to be revised in view of the credit crunch?

Mr Abraham: Inevitably, the economic situation has changed, though arguably the energy situation and the demands on energy, certainly in the medium-term, have not. Yes, there may be less money around and this in turn might promote some to call for more money within the European Union to help some of these [projects]. Part of what the Commission is saying is that, over the new two years, it wants to look at each of these and work out what should be done, and what in particular the EU and the Member States can do to help these, and that may well be a different answer now from what we were expecting six months ago.

Q16 Lord Powell of Bayswater: Just a few more questions on the same subject. First of all, the Commission wants a general agreement in Europe that these are the six; will they get it?

Mr Abraham: I think they will. “These are the six” does not mean there are not any others at all, but clearly these are the ones where much of the political concentration will be put and you will recognise that they cover a number of bases.

Q17 Lord Powell of Bayswater: There will be a trade-off, I can see that. Secondly, to what extent have you, as officials, been able to examine the feasibility of the projects and so on, and the business case for them? Do you have to rely largely on information from commercial operators and investors and so on? Have you had a chance to make some sort of independent study of the viability of all six of them?

Mr Abraham: Not all six, no. We have a particular interest in the Caspian and in the North Sea and perhaps to a lesser extent in the Baltic. We also have an interest in LNG, but the Action Plan is slightly different. We must not forget these are going to be commercial projects and certainly under the current instruments the EU is not putting large sums of money in there. They will put some TEN-E money for feasibility studies and so forth. We have certainly had an initial look at them to see whether they seem sensible. If commercial players are interested, then we take their word that there is something in there. And if that is the case, it is very much more the EU and the UK looking to see where the barriers are, rather than looking too much at the feasibility.

Q18 Lord Powell of Bayswater: The business operators are sharing information with you to a degree that you find acceptable?

Mr Abraham: In the ones that we are interested in.

Q19 Lord Powell of Bayswater: To what extent can the EU as a unit actually affect these projects? At the end of the day it is going to be commercial decisions, and for countries outside the EU to take many of these decisions. Does there need to be an EU policy on them at all? Can they be left to the market and governments who partner the market to take all the necessary decisions?

Mr Abraham: I think they are of sufficient importance and in each in their different ways there is a role for the EU or Member States, the Commission, or whatever. I am not going to go through all six, unless you would like me to, but taking the top one, the Baltic Interconnection Plan, that seems to be a very reasonable commercial deal, but there are arguments between some of the individual Baltic States as to exactly where certain lines should go. The role of the Commission may be a little bit of heads knocking together and encouragement. That is a small example of where it might be.

Q20 Lord Powell of Bayswater: Are your colleagues in BERR ensuring that British companies who have an interest in individual projects are getting the sort of support and help they need?

Mr Abraham: I am sure they are. I am, particularly in terms of the North Sea offshore.

Q21 Lord James of Blackheath: This is not the question I intended to ask but it has been prompted by your recent exchange with Lord Powell. Is there any view in the Department at the moment about the attractions, or opposite, of the potential formation of the European Union North Sea Energy Association? It sounds horrendous to me and I would like to know exactly what the Department might be considering in regard to this.

Mr Abraham: The North Sea?

Q22 Lord James of Blackheath: This is where they are proposing that all the nations that border on the North Sea should surrender the sovereignty of their coastline for one integrated energy policy for the whole of the North Sea, and we should surrender everything, including our own generated output, to one centre of unity. It was proposed first of all at the Budapest Conference last October.

Mr Abraham: I think if that were the proposal we would not welcome it.

Lord James of Blackheath: I would send for NATO if it happened!

Q23 Lord Dykes: The Government did welcome the conclusion to the Budapest conference.

Mr Abraham: We are keen to work together, but not in those sort of terms.

Lord James of Blackheath: I am pleased to hear it.

Q24 Chairman: If I might just bring this section to a close by saying you have described lots of things which are being talked about, but to what extent is it possible to say that what you have spoken about is aspirational and to what extent are things actually going to happen?

Mr Abraham: In terms of those six projects, for instance, a lot of work is being done both in terms of at the EU level and commercially. Those are all medium to long-term. The Baltic interconnection plan might be a little shorter term. We might come to this later. These sorts of activities are all very necessary for the energy security of the EU in the medium-term, so there will be increasing pressure for them or something like them to happen.

Q25 Chairman: So there actually needs to be a lot more pressure to move into what I would call the very last stage of implementation?

Mr Abraham: That is what I hope we can do this year.

Lord Ryder of Wensum: It has always been one of my great regrets that I never saw Max Miller at the Glasgow Empire, but the more I hear about the Budapest Conference I must say it is beginning to start falling into that bracket. It must have been a riotous occasion of comedy from what you have told us about it.

Lord James of Blackheath: You do not know what you missed!

Q26 Lord Ryder of Wensum: I think we are dealing with the next set of questions now on emergency oil stocks. The first one concerns the need for us to find out in greater detail from you about the Commission's proposals and for you to tell us how the Commission's proposals differ from what has been going on up to now.

Mr Abraham: The main objective has been to try to bring what is required by the EU more in line with what is required by the IEA - the International Energy Authority - in particular on the basis on which that is done. The EU up to now has put a stocking obligation on consumption and the IEA on net imports and that is now going to be brought in line. For the United Kingdom, because we have just moved from being an exporter to an importer our imports are very small, that will mean there will need to be a transition period until, as it were, the import based figures come up to the same level as the consumption figures for

countries such as ourselves and Denmark, and Romania as well. I think the feeling is that this is a good bit of getting rid of bureaucracy, if you have got two sets of requirements you might as well bring them together, and perhaps imports, if you are going to have one simple figure, is a better one to do. The other area is the idea that seems to be in the legislation about some sort of central stock holding entity. This is something that some Member States already do. We do not in the UK. We put the requirement on individual operators.

Q27 Lord Ryder of Wensum: Has that always been the case? I do not think it has. I think it is relatively recent.

Mr Abraham: I do not know. We can write to you. Exactly what the Commission is proposing is still under discussion but we are certainly thinking carefully about whether that is something we would want to do or whether we would seek to oppose that. More generally, we feel that, once you have got your targets, it should be left to Member States to determine how they meet them and the requirement for specific bodies to hold the stocks seems unnecessary.

Q28 Lord Ryder of Wensum: Are there many Member States who share our views on this?

Mr Abraham: I gather there are. Even those who already have some sort of central stocking arrangements, they do not like what is in the legislation. There is a debate to be had there.

Q29 Lord Ryder of Wensum: Thank you. The next question on emergency oil stock holding is: I wonder whether you could explain more fully the proposal for economic operators to delegate their stock holding obligations. I know that in part you have covered that already, but I wonder whether there is anything you really want to add?

Mr Abraham: Maybe the only other issue, and it is another aspect of what I was saying, is it looks as though the Commission are trying to get each country, as it were, to hold their own

stocks. My understanding is that it is quite common that other countries will hold stocks for other countries and so long as the arrangements are satisfactory we would think that was an unnecessary restriction.

Q30 Lord Ryder of Wensum: From what you have been saying you clearly believe that the proposals have gone far enough, but: is there any area at all where they could be extended further?

Mr Abraham: I do not think we feel there is. We certainly agree with the principle of having stock levels and they have got to work but, beyond that, we feel it is up to Member States to make sure that happens.

Q31 Lord Walpole: Could we go on to TEN-E now, please. Could you explain how the TEN-E programme actually operates? Does the programme actively seek out suitable projects for its support?

Mr Abraham: Yes, my Lord. TEN-E has been running since 1996. It has been running for ten years or so. Every so often, maybe every four years, a list is drawn up, essentially a list that comes from Member States, of projects that satisfy the broad objectives of the scheme to improve things in the market, to improve links, particularly to more remote areas. There are about 300 of these projects and every year the Commission issues a tender asking for bids for the money for that year. Remember, the money is essentially money for up to 50 per cent of the costs of feasibility studies. There is a small amount for actual work but, given that the budget is very small, it is not often used. So there is a sort of whittling down process, they will be marked against various criteria and half of them will get money and that is an annual process. Then every four or five years the list is refreshed.

Q32 Lord Walpole: How do other Member States regard the TEN-E, particularly those who have only got one source of fuel import?

Mr Abraham: The TEN-E programme, for what it is, has done well, and countries like it. It helps in individual projects to give some money towards feasibility studies. Perhaps more significantly, it gives a sort of EU imprimatur, a political badge, to a number of these projects which helps commercial operators and others raise money. For countries in Central and Eastern Europe, they will have more access to funds such as Structural Cohesion Funds and so forth which they can use for these sorts of projects. It has been helpful to them in that respect. Clearly if they are a country that has got very little choice, and I guess Bulgaria comes to mind in the recent crisis, this should be a way of helping them get more connections and be better integrated.

Q33 Lord Walpole: How can the success of TEN-E be assessed and what measures are used to measure security of supply?

Mr Abraham: The way the success of TEN-E is measured is through these regular four-yearly reports of what has gone on. It is quite difficult, to be frank. We get lists of the projects that were supported and how those have got on. And on the whole that seems for the money being put in to have a good success rate, but what it does not cover very well is all those other projects that have not been given money. Have they fallen by the wayside, or has this political badge helped them go through? One of the signs of success is the Member States still put in their bids and their projects.

Q34 Lord Walpole: The Commission document in front of you notes the aim of achieving electricity interconnections of ten per cent of installed production capacity by 2005. Has this, in fact, been achieved or not?

Mr Abraham: No, it has not been achieved.

Q35 Lord Walpole: What is hampering progress?

Mr Abraham: This figure came out of a European Council in Barcelona back in 2002. It is fair to say that it was always an aspiration. The reason was essentially security of supply, but part of it was a perception that a number of big electricity companies were acting anti-competitively in not actually building extra lines to allow more electricity to come from other Member States. We, in Britain, have seen this as an aspiration but a slightly artificial dirigiste target and a means to an end, but we regard the end of the more liberalised market as being more important than the specific means. It also depends which country you are in and in some countries it will be an awful lot more than ten per cent. In the UK and, I do not know, Malta, say, at the moment it is going to be rather different.

Q36 Lord Walpole: I thought our own grid did fairly well.

Mr Abraham: Indeed.

Mr Figueira: We have got two interconnectors, one to France and one to Northern Ireland, and there are some others in prospect. We would like to come back to you on the amounts involved.

Chairman: Thank you. If you could tell us clearly how you intend, if you do intend, to achieve this ten per cent.

Q37 Lord Powell of Bayswater: The target set for the gas import capacity level of 70 billion cubic metres by 2013, how was that arrived at? Is it realistic and are we going to achieve it?

Mr Abraham: That figure, as far as I can see, comes from a difference figure between expected demand for gas and expected production within the European Union. Clearly with difference figures there is twice as much uncertainty. It is a not totally unreasonable figure. In terms of how we might meet it, there will be two main areas. A number of these

interconnections, some of the major six perhaps, the first parts of those, will be able to increase between them. Essentially it is the capacity to be able to bring in that amount. It is more pipes and it is also more LNG terminals. Even just in the UK with Milford Haven and the Isle of Grain, over the next few years we should be having about an extra 12 billion cubic metres worth of capacity. With a combination of those two this is possible but, as my Lord Chairman was saying, you have got to push on.

Q38 Lord Powell of Bayswater: What assumptions were made about North Sea gas in setting the import figure? How much do we expect to derive from North Sea? Have there been changes recently in our estimates?

Mr Abraham: I am not aware that there have been changes. The estimate is that it will go down steadily between now and 2020. Yes, frankly that is one of the reasons why, from the United Kingdom's point of view, we are very keen to promote the LNG.

Q39 Lord James of Blackheath: There was a point back in early autumn/late autumn last year when the Government did make the statement, which would be wholly consistent with my own recollections of my time in the North Sea, that the reserves of gas in the North Sea were significantly higher than had been previously expected to stand at this stage. As a result, they were prepared to increase by four per cent per annum the contribution of North Sea gas to the energy budget. That four per cent would be a very slow depletion of the reserves of the North Sea that are still left. Would it not be effectively a better reserve and defensive strategy at this moment to be prepared and set up the infrastructure to be able to take out a much higher extraction in order to give us, first of all, the benefit of a better hedge against international energy problems at the present time and, secondly, the more you take out the better you improve your storage capability to go and build up reserves by buying in from Europe now?

Mr Abraham: I do not know the detail of that North Sea depletion policy. Clearly there are two schools of thought in terms of keeping it in the ground longer. What is clear is that we do have a diminishing level of stocks there and a diminishing level of them coming on land. The rest of our gas policy is determined by that. I cannot answer the detail of your question; I am sorry.

Q40 Lord James of Blackheath: I have always been very concerned that one of the fallacies in the discussions that have taken place on this is that given there is a bigger reserve of gas than we had expected to have now, and [given that] we will not need it at all if we achieve our renewable energy objectives, would it not be better to use it to extend the period of time which we have available to achieve a very efficient introduction of renewable energy instead of thrusting that policy forward at a level which will (a) cost more and (b) be less efficient on delivery, and will end up by leaving an unused reserve in the ground forever?

Mr Abraham: You are probably being rather optimistic that by, say, 2020 we will not need any gas at all from the North Sea, or anywhere.

Lord James of Blackheath: We will not need as much as the reserve that is left and we could extend our time to buy greater efficiency by using it. That was my point.

Q41 Lord Powell of Bayswater: Part of the Commission's proposal is to replace the TEN-E and have something different. I cannot remember what it is going to be described as. Is it not going to be called the new EU Energy Security and Infrastructure Instrument?

Mr Abraham: That sounds right, yes.

Q42 Lord Powell of Bayswater: That sounds like a good EU title, does it not, never use six words when eight would be better! What will it mean in practice, do you think? Will it be a significant change?

Mr Abraham: It is a significant change in terms of the climate that we are in and the objectives of it. Yes, energy security will remain the important aspect but we are in a different world from where we were in 1996. In particular, going back to renewables and so forth, the infrastructure needed for renewables is rather different from that of the more traditional generation of electricity in large plant. We have got many more diverse smaller sources of electricity. In terms of the sorts of things that it might support, that is likely to be different. In terms of its approach, we would like to see it include maybe more practical help to some of these projects. For instance, the Commission talk about “planning”. Whilst planning is very much a Member State competence, and we would want to keep it very much a Member State competence, there are areas where you can share best practice in terms of impact assessments and so forth. In terms of the budget, which is always the crucial thing, we would remain to be convinced of any very large increase in the budget. Certainly my Treasury colleagues would tell me that there is a financial framework until the end of 2013, so we can forget about any major increases in the budget. We would also like it to extend to other things. For instance, CCS, the infrastructure needed for CO₂ distribution, would be another area where it could well be extended, and indeed oil perhaps. Maybe a small increase to cover that wider range.

Q43 Lord Powell of Bayswater: I see the Explanatory Memorandum says there will be three particular aims for the new instrument and one of them will be developing the continental grid to enable the EU to meet its renewable energy objectives. Would we want it to extend to the UK?

Mr Abraham: Yes, my Lord, I think that was probably ----

Q44 Lord Powell of Bayswater: Shorthand in the communiqué.

Mr Abraham: Unfortunate shorthand, yes.

Q45 Lord Rowe-Beard: It was pleasing to hear there could well be greater reserves of North Sea gas than we perhaps thought recently, but my concern would be from the consumer viewpoint and what I hear of the lack of storage, which you actually mentioned with the build of Milford Haven. As I understand it, and perhaps you can correct me, there is no more than some 11 days of storage capacity available in the United Kingdom at present which means that we cannot take advantage of purchasing LNG at market fluctuations, we cannot buy when it is low because we do not have storage. Is that still true, and what are we doing about it?

Mr Abraham: Storage from the United Kingdom's point of view is very much in transit. While we were a big exporter it was not so important, but now we are in that flux. I understand there are quite a number - in the teens - of commercial storage projects that are in various stages of development. You are quite right, at the moment and certainly looking forward we do have too little storage and very much encourage more. If those came to fruition that would very much increase the level. I am sorry: I have not got the precise figures. At the moment the market does seem to be responding. Clearly there are issues about the economic situation at the moment, and so forth. That is how we see the storage situation, particularly in the UK at the moment. It is important. It was shown in the Russia-Ukraine dispute, it was those countries that had storage that did better and kept warmest.

Q46 Lord Dykes: How did the Commission react to the details of the UK National Energy Efficiency Action Plan?

Mr Abraham: May I introduce my colleague, Mr Bastin, for that, please.

Mr Bastin: Good afternoon, your Lordships. My name is Tom Bastin and I am the Assistant Director in Tim's team for EU and International Energy Efficiency Strategy. In terms of the Action Plan, every Member State was required to produce a National Energy Efficiency Action Plan setting out how we would meet the energy saving target in the Energy Services

Directive. The Commission have now completed their assessment of all those Energy Efficiency Action Plans and came to the conclusion that while some Member States had produced coherent and comprehensive Action Plans, in others there seemed to be a gap between political commitment and actual practical action. I am pleased to say the Commission concluded that the UK plan was very ambitious, it set out a coherent set of measures covering the important sectors - business, the residential sector, transport sectors - and that the programmes, policies and measures we set out in our Action Plan were consistent with meeting the energy saving target in the Directive. They also noted that we were one of only two Member States who submitted Action Plans on time.

Q47 Lord Dykes: The other one was, can you remind me?

Mr Bastin: The other country was Finland.

Q48 Lord Powell of Bayswater: When we did a report in this Committee on renewable energy we certainly concluded that energy efficiency was absolutely crucial to meeting the target for renewable energy by 2020. Without hitting our efficiency target we had no chance whatsoever of hitting the renewables target. The word “aspirational” has cropped up now and again and some of the targets are set for 2030 and 2050. First of all, is it realistic in any way to set targets for dates so far ahead? What is the point of it?

Mr Bastin: Certainly on energy efficiency there are no specific targets proposed at the moment beyond the current 2020 target. The Commission do suggest that any objectives for 2030 or 2050 will have to be more demanding and they are keen for Member States in their National Energy Efficiency Action Plans to start looking beyond 2020. Generally, we believe that it is appropriate to start looking beyond 2020 when we consider our objectives. I think that is an approach that is very much consistent with the sort of approach we are taking under

the Climate Change Act, for example, where we are looking ahead with our carbon budgets to targets in 2050.

Q49 Lord Powell of Bayswater: There is perhaps a difference between setting targets because there are political requirements to set targets because that is popular and demanded and generally thought to be a good thing, and setting targets which actually have any real meaning as targets because you do not know what the international scene at the time is likely to be and what other governments are doing and so on.

Mr Bastin: While that is certainly true when you are talking about things like the overall greenhouse gas emission targets, on the energy efficiency front the wider international context is of less importance because there are very good reasons for doing energy efficiency in any case, regardless of wider international agreements: the links to energy security, to business competitiveness, to helping people cope with rising fuel bills. In many ways energy efficiency targets are perhaps less controversial and perhaps easier to agree than, say, renewables targets or greenhouse gas targets but, of course, once you have got greenhouse gas targets and renewables targets, as you said, in a way the energy efficiency target more or less writes itself because it is inevitably what you have to do first to meet either of those targets.

Lord Powell of Bayswater: I certainly agree, energy efficiency is extremely desirable in its own right, I am not disputing that, I just think too much target setting goes on for the longer term future which does not do much for the credibility of the policies.

Q50 Lord Rowe-Beddoe: We have a recast of the Energy Performance of Buildings Directive, we have the Energy Labelling Directive and we have now the efficiency-labelling for tyres. What is the assessment of how these policies will help us achieve 2020 bearing in mind that we all think energy efficiency is probably the most important way of us getting to those 2020 targets?

Mr Bastin: Perhaps just taking them quickly each in turn. The recast of the Energy Performance of Buildings Directive is essentially seeking to clarify a number of areas where the implementation process in the original Directive had thrown up areas of uncertainty. It is also looking to extend some of the technical requirements of the Directive to more dwellings and buildings and to extend and enhance some of the administrative requirements of the Directive relating to energy performance certificates. The Commission have estimated that the recast will deliver 160-210 million tonnes a year of CO₂ savings by 2020, which is equivalent to about four to five per cent of total CO₂ emissions, so they are putting a lot of store in the recast. In terms of how those requirements will impact, say, in the UK specifically, I know that the Department of Communities and Local Government have submitted a separate Explanatory Memorandum on the recast and are currently working on an impact assessment which seeks to identify what it will mean for savings in the UK in particular. On the revision of the Energy Labelling Framework Directive, this will essentially allow energy efficiency labels to be set for a much wider range of products as part of an integrated approach to product standards within the EU combined with the new minimum performance standards under the Eco-design of Energy-using Products Directive. It means at the same time as setting minimum standards which remove the least efficient goods from the market, they will also introduce labels so that consumers know which of the products that are left on the market are the most efficient. We see that sort of integrated approach as being a key element of our own domestic energy efficiency policy. The Commission estimate that the Labelling Directive will deliver 80 million tonnes a year of CO₂ savings by 2020 and that would seem to be consistent with our own Energy White Paper commitment to reduce CO₂ emissions in the UK between about 3.67 and 11 million tonnes through that sort of integrated product policy. The Labelling of Tyres Directive, is taking the same approach that we have used for fridges, et cetera, and applying it to tyres alongside information on grip in the wet

and the noise associated with tyres. It is the same principle to allow more informed consumer choice. Again, the savings from the labelling of tyres, the Commission estimate about 1.5 to 4 million tonnes a year by 2020 depending on the speed of market transformation. The individual impact assessments for what each of those means in terms of the UK are currently being put together by the lead Government departments on each of those Directives, and I am sure they will be submitted to your Committee.

Q51 Lord Rowe-Beard: “More informed consumer choice” is a phrase that you used which sticks in my mind. Clearly for energy labelling and tyre labelling it is a question of ensuring that there is appropriate and consistent publicity given to the consumer so they can understand and use, as they would like to I am sure, their discretion in purchasing these products. How does this happen? Is there a budget, is it left to the individual manufacturers or does Government give guidance as to what it would like to see happen in this area?

Mr Bastin: There is a combination of factors. The label itself will appear on the products and that will be the responsibility of the manufacturers and the suppliers. Because these labels have been around for quite a time now on some products, some recent research by the Energy Saving Trust shows a high level of familiarity and understanding of what the labels mean. To support that, through the Energy Saving Trust we do a lot of publicity around helping consumers make choices they make about the products. Even with the A-G labelling we also run a scheme whereby the Energy Saving Trust have what they call the energy efficiency recommended label which then identifies within the A-G range the very top performing one. Again, that is trying to push people towards making the most energy efficient choice.

Q52 Lord Rowe-Beard: How are we doing on energy efficient bulbs? What is our position on that? We have had them for a few years now, have we not? Is there progress?

Mr Bastin: We have made quite substantial progress in terms of the market penetration of energy efficient light bulbs. We have a voluntary agreement between Government, the retailers and manufacturers that will see the gradual phase-out of incandescent bulbs on a voluntary basis in the UK. Retailers just will not have them on the shelves. That will be backed up by EU legislation. A domestic lighting standard has just been agreed under the Eco-design of Energy-using Products Directive, which will be a mandatory standard which will remove inefficient incandescent lighting from the market and then the market will be focused on the more efficient CFL technology and halogen technology.

Q53 Lord Rowe-Beard: Uninformed view says they are not as bright. We know that is wrong but that is, in fact, the major criticism that we hear all the time.

Mr Bastin: There is a legacy issue.

Q54 Lord Rowe-Beard: We have to address it.

Mr Bastin: The products that came on the market in the early days of the technology did present a number of issues, but the rate of technology innovation means there are some very good products on the market.

Q55 Lord Walpole: I did notice that 100W electric light incandescent bulbs were back in our local electricians and I think this is going to be fairly widespread because, whatever you say about energy saving bulbs, and I personally like them very much and have got the hang of the ones that do warm up and take a bit longer and you have got to turn them on before you go into the room and that sort of thing, a lot of old people cannot read with these things and they do need the old 100W bulb. I am sorry, they do. What is the answer to this one?

Mr Bastin: As I say, the technology has come on. There are bulbs which can, and do, give comparable levels of brightness. There are alternatives which are not CFL, they are halogen lights, which certainly give the same levels of illumination.

Q56 Lord Dykes: Were those scare stories about CFL units dealt with? They seem to have disappeared. There some alarming stories in the press that they could cause headaches, dizziness, vertigo and all of that.

Mr Bastin: It was certainly within the EU context. In the UK we carried out a number of studies and made those studies available to the EU as well which was an input into the mandatory standard that has just been agreed.

Q57 Lord Dykes: That has been dealt with now?

Mr Bastin: Yes.

Chairman: Thank you very much for coming to give evidence. It has been quite a wide-ranging and very good discussion. Thank you.