

The Energy Bill 2012-2013 at the Parliament of the United Kingdom

Introduction to the Energy Bill: The Political Kerfuffle

On November 29th 2012 an Energy Bill is introduced to the House of Commons in the Parliament of the United Kingdom, which will provide the framework for ‘delivering secure, affordable and low carbon energy’.¹ After nearly three years in the making, the energy bill “will determine the shape of Britain’s energy policy for decades to come because it will influence investment decisions over the next five years on infrastructure that will still be operating in 30 years time”.² Among many different elements such as electricity reforms, consumer protection, and nuclear regulations, the government had also promised a decarbonisation target in the bill. As one of the most high-profile issues in the bill, everything in the bill was committed to this overarching goal by 2030.

However, the government rolled back on this promise a couple months before putting the bill to parliament. While the bill still represents an opportunity for the government to cut back reliance on fossil fuels and invest in renewables, certain key elements are up for debate, namely a binding 2030 clean energy target and a delay in decarbonisation until 2016 at the earliest (as opposed to 2014). Aside from contention about carbon targets, the issue of energy costs and how to tackle fuel poverty dominate discussions. Two potential pathways are up for debate in this legislation: an increase in gas capacity or investing in renewables.³ The bill has now been in committee for the past several weeks, taking

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evidence from experts and interested parties from both ruling and opposition sides on the contents of the bill, whereafter committee members respond to evidence with amendments. At the report stage any MP can propose an amendment to the bill. What really happens is the set of interested MPs put forward amendments that represent their interests, yet may bear no relation to the evidence.

In reaction to this weaker bill, Tory MP Tim Yeo, chair of the Energy and Climate Change Select Committee, along with Labour MP Barry Gardiner propose an amendment that would lead to decarbonisation measures starting in 2014, the chief purpose being to replace aging coal and nuclear power plants with renewable energy infrastructure. This amendment “calls on the government to set an ambitious clean energy target for the power sector by 2030 to secure new low carbon energy”⁴ and facilitates the removal of gas and coal fired power stations from electricity generators’ networks by 2030 unless the plants have carbon capture mechanisms. In a nutshell, it requires more immediate steps to curb pollution. In the words of Yeo:

The inclusion of a carbon intensity target was a unanimous recommendation of the cross-party energy select committee following our scrutiny of the draft bill. As the energy bill currently stands though, the energy secretary may set one but not before 2016 at the earliest giving very little confidence to the sector. I have tabled an amendment with cross-party support to bring the date of this decision forward to 1 April 2014 and ensure it is set in line with the advice of the Committee on Climate Change, the government’s statutory independent adviser tasked with monitoring the latest climate science and ensuring the UK meets its legally binding carbon reduction targets in the most cost effective manner⁵

While the Committee on Climate Change, serving as advisor to the government, recommends action in line with the amendment, the government seems unwilling to heed the advice. Tory backbenchers claim that investing in renewable power will send the cost of energy bills soaring while conservative parliamentarians advance a “dash for gas” agenda, “which defies most expert opinion with its punt that the UK can repeat the US’s experience and exploit shale gas reserves to secure lower energy prices”.⁶ Conservative MPs further point out that there is a decarbonisation target already in the Climate Change Act.⁷ As such, this amendment may add unwanted complexity to the market, which has, in the eyes of consumers, acted to their disadvantage in the form of high energy bills. Lib Dem MPs, traditionally seen as allies of ‘green’ causes in their support of hefty carbon reductions, are not putting forward any strong commitments to decarbonise since “the coalition’s policy on energy resists the decarbonisation of the industry”.⁸ Ed Davey, the Energy and Climate Change Secretary has merely recognised that many businesses have support for the amendment, while having taken no firm stance himself. Supposedly labour MPs will back the amendment after Ed Miliband gives his backing.⁹ The Energy Bill has proved politically sensitive.

What's at stake?: The Rhubarb

A central issue in the discussions over the Energy Bill, and also in the media, is the high price of energy and its effect on living standards. According to the Citizen's Advice Bureau, the latest official fuel poverty statistics revealed that 4.75 million households in the UK (around 19%) were in fuel poverty in 2010. What's more is that price rises and shrinking household income values under inflation in the intervening period are not taken into account in these. Unless the government increases spending on energy efficiency, they predict an increase in fuel poverty.¹⁰ Most of the rise in energy bills over the last couple of decades is due to the international price of gas and upgrading electricity infrastructure.¹¹ While conservatives have voiced their opinions that investing in renewable energy sources to supplement existing infrastructure would raise the cost of energy bills, their evidence is countered by arguments that the Energy Bill should not only be about costs, but also take up issues like energy efficiency and community-owned renewables.

The independent Committee on Climate Change (CCC) has supplied several recommendations. In a letter to Ed Davey, Lord Deben, chair of the CCC, writes:

The long-term contracts for low-carbon power generation introduced under the Bill are an important step that will help to bring forward required investments at least cost to consumers... We note that the Government has acknowledged the benefit of a 2030 carbon-intensity target in your recent proposed amendment to the Energy Bill. However, the delay in setting this until 2016 at the earliest means that a high degree of uncertainty about sector development beyond 2020 remains. This will adversely impact on supply chain investment decisions and project development, therefore undermining implementation of the Bill and raising costs for consumers.¹² [see the letter for full details and evidence]

In the context of the Energy Bill and the introduction of measures which would support investment in low-carbon technologies by the Government,

the Committee has considered how best these policies might be advanced particularly in the light of the opportunities presented by the exploitation of shale gas... We think that the best way to do this is to set in legislation this Parliament a target to reduce 2030 carbon intensity to 50 gCO₂/kWh [from the present 500gCO₂/kWh]. Industry has been clear that this would provide them with the confidence that they need to invest large amounts of money in project development and the supply chain'.¹³ [See EMR Report for full details and evidence]

Indeed, Ernst & Young warns that the delay in setting a decarbonisation target casts doubts over the UK's commitment to cut carbon emissions 50% by 2027 and leaves investors with a sense of uncertainty.¹⁴ Furthermore, a nonbinding decarbonisation target jeopardizes millions of pounds worth of potential wind turbine factories and green jobs in the UK. Big wind energy company Siemens writes, "A binding 2030 target for power sector

decarbonisation would help to reduce the political risk currently associated with long-term UK industrial investment”.¹⁵ 55 organizations and companies, including SSE Plc, one of the nation’s top six energy generators, urge lawmakers to support the proposal.¹⁶

Research on gas and offshore wind power show the numerous benefits of starting the decarbonisation process now. Climate change debates aside, choosing offshore wind promises 100,000 new jobs by 2025.¹⁷ An increase in GDP by 0.8% by 2030 is predicted as well as an expansion of construction and manufacturing demand over the period to 2030. This type of investment would also free the UK from natural gas usage and imports.¹⁸ Apart from job creation, the Institute for Public Policy Research further supplements that, “If the UK pushed ahead with strong policies to limit carbon emissions and invest in low-carbon energy, they would...experience the social and economic benefits that go with it”.¹⁹

What could these mean for consumer energy bills? The CCC’s analysis shows that wholesale gas and carbon prices for unabated gas to 2050 are expected to rise significantly over the next 35 years. Consequently, gas becomes more expensive than offshore wind power as well as some carbon capture and storage by 2030. Under these assumptions about gas and carbon prices,²⁰ the CCC’s “report indicates that a strategy focused on the deployment of low-carbon power throughout the 2020s would result in cost-savings of £25-45 billion compared to a strategy of investment in gas-fired generation”.²¹ Not only does this strategy avoid the costs of hasty decarbonisation, costs savings also come from not relying on gas.²² The analysis further suggests that “£100 will be added to the typical household bill by 2020 due to low-carbon policies” however, “there are opportunities to more than offset the £100 impact through energy efficiency improvements”.²³ The CCC also believes that these policies will prevent further increasing energy bills as well as help mitigate dangerous climate change. Over the long run, the analysis “shows that every family in Britain could save at least £1,131 and as much as £4,525 if the government adopted a target to decarbonise the power sector by 2030”.²⁴ Using the predicted costs of gas reliance through 2030 reveal an increase costs by £312m, which amounts to between £10-15 per household²⁵.

While recent polling suggests that showing stronger commitment to a green economy would be popular with the majority of voters, including all-important swing voters,²⁶ uncertainty surrounding the elements of the bill poses a problem for MPs who want to make the best decision for their constituents. One conservative MP stated: “...we would be requiring it [the target] to be set without knowing that it can be met, and that cannot be a responsible decision for government to make, when the costs of getting it wrong would have to be picked up by consumers for decades to come.”²⁷ Another MP who spoke against the proposed amendment posited: “By encouraging this amendment we’d make sure the U.K. got even further out on a limb...The American economy is now getting itself back into order. They are doing things to have competitive energy that we are clearly not prepared to do.”²⁸ It could be cheaper still to abandon the targets of the Climate Change Act, but relying on the prices fossil fuels like coal and gas to stay low is not always a safe bet. Energy Secretary Ed Davey made a statement that while he understood the argument for an early

decarbonisation target, there was 'logic' in waiting until 2016, the year when government decides its fifth carbon budget.²⁹

Task

I. Consider the policy process from both the social and economic perspective. Make an executive summary of the given situation: what are the key issues? What potential solutions do you see?

II. Outline the benefits of including a robust decarbonisation target in the Energy Bill. Present it in a way that would keep in mind aspects of fairness and equality, while also convincing parliament to pass it. Speculate as to why or why not is this an effective policy to tackle the current fuel poverty issues facing the country?

Aim: To illustrate the actual considerations of social fairness and wellbeing versus economic incentives in adopting a new energy policy and to consider the role and influence of expert committees within a particular political climate. Illuminate the complexity of finding fair solutions to critical social and economic problems.

Outcome

The Energy Bill has now moved on to the next stage of Parliament, however, the amendment was defeated by 23 votes (267-290). While now there are no legally binding emissions targets, there is still the possibility of the government introducing decarbonisation targets in 2016. Investments in renewables are also expected due to a series of carbon budgets in addition to European Union renewables goals, which mandate a reduction of greenhouse gas emissions by 80 percent by 2050. However, “The Commons has missed an opportunity today to provide more clarity for investors on the future direction of energy policy,” said Tim Yeo, “This could mean that urgently needed investment in our energy infrastructure will be slower and the risk of a capacity crisis greater.”³⁰

According to the majority vote, it does not make sense to set a decarbonisation target before setting the fifth carbon budget, which covers 2028-2032. Once this is set in 2016, a reasonable target can be set to guide the UK to its 2050 targets at the lowest cost.³¹

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Endnotes

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2 Harvey, Fiona. (2013) Coalition energy policy 'threatens to destroy environmental case for HS2'. The Guardian [Online] Available from: <http://www.guardian.co.uk/environment/2013/jun/02/coalition-energy-policy-threat-hs2?INTCMP=SRCH> [Accessed June 2, 2013].

3 While gas plants are cheap to build, uncertainty about future gas prices leaves the economy vulnerable to volatile international gas prices and are too carbon intensive to meet future decarbonisation targets. On the other hand, renewables, particularly wind energy, have high up-front costs which will be visible in consumer gas bills yet will help the UK meet its future emissions targets. The costs of wind energy production are also likely to decrease with time. (Cambridge Econometrics (2012) A Study into the Economics of Gas and Offshore Wind: A Report for Greenpeace and WWF-UK [Online] Available from: www.camecon.com [Accessed May 26, 2013].)

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6 McNeil, Clare. (2013) Ibid.

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