

To: The Energy Review Team, Performance and Innovation Unit, Cabinet Office, Admiralty Arch, The Mall, London SW1A 2WH

Dear Sirs

## **PIU PROJECT ON ENERGY POLICY – A PRELIMINARY RESPONSE FROM LONDON ELECTRICITY**

### **Introduction**

London Electricity (LE) is a major electricity producer, with over 3GW of installed capacity in England and Wales (4.3 per cent of the generation market). As an energy supplier, we currently serve 7 per cent of the combined gas and electricity market. We are also a major network operator, distributing some 20TWh of energy across our system last year, and are at the forefront of the distribution sector through the *24seven* joint venture with TXU Europe. Our aim is to be one of the UK's leading utility companies, an innovative asset owner, and a provider of first-class services to our three million customers. We have a proven record of investment in, and have demonstrated a long-term commitment to, the energy sector in the UK.

Through our parent, Electricite de France (EDF), we are part of one of the largest European players in the power sector and have a wide-ranging regional perspective. The EDF group as a whole is the world's largest nuclear developer, and also has extensive interests in conventional power plant and new renewables technologies.

### **Headline Comments**

This summary letter sets out some headline points on the PIU energy policy review. We attach a fuller initial submission of LE's views, divided into two parts. Part A raises some general comments and flags some key issues for resolution arising from the project scoping note released in mid-June and on which the PIU have specifically sought comments. Part B makes some comments on process.

- **LE supports the review**

LE strongly supports the review and its timing, and we are committed to working with government and the review team during both the policy development and implementation phases. We will use our best endeavours to look beyond commercial interests and to focus on the longer-term public good in both a UK and a European context.

- **As an integrated scale player, we offer a unique regional perspective**

Through EDF, we have a unique regional perspective and feel that we can make a valuable contribution to the review. Few, if any, of our competitors have comparable scale combined with extensive functional diversity. We believe this perspective can be used to provide invaluable information, experience and insight during the review.

- **We look forward to meeting with the PIU**

The introductory notes that accompanied the June project scoping brief indicate that the PIU intends to carry out a series of key stakeholder visits by the end of September. We would like to be visited, and we look forward to establishing a constructive dialogue with the review team. We are also keen to provide knowledge and technical information to the process as needed, and would like to discuss with you the issues and our input.

- **The workplan is a good starting point, but the timetable is too condensed**

Since the release of the project scoping notes in June, the review team has released a full project management plan (PM1, v1.2, July 2001), which has since been signed off by the Project Advisory Group. The plan provides a much fuller description of the review objectives and process, and we believe that it provides a largely suitable basis for taking the review forward. But we are concerned that, if the review is to be conducted thoroughly while allowing for appropriate stakeholder involvement, then the proposed timescales are too condensed.

This is the first review of energy policy in the UK for more than twenty years, and the interactions with social and environmental objectives mean that the results will give rise to important and possibly controversial trade-offs that will impact at all levels of the energy sector. The review, rightly looking out to 2050, should not be hurried through in a matter of months. Significantly, the Royal Commission on Environmental Pollution (RCEP) (Energy – The Changing Climate. Summary of the Royal Commission on Environmental Pollution's Report: June 2000) took well over a year to consider environmental aspects alone.

Similarly, the European Commission's review of security of supply (Green Paper – Towards a European Strategy for the Security of Energy Supply, European Commission: November 2000) will not result in development of any proposals before the end of the year. Setting aside the fact that this is at least a year after the Green Paper, the two reviews need to inform each other and should not be taken forward in isolation.

- **The workplan identifies most relevant issues but not all**

The workplan outlines three key challenges, and we would make the following summary comments:

anaging potential conflict with environmental objectives. Recent policy initiatives mean that the UK is acknowledged to be at the forefront of international action on climate change and is well advanced in tackling the environmental challenge. The LE Group has taken a number of important steps throughout its businesses to deliver secure, sustainable, low carbon outcomes. However, there remains a disjoint between energy and environmental policies, which the RCEP has rightly highlighted.

Looking into the longer term, we feel that there is as yet little awareness or acceptance of the measures needed to accomplish sustained, deep reductions in emissions necessary to achieve adopted climate change targets. It is clear that the potential role of nuclear power is a critical part of longer term strategies, but public confidence is a significant barrier that must be addressed if there is to be any lasting acceptance. Education and communication are likely to be key mechanisms to facilitate implementation of revised policies and programmes.

The scale of the PIU task in reconciling energy and environmental objectives is aggravated by public expectations of further sustained reductions in prices arising from now competitive energy markets. The review will need to identify a suitable methodological framework for evaluating such trade-offs. Again, this multi-issue context has important implications for the management of the review process and the need for wide stakeholder involvement.

Ensuring continued security and diversity of energy supplies. Rising oil prices and recent events in the USA (not just in California) have brought security and diversity of supply into urgent focus. These matters should be assessed in a regional, rather than a purely UK, perspective, and we have already highlighted the linkage with the European Commission's Green Paper. It is also important that demand side solutions are properly explored and factored into policies. As the DTI acknowledges in its preliminary submission to the review, this is an area where significant further work is required and where we believe that LE, as an active demand-side player, is ideally positioned to contribute to the process.

Managing potentially conflicting policy goals for energy prices. The pricing trade-offs identified in the workplan are clearly central to policy formulation, but we would wish to see two other important conflict issues picked up as part of the review. These are:

1. The tension between short-term market mechanisms and efficiency on the one hand and high investment costs and long asset lives in the energy sector on the other, and
2. The incompatibility between RPI-X regulation as it is currently applied and quality of supply (which over the longer term can impact on security).

Effective markets do not necessarily mean lower prices, but we currently operate in an environment where the regulator regards the two as synonymous. At the heart of these issues, we have a wider concern about the extent to which systematic regulatory intervention now routinely takes place in energy markets, has begun to distort competitive processes, and may prevent efficient outcomes. This tendency towards intervention is compounded by changes to energy market governance, which is now effectively driven by the regulator; even the most ordinary of rules enhancements require systematic regulatory endorsement.

- **Potential contribution of interconnections to security have been overlooked**

We have also carried out a preliminary review of the nine sets of initial scoping notes posted on the PIU from mid-August onwards, and we commend the PIU for capturing most relevant questions pertinent to energy policy formulation over the medium to longer term. One significant exception, however, concerns inter-connection issues both between the UK and Europe and between an enlarged European Union and the rest of the world, and this is an area of some relevance to the security of supply question. We will provide comments as soon as possible on the initial scoping notes.

- **The review must address the compatibility of recent and programmed changes against revised energy policy criteria**

Energy markets have witnessed a significant level of sustained change over recent years, which in itself has driven significant consolidation within the sector. The likely impact of NETA on market entry is by no means yet clear, and further complex and costly changes to both the electricity and gas markets are being pursued, especially with regard to network access. Other significant changes are likely to take place to deal with the challenges presented by more environmentally benign technologies. The energy and transport markets for both electricity and gas are heavily asset-intensive and closely interact, and the review will need to take a holistic view of how these changes are likely to impact on investment and value in the sector. Incentives on network providers and energy suppliers will also need to be reviewed carefully to ensure that they support these major changes and realigned energy policy objectives, since they presently appear to have too short term a focus.

## **Conclusions**

LE is committed to providing a world-class sustainable, secure, and low carbon service to all our customers, and warmly welcomes the review. The scope of the review is reasonably well defined and the initial scoping notes represent a good start, but we would like some further issues to be specifically addressed. We also consider that the PIU has under-estimated the time required to produce robust conclusions based on an appropriate level of stakeholder consultation.

However, LE looks forward to making a positive contribution to the review, and believes that we are, given our regional perspective and the capabilities of our shareholder, uniquely placed to assist the PIU review team in its task.

Yours sincerely

**D L**

**Denis Linford**  
**Group Head of Regulation**

## **Attachment**

### **PIU PROJECT ON ENERGY POLICY: A PRELIMINARY RESPONSE FROM LONDON ELECTRICITY**

#### **A. General Comments on Review Issues**

Overall, we feel the scoping paper has correctly identified most of the main issues that need to be addressed (but see A6 below). We set out in this section of the preliminary response some high level comments on some of the key issues.

##### **1. LE warmly welcomes the need for review**

The review is timely. As the Royal Commission on Environmental Pollution (RCEP) has noted, “achieving the right balance in [objectives and policies] is formidably difficult; current policies do not strike it.”<sup>1</sup> All energy supplies have a substantial effect on the environment. Yet, as the RCEP goes on to note: “energy policies and environmental policies are not yet integrated.”<sup>2</sup> It is essential that the policy framework places due weight on the ability of the energy sector to mitigate and manage these effects in an optimum manner taking into account competing objectives with regard to quality of life and industrial competitiveness.

##### **2. The role of the energy sector in the delivery of environmental targets is critical, but as yet poorly defined**

Getting the right mix of policies for the energy sector is critical to achieving committed targets. The sector can contribute in a number of important ways through promoting programmes that:

- mitigate greenhouse gases;
- create more efficient energy use;
- promote carbon free sources of energy, including renewables and nuclear power; and
- enable development of an energy transportation infrastructure and markets that support attainment of these other objectives.

The scale of the task facing the review team and the complexity of the issues raised by the review should not be under-estimated. Again to quote the RCEP, “energy policies of the kind we are seeking will not emerge unless there is a thoroughgoing change of approach and change of culture within government.”<sup>3</sup> Such comments clearly apply to the energy industry and other stakeholders as well. In turn, this comparatively lowly starting point for the review holds important implications for how it should be conducted and the necessary timescales, if the

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<sup>1</sup> *Energy - the Changing Climate, Summary of the Royal Commission on Environmental Pollution's Report* (June 2000), page 1.

<sup>2</sup> As above, page 26.

<sup>3</sup> As above, page 17.

government is to make a considered and enduring response to the RCEP based on a suitable level of stakeholder consultation.

**3. The focus of the review should be to establish a durable high level framework that provides flexibility to respond to changing circumstances and to longer term forecasts as they firm up**

The long term energy policy framework should embrace all desirable goals but also remove distortions to the proper operation of the market and limit undue intervention. The framework will need to enable the resolution of sometimes conflicting objectives and trade-offs and to provide a process for resolving different priorities. Once established, the framework needs to be stable, with the scope for future intervention clearly defined and predictable. This goal is particularly important because of the capital intensive nature of the energy business, the long-lived assets involved and the need to establish a stable investment environment.

Past experience has demonstrated that there are large uncertainties in drawing long-term energy policy conclusions from forecasts of future trends. The review will not produce all the answers in one go. This lesson points to adoption of measures that will contribute to a range of objectives, including carbon saving, or which can provide the platform for more rapid changes later on.

**4. Current interventions, policies and programmed changes in the energy sector should be taken into account in the review**

There has been significant fluidity in the energy market since 1997, and major changes have taken place, most recently under the umbrella of the Utilities Act 2000. The RCEP report and recent government initiatives, such as the statutory consultation on the renewables obligation (RO) and on the new energy efficiency commitment (EEC), herald a further wave of significant change.

Many of these changes have been, or are expected to be, beneficial. However, taken in conjunction with interventions by the sectoral regulator, which have been a recurring feature in recent years, they have also highlighted the potential risk of conflict between some of the longer term policy objectives. The recent report from the Better Regulation Task Force commented adversely on the statutory application of social and environmental objectives to agencies whose primary duties are consumer protection and economic regulation. Such comments merit further consideration by the review team.

In the early days of gas and electricity privatisation, for example, the regulatory agenda was clearly compatible with ongoing security of supply and environmental objectives, whereas this may no longer be the case a dozen years later. It is time to take stock of the changes that have taken place, the consistency of the measures that are currently programmed or proposed, the impact of likely future changes in the supply/demand background, and the robustness of objectives currently in place.

## **5. The three key challenges identified by the PIU are the correct ones**

### **– There are increasing risks of divergence between energy policy and environmental and social objectives**

LE strongly supports the aims of UK climate change policy and the government's desire to achieve international progress on addressing the risks of climate change. However, we would comment that, at present, there is little awareness or acceptance of the measures needed to accomplish sustained, deep reductions in greenhouse gas emissions. We have also already noted the RCEP's comments about a disjoint between energy and environmental policies.

There is significant interaction between policies, especially energy, environmental and social, which will present real challenges to the review, and it is essential, if these are to be mutually reinforcing, that there are mechanisms for rationalising conflicts. The new Utilities Act objectives, action plans and proposed guidelines illustrate a type of approach that can help manage the inter-relationships. As we note at B5, a robust methodology for quantifying the environmental impacts of energy policies is also urgently needed.

### **– There are increasing threats to security and diversity**

Energy sector efficiency and competitiveness can impact on cost-effective delivery of environmental and social targets. However, they present potential conflicts with regard to longer term security and diversity of supply. At its simplest, the availability of cheap, abundant suppliers of energy today does not guarantee energy security and diversity tomorrow.

Based on current projections, it is clear that import dependency will become a real issue that is significant at both the national and the European level and require proactive action within the foreseeable future. Recent rises in oil and gas prices and the collapse of the Californian market has brought some of the energy challenges into focus, and we welcome formation of the DTI/Ofgem working group with regard to security of supply. Nonetheless, it is clear that a much longer term view of security and diversity issues is needed.

### **– Policy conflicts between efficiency and other objectives need to be addressed**

The electricity sector has now delivered a decade of continuous falling prices despite increasing "ad hocism" and interventionism on the part of the regulator.

However, following a period of real price reductions, a number of programmed changes (UKCCP, RO, Climate Change Levy (CCL) and EEC) will soon begin to filter through into customers' bills. Increasing energy commodity prices over the medium term are likely to create political problems. They will also impact on low income consumers and nullify recent progress in improving (or, even worse, exacerbate) the position of the fuel poor.

There are no simple fixes to this issue. However, there is an obvious need for continuity and stability in the investment environment. It will be important to minimise distortions if competitive outcomes are to continue to be emphasised.

## **6. But other aspects of energy policy and conflicts between them need to be taken into account as part of the review**

We would wish to see two other fundamental conflicts within energy policy picked up as part of the review. These are:

1. The conflict between short-term market mechanisms and efficiency on the one hand, and high investment costs and long asset lives in the energy sector on the other, and
2. The tension between RPI-X regulation as it is currently applied and quality of supply (which over the longer term can impact on security).

Effective markets do not necessarily mean lower prices, but we currently operate in an environment where the regulator regards the two as synonymous. At the heart of these issues is a wider concern about the extent to which systematic regulatory intervention routinely takes place in energy markets. We feel that there has been an increasing tendency in recent years for the regulator to intervene in these markets and that this has begun to distort competitive processes and may prevent efficient outcomes.

The likely impact of NETA on longer term energy prices is by no means yet clear, and further complex and costly changes to both electricity and gas markets are being pursued, especially with regard to network access. Other significant changes are likely to take place to deal with the challenges presented by more environmentally benign technologies. The energy and transport markets for both electricity and gas are heavily asset-intensive and closely interact, and the review will need to take a holistic view of how these changes are likely to impact on value in the sector. It should also specifically factor in potential price effects and the willingness of the market to invest. Incentives on network providers and energy suppliers will also need to be reviewed carefully to fit these major changes and realigned energy policy objectives.

## **7. There will be significant value and importance from maintaining a nuclear contribution**

Nuclear power has an important role to play in meeting existing climate change targets. The plain fact is that the UK and Europe cannot meet their Kyoto targets without nuclear energy. It is also a key component in the energy diversity of the UK and plays a major role in maintaining supply security. However, its relative importance – in the absence of any compensating action – is set to diminish. Here in the UK, and more generally within Europe, nuclear power has an excellent safety record and existing nuclear power is generally competitive with other plant. There clearly are some unresolved issues that impact on the policy formulation process but these would seem to pertain to political decision making and communication more than to technology and economics.

The energy policy review needs to take a clear view both of the realistic prospects for maintaining the existing contribution of nuclear power (including the retention of skills and capabilities in the UK) and of the underlying economics of future nuclear development. Recent developments both in Europe and the United States are encouraging, and are beginning to lead to a reappraisal of the economics. The DTI in its own initial submission to the energy review has given a strong indication that it considers the “prospects for new (nuclear) build to be economic”,<sup>4</sup> provided that appropriate allowance is given for carbon savings.

For economic nuclear power to be politically viable, government and the industry need to sustain an environment of confidence in the technology and, in particular, to show that many of the back-end issues are seen to have robust solutions. Government needs to promote a dispassionate debate on nuclear issues. There is also an ongoing need to support research into nuclear waste and to promote strategies for waste disposal.

LE, with our shareholder EDF, would like to work positively with the government in assisting the analytical and educational processes with regard to nuclear power.

## **8. Further action is needed to remove barriers to entry of renewables**

We welcome and support the proposed significantly expanded role for renewable sources of energy, and agree that a two pronged approach based on direct support and the RO should be the policy instruments.

LE also applauds the recent policy statements clarifying capital grants and R&D support. However, how the remaining £100 million support announced in March by the Prime Minister is to be targeted will be an important driver for which of the newer technologies are to become viable over the medium to longer term. We await outcomes from the PIU's renewables and resource productivity study as these are to be an important input to how the further funding is to be allocated.

The statutory consultation on the Renewables Obligation, initiated last month, goes some way towards widening the envelope of eligible renewable technologies (including medium-scale hydropower) and providing a more realistic approach to setting the RO targets, and is to be commended. However, the current planning regime continues to pose problems to developers and can be expected to act as an obstacle to achieving the targets. The government needs to tackle urgently the problems inherent in the planning system. Recent research by (among others) Cambridge Econometrics suggests that targets are still too tough and that an 8% obligation is all that can be reasonably achieved by 2010. We also believe that the current proposals disregard the benefits of interconnectors and will hinder the development of pan-European trading in green certificates.

Looking beyond 2010, the relative contribution of renewables will take on greater significance since, as is inevitable on current policies, there is a diminishing contribution from nuclear sources towards the achievement of climate change

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<sup>4</sup> *Response to PIU Energy Review, DTI (August 2000)*

targets. As yet, however, there has been little consideration of how renewable technologies can continue to expand and what might constitute a reasonable contribution from them to a balanced energy strategy.

## **9. Market mechanisms should be preferred as policy instruments where possible in preference to regulatory intervention and energy taxes**

As a guiding principle, it is clear that voluntary and market-based approaches, such as emissions trading, are more effective than energy taxes in reducing emissions at least cost. Given the low price elasticity of demand for electricity, the pursuit of enhanced energy efficiency and cleaner fuel sources is also more likely to reduce environmental impact than taxation. Energy taxes are a blunt instrument that should only be used when other methods have failed. Where environmental taxes are introduced, the revenue should be devoted to particular purposes, for example the promotion of renewables. In this context, we would question the current operation and mechanics of the CCL.

It is clear that a common European Union approach is needed towards energy taxes, if they are to be utilised, to ensure that the economic competitiveness of the UK is not undermined.

## **10. European policy resolution is important to policy formulation in the UK**

Security and diversity in the UK and Europe are intimately linked. LE has welcomed the wider European debate on security of supply and, through the Electricity Association (EA), publication of the European Commission's Green Paper.<sup>5</sup> We would highlight the following relevant points in the EA's response:

- import dependency per se is not necessarily detrimental, provided there is an adequate world trading framework – dependency is not something to be avoided at all costs;
- the key to security is diversity of fuels and supply sources – diversification offered by other Member States should progressively increase security;
- priority should be given to liberalising energy markets both inside and outside the EU;
- better coordination should be achieved by introduction of competitive markets (which will enhance diversity between markets) rather than a prescriptive policy for energy imports; and
- over the longer term, we would note that enlargement of the Community is not of itself expected to decrease import dependency.

The Green Paper initiative and the responses of Member States to it are very relevant to the energy policy review, and need to be taken into account by the PIU. In this context, the timing of the follow up to the Green Paper and the timescales for finalising the long term objectives review do not seem wholly aligned. A White Paper is promised later in the year but, as the energy review team will know, European Commission timetables are prone to slippage.

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<sup>5</sup> *Green Paper – Towards a European Strategy for the Security of Energy Supply*, European Commission (November 2000).

The European Union comprises a mixture of participants with widely varying emissions profiles and causal factors. The IEA has constructed five categories of country groups<sup>6</sup>, and EU Member States populate all of these categories. Based on a cluster analysis, the UK is grouped with Italy, Portugal, Spain and the Netherlands, as countries that have broadly even distributions of emissions from all sectors. The report goes on to note that:

“It might be tempting to assume that a policy that is adopted in one country in a particular group would be applicable to other countries in the same group. But such assumptions usually fail to take into account significant variations between countries in the same group. Such variations may be critical in assessing the appropriateness of given policy, and a proper recognition of this may prevent a policy from being applied across countries”.<sup>7</sup>

There is no generic Member State response, and consistency does not imply uniformity.

### **11. There is a need to internalise environmental costs in energy supply**

For there to be a truly level playing field between forms of energy supply and its use, the true environmental costs of different technologies need to be properly costed and allocated over time. A recent EU study<sup>8</sup> concludes that the cost of producing electricity from coal or oil would double and the cost of electricity production from gas would increase by 40% if externality pricing were adopted. Internalisation of costs of this magnitude would have a fundamental impact on the comparative economics of the options being assessed by the PIU and the pattern of new investment. This is a key issue for the review to address, especially how existing and new investment needs can be balanced.

### **12. Demand side, as well as supply side, measures need to be taken into account**

There is considerable scope for increasing energy efficiency and use, and supply companies such as LE could have an important role in the offer of energy services. Such initiatives need to be part of a coordinated strategy involving more explicit regulation (e.g. through building insulation standards) and more comprehensive building and appliance labeling. An element of caution is needed in assessing the potential contribution of the demand side; historically, it has proved difficult to realise the potential for energy saving it can deliver. We also note, and agree with, the comments of the DTI in its preliminary submission to the review, which highlights the need for further significant work in this area.<sup>9</sup>

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<sup>6</sup> *Dealing with Climate Change – Policies and Measures in IEA Member Countries* IEA (2000), pages 17-18

<sup>7</sup> *Dealing with Climate Change – Policies and Measures in IEA Member Countries* IEA (2000), page 18

<sup>8</sup> The EXTERNE study published in 20 July 2001.

<sup>9</sup> DTI Preliminary Submission to the PIU Energy Review, page ix.

### **13. Targeted strategies for transport, and other sectoral initiatives, are also critical**

The role of the energy sector, and electricity production within it, to achieving environmental targets represents a very significant part of an integrated policy response to the climate change problem. It is important, however, in reviewing and reaffirming appropriate objectives for the sector, that the role of other sectors, especially transport, which is the largest contributor to growth in emissions, is given due weight.

### **14. There are likely to be some lessons to be learnt from the US energy policy review**

President Bush's National Energy Policy (NEP) (released in May this year) contains wide-ranging recommendations – from new vehicle fuel economy requirement standards to streamlining nuclear power plant regulation. Twenty of these initiatives require legislation. The NEP raises some interesting points which the PIU will wish to consider closely, including:

- renewed concentration on infrastructure, especially the role of networks;
- refocused attention on longer term solutions and technologies;
- re-emergence of coal-based and nuclear energy as acceptable and desirable sources for meeting increased demand; and
- the need for concerted action to tackle planning issues and problems.

Even based on a cursory reading, though, the NEP has some obvious omissions, including:

- demand and possible methods for embracing its potential contribution are not addressed;
- fundamental changes already under way, especially in the electricity sector, are not fully considered; and
- issues of risk and market price volatility are not thoroughly explored.

As with some of the European parallels discussed earlier, there are evident dangers from too rigorous a cross-reading from other jurisdictions. But, as the Energy Minister has flagged, the drivers behind the US and UK energy policy reviews are similar. We should learn what we can from the stakeholder response to the NEP.

## **B. Process**

In this section, we make some comments on the proposed process for conduct of the review. Since the release of the initial project scoping notes, the review team has released a full project management plan<sup>10</sup> which has since been signed off by the Project Advisory Group. The plan provides a much fuller description of the

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<sup>10</sup> PM1, v1.2, July 2001.

review objectives and process, and provides a largely suitable basis for taking the review forward.

That said, LE does have a number of concerns about the process, the timetable and the nature of the outputs likely to result from the PIU review team.

### **1. The timetable for the review appears too ambitious**

Our main comment with regard to process and the management of the project involves the proposed timetable. At the launch of the review, it was indicated that a final report in a form to be decided would be available by the end of the year. The project management plan suggests that the final stage of consultation seems likely to be during Q1 2002.

In general, we believe that more time will be needed if a fully robust review including appropriate stakeholder investment is to be achieved. Even a Q1 2002 reporting deadline seems ambitious. The PIU exercise is the first review of energy policy in the UK for more than twenty years, and the interactions with social and environmental objectives mean that the results will give rise to some important and possibly controversial trade-offs that will impact at all levels of the energy sector. The review, rightly looking out to 2050, should not be hurried through in a matter of months. Significantly, the Royal Commission on Environmental Pollution (RCEP) took well over a year to consider the environmental aspects alone.

### **2. The report from the review is unlikely to result in an agreed vision across government**

The coverage of the energy review is extremely comprehensive, touching on many key departments of state and also the devolved administrations. In view of the scope of the review, the complexity of the issues, and the divergent views of some stakeholders, it is extremely unlikely that the PIU will be able to produce a collectively agreed statement of future government policy within indicated timescales. This context leads us to conclude that a draft report to Ministers is the most appropriate output from the review. A draft report will also permit structured, formal consultation to take place.

### **3. The PIU review process needs to be open and participative**

Given the importance of the energy review and its potential impact across the energy market on all participants, it is essential that the PIU process facilitates the active participation of interested parties that wish to be involved. In practice, this means that the policy analysis and recommendation development process must be transparent, with timely dissemination to stakeholders of relevant papers, including the deliberations by the Advisory Group and expert group. We would hope to see a clear timetable set out for the consultation process and an opportunity to participate in any discussions with the PIU directly, rather than through an intermediary such as the Electricity Association (while recognising that the EA has a valuable role to play). Draft position papers and statements

should be issued with provision for sufficient time to enable stakeholders to comment on them, including sufficient time for internal consultation.

Beyond an initial series of workshops during the development phase, the PIU energy policy review timeline does not include provision for external consultation and stakeholder input, and this position needs to be rectified.

#### **4. LE look forward to meeting with the PIU and engaging in a dialogue through the duration of the review**

The introductory notes that accompanied the June project scoping brief indicated that the PIU intends to carry out a series of key stakeholder visits by the end of September. We would like to be visited, and we look forward to establishing a constructive dialogue with the review team. We are also keen to provide knowledge and technical information to the process as needed, and would like to discuss with you the issues and our input.

#### **5. There is a need for an agreed analytical framework**

A key element of the review will be development of an analytical framework for taking decisions about environmental commitments that impact on energy policy.

#### **6. Progress report should be made available to stakeholders**

It is not clear from the project management plan whether the September progress report will be made available to stakeholders. The progress report will be a key document for informing interested parties of the direction of the review and should form the basis of further consultation.

#### **7. Interested parties must have the opportunity of commenting on a draft report**

The process might align with the type of process followed recently by the DTI's Embedded Generation Working Group. In that instance, an expert group of relevant participating interests produced a draft report that was released for formal public consultation and comment. The EGWG before delivering its final report to government then produced a report on the consultation.

**London Electricity  
10 September 2001**