



## **Cabinet Office Performance Innovation Unit Energy Review Initial Response by the MEUC**

The Major Energy Users Council (MEUC) warmly welcomes the government decision to undertake a wide-ranging energy review.

As a body representing many of the major industrial and commercial energy consumers it is well aware of the need for sustainable, competitive and secure energy supplies.

The recent imposition of an energy tax (Climate Change Levy) has singularly failed in its objective to reduce energy consumption of major users for a number of reasons. Not least of these was the fact that major users were fully aware already of the benefit that the reduction of energy costs through efficiency improvements achieves to maintain international competitiveness.

Taxation is not the way to reduce demand, unless it is penal, as has been proved in a number of markets - most recently transport. It discriminates against those that cannot afford it and creates resentment from many that can.

The MEUC has a number of comments on the scoping note, which it believes are relevant and should be taken into account in the review.

### **The Project Scope**

The project is being delivered against a timetable, which the MEUC believes is unrealistic given the importance of the subject matter. It fails to understand why a project, which is looking at energy supplies for the UK over the next 50 years, is being concluded in a matter of months. The importance of this issue to all stakeholder groups demands a more exhaustive discussion period.

The project scoping note puts much emphasis on energy availability to meet demand and meet the environmental objectives.

It appears to accept the RCEP report conclusion, which states that global emissions must be reduced by 60% by 2050 and that the UK, which contributes 20% to the total, should make a similar contribution to set an example.

MEUC does not wish to enter into the debate as to whether this goal is achievable, save to say that

the UK must not set targets unilaterally, which might result in weakening the country's global economic standing. One of the recommendations within the RCEP report is to suggest this. However, in order to achieve the goals certain important actions will need to be taken.

- i) Stimulation of and support for new technologies is essential in all energy areas -power generation, energy efficiency and transport.
- ii) Major contributions will be required from the demand side and in particular the domestic sector.
- iii) Fuel diversity, particularly for Power Generation is a reasonable aim but it has to be undertaken within the context of open, competitive markets.  
If diversity is to provide security in the event of the failure of one type of fuel, it would be best achieved by having, for example, power station boilers with multi-fuel burners and allowing free market forces to determine which is to be used at any given time.

### **The potential for increased conflict with environmental objectives**

Whilst the Intergovernmental Panel on Climate Change may have signalled the need to reduce global emissions, this is by no means universally accepted world-wide.

A unilateral policy by the UK government, particularly one based upon taxation, whilst superficially laudable would hit the wealth creation sectors of the economy and impoverish us all.

World-wide environmental objectives have to be set within the context of population growth and the aspirations of the poorer countries for higher standards of living.

### **Questions about the security and diversity of energy supplies**

Whilst it is acknowledged that there are major public concerns in regard to nuclear energy and the disposal of waste, it is the only significant "clean" energy resource currently available. New techniques are currently being researched on how nuclear energy can be more efficiently used and these need to be encouraged through government's acceptance of the principle.

Oil and gas will see increased demand world-wide, particularly to satisfy the needs of the developing nations, which will be least able to afford the higher prices that increased demand will bring.

It would be foolhardy therefore to discourage the development of further nuclear investment. As things stand at the moment Renewable Energy Technology is still in its infancy and will be unable to play a significant role for the foreseeable future.

The scoping note appears to discount the role of coal within the world-wide energy scenario. It is a major international traded commodity and provides most fuel for electric power generation. World coal prices are usually very competitive with, and more stable than, other energy sources. In addition it has far greater reserves than either oil or gas. It cannot therefore be dismissed.

Reference to the current regulatory regime for the privatised utilities has highlighted that unexpected consequences can result.

The problems in California were brought about by excessive regulation. It is already being argued that a number of problems of a similar nature are already in place in the UK as a result of excessive intervention by government and Ofgem.

### **There are potentially conflicting policy goals on energy prices.**

A policy objective that seeks to regulate demand through price frequently misses its target. Forcing a company to pay a tax that reduces its competitiveness is counter productive and may at best force it to relocate abroad.

Incentives are likely to prove more fruitful.

### **Existing activities by government and others.**

We note that the DTI has recently (July 26<sup>th</sup>) announced a further initiative on security of supplies and the Treasury (July 27<sup>th</sup>) on green energy incentives.

We note also that the scoping note makes no reference to gas and electricity interconnectors, which are likely to be increasingly relevant in the years to come and highlight the need for a consistent, agreed international approach.

Nor does it refer to strategic oil or gas storage capacities, which are held as a matter of policy in a number of countries. Both of these could be significant should there be an energy crisis.

### **The MEUC's conclusions**

The MEUC supports the strategy of diverse, sustainable and competitive supplies of energy within a liberalised global market

Nuclear energy offers the only realistic prospect for significant quantities of emission free power generation for the long term and its safe development must be openly encouraged by government.

The MEUC believes that the UK must continue to maintain a viable industrial and commercial economy (the latter including the increasingly significant services industry).

Policies that increase costs for the wealth creating sectors will, unless carefully constructed, have a negative effect upon the economy as a whole. However, if the UK can be at the forefront of technical developments as a consequence of its energy strategy this in turn will have a positive feedback to manufacturing industry.

This country's Energy Policy must take account of likely developments in other countries particularly

the developing ones, which will demand a greater share of the world's resources.

A policy of taxation to reduce demand has singularly failed in several prominent areas and is likely to continue to do so. The government has already ruled this out for the domestic consumer. The only viable alternative is public education combined with properly structured incentives.

Finally, the government must not act unilaterally in setting policies to reduce carbon emissions, as they will only act to weaken the standing of the UK relative to the economies of other nations.