

Alan Duncan Speech to IoD – Thursday 13th July 2006

Ladies and Gentlemen,

I am delighted to be here today.

After some years of relative quiet, Energy is again at the top of the political and media agendas.

The big economic picture contains some worrying trends.

We have fallen from 4th to 13th in the World Economic Forum's competitiveness league. The rate of productivity growth has slowed since Labour came to power. Our share of world exports is shrinking and our trade deficit is increasing to record levels.

Many businesses are beginning to express growing concerns about the Government's economic policy.

And energy policy too is an issue of great importance to British business and one with a significant effect on British competitiveness.

As we have just heard from the panel.

On Tuesday the Government presented the long awaited findings of the Energy Review.

The headline that it gave the green light to the building of new nuclear power stations was slightly inaccurate, but widely reported.

But there is much more to this Energy Review than simply the question of 'yes' or 'no' to nuclear.

The Report itself runs to over 200 pages and contains the Government's thinking about the future of UK energy policy - Or more accurately the future of UK electricity generation.

I'd like today to explore and discuss the Government's thinking.

Last week I published the interim findings of our own Energy Review and in it we laid out a series of tests for the policy that the Government were to come forward with. We asked...

- Will it provide a better framework on carbon emissions, with carbon reduction guaranteed?
- Will it lead to greater energy security?
- Will it unlock the fullest possible potential for green energy?
- Will it create a consistent regime of incentives and set a climate for long-term investment?
- Will it take a responsible approach to nuclear power, treating it without subsidy or special favours?

So how did the Government's policy measure up to these tests?

CARBON

First we asked that the Government set out a policy that provided a better framework on carbon emissions.

Climate change is not something that we can ignore. We need to work together to tackle the emissions that threaten our environment.

The Government rightly made this issue the first chapter of the Review Report. This is a start.

The problem though is the Government have nothing concrete to say.

They talk a little about the Climate Change Levy – which you all know is a tax on energy and not on emissions.

And they talk a lot about the EU Emissions Trading Scheme. But that is all it is, just talk.

There are two critical reasons for pricing carbon. Reducing emissions and creating a stable framework for investment.

The fact that the EU ETS framework only exists until 2012 and that there is uncertainty about what will happen after that date means that risks takers are reluctant to make big investments.

And major investment in new generating capacity and energy infrastructure is essential if we are to keep the lights on.

Even if there is greater emphasis on energy efficiency and demand reduction, we are still going to be needing electricity.

And the hundreds of thousands of new homes are being planned and built at a time when 30 per cent of the UK's electricity generating capacity is being retired means we face the prospect of a significant energy gap.

So a real, long-term climate for investment is what is needed. The Government should have made commitments, as we did in the findings of our energy review, to ensure a long-term price for carbon.

ENERGY SECURITY

The second test we set was will the Government's proposals lead to greater energy security?

The faster than anticipated decline in North Sea gas production means that by 2020 we will be 80 to 90 per cent dependent on imports for our gas.

The Government say in their Energy Review that they 'will work with industry to boost investment in the UK Continental Shelf'.

But the reality is that higher taxes and even taxes specifically targeted on the North Sea have accelerated the decline of the UKCS.

In the findings of our Energy Review we took this very seriously.

Projections show that in the coming years we will become increasingly reliant on gas for our electricity generation.

And if this gas is coming from increasingly unstable parts of the world, we are going to have a serious problem.

I say we need to generate our electricity from a wide range of sources. Just as we need to source our gas from a range of countries.

That is why we said last week we would look into developing a Diversity Backstop.

A simple policy that would only kick in if the UK were to become overly dependent on one source for electricity generation.

We simply can't afford to take risks with energy. The costs to the country of the lights going out are just too high.

GREEN ENERGY

The third of our tests was to ask whether the proposals would unlock the fullest potential for green energy?

Last week David Cameron said

‘Decentralised energy - electricity generated in smaller, more local units like neighbourhood combined heat and power schemes - could make a huge contribution to reducing carbon emissions and improving energy efficiency.’

The Government's were forced to respond. And to read the section in the Report on distributed energy, it looks like the DTI hadn't given it a thought until they heard David's speech.

The proposals the Government made included three new consultations, two new reviews and a new feasibility study. What have they been doing in the DTI for the last seven months?

We're on the brink of technological breakthroughs that could transform the effectiveness and affordability of decentralised energy.

I want Britain to be at the forefront of the green energy opportunity.

Instead Britain is way behind on renewables - we have the lower level of renewable power of any country in Europe except for Malta.

And one of the reasons for that is that the Government have not got the policy right in incentivising renewable generation.

The key element of their policy has been the Renewables Obligation.

This week the Carbon Trust, a body funded by the Government, said the Renewables Obligation was inefficient, costly and failed to bring on new technologies.

The Renewables Obligation, in its present format – and by the way the Government yesterday said that there would be no changes before 2009/2010 – provides a significant incentive for building wind farms, but at the expense of other renewable technologies.

The RO does not do enough to incentivise technologies like photovoltaics, geothermal, wave and tidal. And it does almost nothing to stimulate research into technologies that are still at the experimental or prototype stage.

Put simply the Renewables Obligation is the reason that there are so many applications to build wind farms up and down the country.

And given the proliferation of applications for ever larger wind farms, a level of local opposition is understandable.

Now of course wind has a part to play in a low carbon energy future...

...But over reliance on wind is the wrong way forward. Instead we should be aiming for a basket of green technologies.

We need to reform the Renewables Obligation so that it can spark a green revolution.

NUCLEAR

Our fourth test was to ask would the Government take a responsible approach to nuclear power and treat it without subsidy or special favours?

In the Commons on Tuesday, Alistair Darling said almost nothing about nuclear. And what he did say certainly did not match up to what the Prime Minister has been saying.

The Prime Minister has been saying for months that

We have been told for months that urgent decisions must be made **now**, that delaying these decisions would risk the lights going out.

But all Alistair Darling said was that ‘the Government has concluded that new nuclear power stations could make a significant contribution to meeting our energy policy goals’.

...A far cry from nuclear power being back on the agenda with a vengeance as the Prime Minister told us back in May.

The report itself does go further than the Secretary of State’s statement. It does set out a new consultation on ‘the Policy Framework for New Nuclear Build’.

It would be irresponsible to rule out nuclear, and we accept the potential need for it. Where we disagree with the Prime Minister is that we do not believe that nuclear should be a first choice technology.

We do welcome the assurances the Government have given that there will be no subsidies for nuclear.

PRICES

Businesses like yours are suffering enough from high energy prices and the last thing you need is to be paying more.

Average British Gas bills have risen by 70 per cent for gas and 65 per cent for electricity since January 2003¹

And whereas [small companies in the UK paid 12 per cent less for their electricity than those in France in July 2004](#), by [October 2005 they were paying over 15 per cent more](#).²

This too is an area in which the Government needs to do more.

One of the biggest factors in the high gas prices seen in the UK, perhaps the biggest factor, is illiberalised markets and practices in Europe.

Global Insight research shows that oil-linked contracts in Europe will lead to extra costs of £10 billion for UK gas consumers.

Analysts are suggesting that the supply and demand fundamentals account for less than half of the cost of gas, the rest relates to EU markets and anxiety.

We hope that in the coming months the British Government will be more vocal and put more pressure on the Commission to push ahead with unbundling.

¹ Energywatch price comparison fact sheets, gas consumption of 20,500kWh and electricity consumption of 3,300 kWh and paying by standard credit.

² Figures include tax, *Quarterly energy prices*, Table 5.4.1, DTI, December 2005 - Small defined as consuming 1.250GWh per annum with a maximum demand of 500kW.

THREE SECTORS

So where will this review leave different generating technologies?

Well, coal and gas will have to look more seriously at carbon capture...

...but will continue to provide the mainstay of UK energy.

Renewables may be brought on further, and when the Government come forward with their consultation on reform of the Renewables Obligation in the autumn we will see how far this could go.

But it seems clear that we will continue to lag well behind other European nations in the amount of energy we get from renewable sources.

And for nuclear the future remains unclear. The Review sets out a consultation on a 'framework for new nuclear build'. And the elements it contains we broadly agree with.

But there is nothing in the Review to match the Prime Minister's rhetoric.

The Government have not said how many new nuclear plants they expect to be built. They haven't even said what they think the chances are of any new nuclear plants being built.

CONCLUSION

There are certainly some areas in which we do not believe that the Government has measured up well against the tests we set out...

...and in other areas new consultations, reviews and studies have been launched, where decisions need taking now.

But it should not be seen as all bad news.

They have proposed streamlining the planning process for new generating plant, agreeing with the findings of our Review.

They included pre-licensing of nuclear reactor designs, again agreeing with our Review.

They have said they want to promote energy efficiency, agreeing with the findings of our Review. In last week we called for more development of policies to encourage the installation of energy efficient technologies.

They have said they support EU ETS – we do too, in fact we have gone further with proposals for extending carbon trading.

There are significant areas of consensus...

...and that is a good thing for businesses.

Because just as stability and certainty in taxes and regulations are important for business...

... so a stable energy policy that can create a climate for investment that will last changes in Government is important, for securing investment in infrastructure, ensuring the lights stay on and driving down prices.

When I published our Energy Review last week, I said that we felt there was a proper role for Government and for the private sector in Energy policy.

The Government should set the right framework for emissions reductions and energy security...

...but be in the business of setting the mix.

And the role for the private sector should be to develop the best and most affordable technology within this framework.

Securing supplies and reducing carbon emissions – these are our energy priorities. And they are priorities that I hope you share and the Government share. Our energy future is too important to play politics with.

Thank you