

## Environmental Audit Committee The Energy White Paper – Empowering Change?

### Memorandum submitted by the Association for the Conservation of Energy following consultation with the Sustainable Energy Partnership.

#### 1. Scope of this Memorandum

1.1 This memorandum is submitted on behalf of the Association for the Conservation of Energy. However, we have consulted fellow members of the Sustainable Energy Partnership, which brings together an unprecedented number of NGOs, trade associations and parliamentary groupings (see Appendix 1 for complete list). For that reason this memo deals with more than energy efficiency, although there is an emphasis on energy efficiency issues.

1.2 In the main we concentrate on outcomes (i.e. targets, objectives or whatever similar words might be used), rather than mechanisms or detailed measures. *There are a number of reasons why targets are absolutely vital.* They include:

- If CO2 reductions are to be achieved without recourse to nuclear power, then it is not just the alternatives (energy efficiency/saving, combined heat and power and renewables) that are important – **but ‘how much’ of the alternatives?** ‘More’ of the alternatives is insufficient: we need to state ‘how much more’ so we can assess the CO2 reductions that will result; and we need to set that amount ‘more’ as sufficient to deliver the desired CO2 savings.
- On the stated (by the RCEP and the White Paper<sup>1</sup>) ‘social’ aspect of energy policy – ending fuel poverty – targets are also crucial. Fuel poverty can be **alleviated** by ‘more home insulation’; to **end** it requires a specific target relating to a specified number of homes that will need a specified level of home insulation.
- It is accepted, (indeed urged) by government, that business investment is essential if long term CO2 savings are to be achieved. And business will not invest on the basis of ‘whims’. Business has heard it all before<sup>2</sup>: it has been urged many times in the past to invest, and has been assured of measures to increase the markets. These have not materialised. The situation is very clear, as the British Energy Efficiency Federation has said<sup>3</sup> and the Renewable Power Association<sup>4</sup> has said – business will only invest the millions of pounds required in plant, personnel, products and new technology, if there is a reasonable certainty of a market. A firm target for the amount of increase required in energy efficiency/saving, combined heat and power and renewables is the only way to provide this. As the Preface to the Committee’s seventh report said ‘warm words’ are not enough.
- Indeed, as the White Paper itself states (at para 1.4) ‘energy producers, investors, businesses and consumers need a clear, settled long-term framework within which

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<sup>1</sup> On pages 203 (recommendation 44) and 11 respectively

<sup>2</sup> e.g. by (then) Energy Secretary John (now Lord) Wakeham at the Press Conference following World Energy Conference in Montreal in 1990; by (then) DETR Grade 3 civil servant in an address to the AGM of the main cavity wall insulation trade association in 1998

<sup>3</sup> e.g. in motion passed by the Federation on 11<sup>th</sup> June 2002; also ACE Governing Council statement of June 2002

<sup>4</sup> e.g. Chief Executive Philip Wolfe, Utility Week 21st March 2003; ‘Investment could dry up within the next two years because the financial returns are too uncertain’ – Philip Wolfe Daily Post (Wales) 19.3.03

they can plan and make decisions with confidence.’ ‘More’ is neither clear nor ‘a long-term framework’ and will not inspire confidence. A target or objective can.

1.3 The individual members of the Sustainable Energy Partnership may disagree on the individual policy measures needed to deliver the targets (and they will doubtless submit their own evidence to this Committee on these): but they are united on the ‘how much more’.

1.4 The remainder of this memorandum deals with the four issues that the Committee has said that it wishes to address with the Minister, Brian Wilson MP on 2nd April, in the order listed by the Committee.

## **2. Review key proposals in the White Paper in the light of the Environmental Audit Committee’s recommendations in its July 2002 report and the Government’s response.**

2.1 The Committee’s 2002 report ‘did not cover demand side measures’ (para 2) so there are no recommendations dealing with energy efficiency. However, the Committee’s attention is drawn to its own further words in para 2 that ‘energy efficiency, in particular, and reductions in energy use offer huge potential for reducing carbon emissions ... in our Seventh Report of 1998-9 we highlighted the importance of this area and made a wide range of recommendations, on many of which the Government has yet to act.’

2.2 In addition we would draw the Committee’s attention to two statements of Energy Minister Brian Wilson MP. The first was in evidence to the Committee itself when he agreed that the PIU targets for energy efficiency were achievable ‘with commitment’<sup>5</sup>; the second on the floor of the House on 31<sup>st</sup> October 2002 when he stated that ‘energy efficiency has never been taken half seriously enough.’<sup>6</sup>

2.3 We highlight these points as they make our suggested questions to the Minister (listed below) on the subject of energy all the more important.

## **3. Consider whether the White Paper represents an adequate response to the recommendations made by the RCEP and the PIU.’**

3.1 **The RCEP recommended** that ‘a range of targets should be developed for raising energy efficiency in all sectors of the economy’ (Key recommendation 6 page 199). The White Paper does not do this – no targets whatsoever are set for energy efficiency.

3.2 **The PIU recommended in general terms** that ‘DEFRA should develop energy efficiency indicators, targets ... for each sector of the economy.’<sup>7</sup> This is not done in the White Paper.

**Suggested Question 1: We therefore urge the EAC to ask the Minister why these general recommendations of the RCEP and the PIU have not been complied with?**

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<sup>5</sup> EAC. Minutes of Evidence 24.4.02 Ev 115

<sup>6</sup> Official Report col 986

<sup>7</sup> Page 111 para 7.7

3.3 **On domestic energy efficiency**, more specifically, the PIU recommended two targets –a 20% increase by 2010 and another 20% increase on top of that by 2020.<sup>8</sup> These targets were supported by the Energy Saving Trust<sup>9</sup>, the Sustainable Development Commission<sup>10</sup>, and by implication at least by the EAC in its July 2002 Report.<sup>11</sup> The White Paper does not set these targets. While it is true that the box at para 3.5 on page 33 of the White Paper states in terms of carbon savings ‘where savings might be achieved’, this is nowhere stated to be a target or even government policy. The 2020 situation is even less satisfactory: para 3.6 simply sets out the further savings that ‘can come from households’. That is presented as a statement of fact: but nowhere is it stated to be a target, policy, aim, objective goal or anything similar that might imply commitment.

**Suggested Question 2: We therefore urge the EAC to ask the Minister whether the carbon savings stated for energy efficiency by 2010 and 2020 on page 33 of the White Paper are ‘targets’, ‘objectives’, Government policy’ or simply statements of what is achievable.**

3.4 **On renewables the PIU** recommended 20% by 2020<sup>12</sup>; this was supported (twice) by the Sustainable Development Commission<sup>13</sup> and again, implicitly at least by the EAC in its July 2002 Report<sup>14</sup>. The White Paper, however, only states that the government’s ‘aspiration’ is for 20% by 2020 (para 4.11 page 46). An aspiration is not a target, so the White Paper does not represent an adequate response to the PIU recommendation.

**Suggested Question 3: We therefore urge the EAC to ask the Minister why this 20% is set only as an aspirational target and whether the Government will make it a firmer target.**

3.5 **Reducing CO2 emissions.** Clearly the White Paper’s acceptance of the RCEP long-term recommendation of the need for a 60% reduction by 2020 is very welcome indeed. However, there is a concern about the way in which the White Paper deals with the 2010 CO2 target of a 20% reduction based on 1990 levels. The RCEP, on page 199 at Key Recommendation 1 said that this ‘should become a firm target’ and indeed the Government’s Election Manifesto in 1997 made it such; further, the Prime Minister assured the House on 24th June 1997<sup>15</sup> that this was ‘unconditional’. In the light of this it cannot be deemed to be a satisfactory response to the RCEP report that the White Paper talks only of ‘a national goal to **move towards** (our emphasis) a 20% reduction below 1990 levels by 2010.’<sup>16</sup>

**Suggested Question 4: We therefore urge the EAC to ask the Minister to confirm that the 20% by 2010 CO2 reduction based on 1990 levels is a firm target.**

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<sup>8</sup> Executive Summary, page 6

<sup>9</sup> In its response to the Government’s Energy Policy Consultation and in ‘Towards an Energy Efficiency Strategy for Households to 2020’

<sup>10</sup> In its response to the Government’s Energy Policy Consultation

<sup>11</sup> at paras 118 and 119

<sup>12</sup> Executive Summary, page 6

<sup>13</sup> Sustainable Energy – Response to Government’s Energy Policy Consultation and Energy and Climate Change Feb 2003 (which actually recommended a 25% atarget)

<sup>14</sup> at paras 118 and 119

<sup>15</sup> Official Report col 687

<sup>16</sup> at para 2.14

#### **4. Review the progress made against key recommendations of the EAC's 1999 report on Energy Efficiency**

4.1 **The EACs first key proposal in its 1999 report** was that ‘the Government should adopt a sustainable hierarchy in establishing a framework for UK energy policy ... This hierarchy should start with the promotion of end-use energy efficiency; energy supply from renewable resources followed by combined heat and power ...’

4.1.1 The White Paper seems to have adopted a **reverse hierarchy**: it has set a firm target for CHP (at para 4.17); an aspirational target for renewables (at para 4.11) and no target at all for energy efficiency (see para 3.5 and 3.6)

4.1.2 This is not only unsatisfactory (for the important reasons explained in section 1 above) – it is illogical: energy efficiency is stated explicitly in the White Paper (at para 1.19 and 3.2) as likely, to be ‘the cheapest, cleanest and safest way of addressing all four objectives’ of the Government’s energy policy.

**Suggested Question 5: We therefore urge the EAC to ask the Minister why, in terms of ‘policy’ ‘targets’ or (whatever word is used) energy efficiency fares worse than renewables or CHP.**

4.2 There is a further lack of clear target or goal or policy commitment that is of concern. In the draft CHP strategy a target is stated for micro CHP as 400MW by 2010. In the White Paper this is missing, although there are clearly policy initiatives (e.g. Building Regulations) outlined (at para 3.13) to increase the use of condensing boilers. Given micro CHP is usually seen as an energy efficiency measure, rather than as a CHP measure, and given that has been described by the PIU Report (at Table 6.1) as the most efficient means of carbon saving, this also seems illogical.

**Suggested Question 6 : We therefore urge the EAC to ask the Minister whether the target for micro CHP indicated in the draft CHP strategy still Government policy; and**

**Suggested Question 7: We therefore urge the EAC to ask the Minister what measures will the Government take to both assist with the achievement of that target and to kick-start the micro CHP industry.**

4.3 **The EACs fifth key proposal in its 1999 report** concerned fuel poverty. The EAC stated that it ‘would prefer a more meaningful measure of the outcomes achieved in terms of a reduction in the incidence of fuel poverty and some assessment of associated emissions reductions’ and that ‘addressing fuel poverty is both a social and environmental imperative.’

4.3.1 With these in mind we draw the Committee’s attention to the following serious concerns:

- The White Paper (at Chapter 8) and the 1<sup>st</sup> Annual Report by Ministers on the fuel poverty strategy both describe progress in dealing with fuel poverty in terms of total numbers of households helped under Warm Front. But there seems to be no acceptance that around 40% of households helped by this scheme were not in fuel poverty in the first place. Thus, when the 1<sup>st</sup> Annual Report states that 470,000 households have been helped by Warm Front, with the clear inference in para 4.6 that

this represents a reduction in fuel poverty in 470,000 households, this is deliberately misleading.

- No assessment of associated emissions reductions is given.
- Both the White Paper and the 1st Annual Report seem to be measuring the target for ending fuel poverty in terms of the Government's new (and bogus) definition of fuel poverty<sup>17</sup>. As well as ignoring categorical Ministerial assurances<sup>18</sup> that fuel poverty would be ended on both definitions, this in effect 'defines' 1 million vulnerable households out of fuel poverty and maybe also another half a million non-vulnerable households.
- Both the White Paper and the 1<sup>st</sup> Annual report ignore the key finding of the Fuel Poverty Advisory Group in its Report to Ministers that at least 50% more resources will be needed if Government targets to end fuel poverty in vulnerable households by 2010 are to be met
- Both the White Paper and the 1<sup>st</sup> Annual Report state that the 'decency standard' for social housing is the policy approach to ending fuel poverty in social housing. Neither of these address the point made by NEA<sup>19</sup> that this is so low in terms of thermal insulation that there are an estimated 1 million social housing homes that currently comply with the standard, but whose occupants are still in fuel poverty.

**Suggested Question 7: We therefore urge the EAC to ask the Minister how many of the 400,000 helped by Warm Front were in fuel poverty**

**Suggested Question 8: We therefore urge the EAC to ask the Minister if an assessment of emissions reductions be given in future re fuel poverty programmes**

**Suggested Question 9: We therefore urge the EAC to ask the Minister if he will repeat government assurances that the objectives by 2010 is to end fuel poverty in vulnerable households on both definitions, and by 2016 in other households on both definitions**

**Suggested Question 10: We therefore urge the EAC to ask the Minister to urge the Treasury to respond positively in the forthcoming Budget to the view of the FPAG re 50% more resources being needed?**

**Suggested Question 11: We therefore urge the EAC to ask the Minister to ensure or take steps to urge ODPM to ensure that the decency standard for social housing is increased so as to ensure that households are removed from fuel poverty.**

4.3 **The EACs eight key proposal in its 1999 report** was that it 'regarded the development of energy services provision as fundamentally important to the achievement of the UK's environmental objectives and their promotion should be integral...'

4.3.1 In order to have any chance of developing and functioning effectively Energy Service Providers (ESPs) need fiscal incentives. In a response to the recent Treasury consultation on fiscal measures to assist domestic energy efficiency, a very large number of NGOs urged the granting of enhanced capital allowances to ESPs for the installation of

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<sup>17</sup> see White Paper para 8.2; 1<sup>st</sup> Annual Report Chapter 4

<sup>18</sup> e.g. Speech by Michael Meacher MP to NEA Annual Conference, September 2001, with the assurance underlined in Mr Meacher's own speech notes.

<sup>19</sup> e.g. in evidence to last year's Trade and Industry Committee investigation into fuel poverty.

energy saving materials; and ‘enhanced plus’ capital allowances for the installation of highly efficient new technology such Micro CHP.<sup>20</sup> Indeed, one of the ACE members, BG MicroGen has drawn up a detailed analysis that without enhanced capital allowances ESPs cannot purchase the most efficient boilers to use in leasing schemes and has submitted evidence to this Committee saying this (‘unfortunately, the tax system acts as a major disincentive to the type of domestic leasing arrangement described’)<sup>21</sup>. This will mean that there is less incentive to install the most efficient domestic heating systems which are necessary to both end fuel poverty (especially in hard to heat homes) and to reduce CO2 emissions.

4.3.3 It is important that the Treasury responds positively on this point in the Budget on April 9<sup>th</sup>. Such a response could be the crucial policy instrument to ensure the achievement of the Committee’s key proposal.

**Suggested Question 12: We therefore urge the EAC to ask the Minister to agree to make representations to the Treasury to respond positively on this point in the Budget.**

4.4 **The EACs thirteenth key proposal in its 1999 report** was for VAT in all energy saving materials to be reduced to 5%. The Government now accepts that this is legal under EU law for all but D-I-Y.<sup>22</sup> Whilst we do not necessarily accept that limitation, we would urge that the Government reduces VAT on all energy saving materials (as listed in the Presentation Bill introduced by the Hon Member for Swindon South in July 2002) across the board for all but D-I-Y in the Budget. The Government has said that it supports a wider VAT reduction<sup>23</sup>, so there should be no reason why this is not included in the forthcoming Budget,

**Suggested Question 13: We therefore urge the EAC to ask the Minister to agree to make representations to the Treasury to respond positively on this point in the Budget.**

## **5. Identify the implications of the White Paper in terms of the specific actions now required by each relevant Government department.**

5.1 We will make two short comment here in order to emphasize their importance. **The Treasury is crucial.** The recent consultation on domestic energy efficiency ended in October. Indications have been given that the Budget will launch a further consultation, rather than a result. If the Government wants to send the right signal to industry, then Treasury is absolutely crucial. There must be a positive response to the suggestions backed by ACE and many other NGOs in the Clean Dozen (attached as Appendix 2).

**Suggested Question 14: We therefore urge the EAC to ask the Minister to agree to make representations to the Treasury to respond positively on the suggestions in the Clean Dozen in the forthcoming Budget.**

5.2 Finally, DEFRA must revive and support its own recommendation, made in its 1999 review of the Home Energy Conservation Act 1995<sup>24</sup>, to fund a HECA Officer for each local authority, so the full potential of energy efficiency works by local authorities can be realised.

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<sup>20</sup> See Appendix 2 – The Clean Dozen, suggested fiscal measure No 6

<sup>21</sup> See para 7.4 of BG MicroGen submission to this Committee; and also BG MicroGen detailed memo to Treasury 22.2.03

<sup>22</sup> e.g in communications received from Treasury Officials

<sup>23</sup> e.g Letter from John Healey MP to Joan Walley MP 10.2.03

<sup>24</sup> Monitoring the Implementation of the Home Energy Conservation Act, DEFRA September 1999

