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Dear Mr Erwin and Mr Hardy,

### **Draft Climate Change Bill – Consultation (June 2007)**

Thank you for giving us the opportunity to comment on the Draft Climate Change Bill. This response has been produced as an industry-wide view from the energy suppliers forming the Energy Retail Association (ERA). The ERA, established in October 2003, is the only dedicated trade association for domestic energy suppliers in Great Britain. All the main energy suppliers operating in the domestic market in Great Britain are members of the association: British Gas, Scottish & Southern Energy, RWE npower, E.ON Powergen, EDF Energy and ScottishPower. Some ERA members may also submit additional responses specific to their companies.

We support a Bill which establishes an economically credible emissions reduction pathway with medium and long-term targets, which includes checks on this reduction pathway and a system of carbon budgeting which ensures the long term target is achieved.

The proposed five-year targets, set out for at least three periods, i.e. for fifteen years ahead, would provide business with certainty of what they are expected to achieve and by when, so that they can put in place the necessary policies and actions to ensure the target is reached.

The ERA believes that this targeted approach provides more certainty and flexibility in the system as emissions are likely vary between years due to uncontrollable factors, such as the weather.

For a successful transition to a low-carbon economy there must be a clear, credible, long-term framework for Great Britain to achieve its long-term goals of reducing carbon dioxide emissions, alongside a reporting structure which assesses the risks of climate change and will enable monitoring of progress to help ensure Great Britain is better able to adapt to those risks.

A strong, well-designed framework, which maximises the social and economic benefits and minimises the costs to Great Britain as the emissions reduction goals are worked on is necessary. This would include a high quality, flexible regulatory framework that enables improved decision making, minimises bureaucracy, and reduces business costs. The ERA would welcome consultation on how business implements the regulation, since this would enable competition to flourish and businesses to decide how they will meet their targets.

It is important for the Government to be fully informed and advised on how to reduce emissions over time and across the economy. This includes the amount of effort that should be made by sectors of the economy.

In addition, the reporting requirements should enhance the overall transparency and accountability of Great Britain's action on climate change.

For a successful transition to a low-carbon economy the Climate Change Bill must be published taking into account the proposals in the energy review, as set out in the Energy White Paper.

The Bill will need to ensure that the optimum low-carbon investment decisions can be taken now, while providing business with a clear view of the costs and benefits of early action and avoiding undue negative impacts on society, the British economy and business competitiveness. The framework will need to be sufficiently flexible to absorb any short-term shocks and be able to take account of changing circumstances at home and abroad, for example energy prices and supply.

A successful transition to a low-carbon economy could lead to benefits across parts of the British economy if competition is allowed to flourish within a softer regulation environment. Focus must be maintained on what the primary objective of the Climate Change Bill is (reducing carbon dioxide emissions), and that any co-benefits, such as reduced reliance on imported fuel and reduced fuel poverty, do not overshadow the primary objective.

Flexible mechanisms are very important in terms of achieving emissions reductions at least cost. It is important that the targets and budgets in this Bill do not restrict British organisations from using mechanisms such as Kyoto and EU ETS. We therefore believe that the Bill should allow emissions reductions achieved overseas but paid for by British companies to be counted towards their targets and budgets. Further clarity on the volume of credits to be used and level of domestic abatement is required.

One cost-effective measure which is already reducing emissions in Britain is the Energy Efficiency Commitment (EEC), delivered by energy suppliers. CERT is expected to save 3.6MtC, costing energy suppliers over £1bn from 2008 to 2012 to deliver.

The ERA would welcome any investigations the Government could carry out into the feasibility of allowing scheme administrators to access data already collected by Government for different purposes but currently protected by legal restrictions. This could help reduce the administrative costs for both Government and companies, as well as reduce carbon emissions and benefit the general public. A practical example of when this could be of use is within EEC, where different governmental departments hold data on potentially vulnerable households and individuals who may be eligible for EEC. This information cannot be cross-referenced and therefore reaching these households and individuals is unnecessarily time-intensive, costly and often hit-and-miss for companies.

**1. Is the Government right to set unilaterally a long-term legal target for reducing CO2 emissions through domestic and international action by 60% by 2050 and a further interim legal target for 2020 of 26-32%?**

A target to reduce the Great Britain's contribution to global CO2 emissions by 60% by 2050 compared to our emissions levels in 1990 must have the right policies and actions in place to ensure it is achieved at an acceptable cost, both monetary and socially. On long term targets, there is no reference to the fact that Britain's targets alone will not provide long term certainty on carbon price. Certainty in carbon price set through having long-term targets at EU level will provide confidence in other domestic mechanisms that will impact on suppliers.

However as the Draft Climate Change Bill points out, there is a risk that a commitment for 2050 is too long-term and that without a shorter-term target the right policies and actions will not be introduced until the critical path looks likely to be in jeopardy and hence the associated financial and social costs to achieve the long-term target would not be feasible.

A clear and well-planned trajectory based on how this target will be met is welcome and an interim legal target could help to ensure that full and focused attention is given to achieve the overall target.

**2. Is the Government right to keep under review the question of moving to a broader system of greenhouse gas targets and budgets, and to maintain the focus at this stage on CO2?**

The Draft Climate Change Bill states that carbon dioxide emissions currently make up a large part of Britain's Greenhouse Gas (GHG) emissions: in 2005, CO2 made up slightly less than 85% of all Britain's GHG emissions and in 2000 accounted for some 77% of global greenhouse gas emissions.

Therefore to ensure success in reducing the environmental impact of Britain and its GHG emissions there needs to be a focus on bringing down the level of CO2 emissions.

Climate change mitigation will not be possible without specific actions focused on reducing CO2 emissions, achieved by moving to lower-carbon technologies across the whole economy.

Therefore we support the intention that this Bill relates to CO2 rather than other GHGs to maximise this focus and achieve concrete results.

Setting targets is something the energy industry has called for previously, but although the Bill should cover CO2 initially, the wider GHG perspective should not be overlooked, particularly post-2012 onwards.

A move towards a broader system of greenhouse gas targets and budgets must be properly planned, well in advance, with clear guidelines in place on the levels, processes and measures to monitor emission levels for each GHG. This will identify other GHGs which should be targeted next, as well as ascertaining what measures are needed to minimise and reduce their impact. Whilst we would recognise the need to focus on reducing CO2 emissions, Britain's targets should be set in a consistent manner with EU and international targets which are set in terms of GHG targets.

The government should review the need to move towards broader system of greenhouse gas targets and budgets and review instruments that are suitable for the reduction of other greenhouse gases. To drive the long term investments needed to make deep cuts in greenhouse gas emissions, investors need a long term stable policy framework with a trajectory on emissions reduction requirements. Any move to include greenhouse gases at a later date should be done in a way that doesn't impact or compromise on existing CO2 targets and budgets.

### **3. Should the UK move to a system of carbon management based upon statutory five-year carbon budgets set in secondary legislation?**

A tight and clear timetable for the levels in reduction of carbon dioxide is required which enables energy supply companies to plan ahead both strategically and financially, whilst not missing interim targets.

Therefore the proposed plan to have a five-year carbon budget allows stability between the reduction of CO<sub>2</sub> in a period, and the flexibility needed to accommodate annual differences. They are also consistent with the current international agreements (i.e. the Kyoto compliance periods), EU ETS timeframes and European targets.

For example, due to socioeconomic and environmental reasons Britain has recently seen wholesale energy prices rise and gas supply constraints, on top of atypical weather conditions.

Therefore annual targets do not provide the true picture of what is being achieved, positively or negatively. Longer, such as the proposed five yearly targets, would give a clearer picture of the overall trend. They would create a situation where Government and stakeholders focus on short-term reduction objectives rather than on long term drivers that will deliver a low carbon economy.

However annual 'check-ups' would be required to ensure target emissions reductions remained on track for the five years, as a way to guide policy. The outcome of the annual check-ups should not dictate short term policy changes, as there may be short-term fluctuations, such as weather effects.

It has been recognised that even a five-year window is still too short to allow businesses, such as energy suppliers, to plan long-term and put into place the investment and projects which will have the impact further along the line.

### **4. Do you agree there should be at least three budget periods in statute at any one time?**

Therefore to ensure strategic planning is successful, longer-term targets must be communicated to businesses, A 15 year time horizon (three five year budget periods) provides insufficient visibility of future carbon constraints when many assets will have lives of 25-60 years and may take up to 10 years to develop. We believe that visibility of five, five year budget periods giving 25 years visibility is necessary.

**5 Do you agree there should be a power to review targets through secondary legislation, to ensure there is sufficient flexibility in the system?**

Government should have the power to review targets based on changes in international agreements and scientific knowledge. It should be recognized that the inclusion of any power to review the 2020 and 2050 targets or budgets increases uncertainty for investors. In particular, the possibility of relaxation of a target creates a risk of undermining low carbon investments.

If the Government requires the flexibility to modify future targets, it must clearly set out the criteria and methodology for modification. The timescales for such revisions must be such that they will allow business to make some assessment of the direction of future policy changes (predictability) and incorporate the risk in its investment decisions.

**6. Are there any factors in addition to, or instead of, those already set out that should enable a review of targets and budgets?**

**7. Do you agree that, in line with the analysis in the Stern Review and with the operation of the Kyoto Protocol and EU ETS, effort purchased by the UK from other countries should be eligible in contributing towards UK emissions reductions, within the limits set under international law?**

The proposal to adopt a target must be based the “net UK carbon account” principle as the purchasing of EUA, CDM and JI credits all have a role in reducing emissions at least cost and allows the carbon market to operate efficiently.

It is important the Climate Change Bill provides clarity on the level of supplementarity that it deems acceptable and therefore establishes a minimum level of domestic abatement required. Without this clarity there is a risk that industry will simply adopt a strategy of purchasing carbon credits from overseas rather than making physical CO<sub>2</sub> abatement investments in the UK.

**8. Do you agree it should be permissible to carry over any surplus in the budget? Are there any specific circumstances where you consider this provision should be withdrawn?**

Banking and borrowing a certain amount of the carbon emissions reduction quota would support long-term seamless planning to avoid changeable activity, particularly over the cusp of two budget periods. Banking has the potential to reduce volatility between budget periods and smooth the CO2 emissions reduction trajectory.

**9. Do you agree that limited borrowing between budget periods should be allowed?**

Borrowing a certain amount of the carbon emissions reduction quota would support long-term seamless planning to avoid changeable activity, particularly over the cusp of two budget periods.

In addition, borrowing would stabilise the uncontrollable variables such as weather, and would indicate the longer term trend of emissions reductions. Limited borrowing protects against short-term fluctuations and volatility in emissions, e.g. arising from a cold winter, fuel prices, in particular where the volatility occurs in the final year of a five year budget period.

However, limits should be put in place on borrowing to ensure it is well managed, and allocated, and the rationale for borrowing in particular must be fully understood with the aim of preventing the need to borrow in the future.

Independent decision-makers should be able to determine whether any or limit on borrowing activity is permissible.

**11. Do you agree that establishing an independent body will improve the institutional framework for managing carbon in the economy?**

An independent body should provide independent expert analysis is critically important to the wider task of identifying, and assessing the balance of priority between the cost-effectiveness and impact of different policy measures so that the UK can be in the best possible position to optimally achieve its emission reduction goals. It is equally important that the Government is seen to be committed to accepting the Committee's advice and reports except in the most exceptional circumstances.

**12. Do you agree that the Committee on Climate Change should have an advisory function regarding the pathway to 2050?**

Yes.

**13. Do you agree with the proposal that the Committee on Climate Change should have a strongly analytical role?**

The establishment of an independent body should improve the institutional framework for managing carbon in the economy.

However, members of the committee must have technical and practical expertise rather than a simply an academic dimension. There must be the knowledge of how to turn scientific theories into a reality and the financial implications and project aspects of reducing the Britain's carbon emissions, along side understanding how markets work.

Though there will be numerous complex systems to monitor progress, the Committee on Climate Change should constructively challenge and contribute to the development of strategy.

Its primary focus of the committee must be to report on the progress being made against targets and on the effectiveness of policy measures. Policy formulation and development is ultimately remaining the role of Government.

**14. Are these the right factors for the Committee on Climate Change to take into account in assessing the emissions reduction pathway? Do you consider there are further factors that the Committee should take into account?**

We believe that the Committee on Climate Change should be the independent group that focuses on reviewing the effectiveness of policy and performance, and advising on opportunities. The list provides the basic framework for assessing the emissions reduction pathway however responsibilities of the Committee should be clearly defined and avoid duplicate Government activities.

- (a) scientific knowledge about climate change;

**(b) technology relevant to climate change;**

Smart meters have the potential to revolutionise our energy industry and could have a dramatic impact on reducing energy consumption. The energy supply industry welcomes the potential they bring and looks to government for support.

The Energy Retail Association set up the Supplier Requirements for Smart Metering (SRSM) project to analyse and deliver an operational framework for smart metering.

Smart meters monitor households' use of energy and so make it easier to cut consumption. Trials on consumer behavioural changes when smart meters are used are still in their infancy but initial informal feedback indicates that people's attitudes and behaviour do change after the installation of a smart meter.

However the Government must be bold in its decision-making, rather than simply tinker round the edges with short-term technological gimmicks. For example, 'electricity display devices' will not address the challenges at hand, such as providing accurate real-time information on energy consumption to the consumer and supplier, and will put back any chance of smart meters being introduced for a decade. There is actually a time-delay before these proposed devices show what electricity is being used, which makes them even less useful and indeed may be dangerous if installed incorrectly.

The energy supply industry has been calling on Government to be courageous, and lead the world in revolutionising our industry by promoting smart meters. This would mean replacing all gas and electricity meters with intelligent smart meters in the next ten years, something that has never been done before, anywhere in the world. These two-way, dual fuel, smart meters will see the end of estimated bills, the end of token meters, the end of meter readings as well as an intelligent two-way communication which will accurately tell the consumer how much energy they are using and the supplier what is being used.

The introduction of smart meters is a golden opportunity for the Government to show leadership and put in place the foundations for a new era in this sector.

**(c) economic circumstances, and in particular the likely impact of the decision on the economy and the competitiveness of particular sectors of the economy;**

The energy supply industry is extremely competitive in Britain, with over 4 million customers switching supplier in 2006.

Any factors within the emissions reduction pathway must ensure that competition is able to continue to thrive.

In addition it should be recognised that the energy supply industry cannot achieve the demanding targets alone, and any approach would need to incorporate all agents of delivery e.g. suppliers, local authorities, appliance manufacturers and retailers, house builders etc.

Consultation should take place on how business implements the regulation, to allow competition to flourish and businesses to decide how they will meet any targets set for them.

**(d) fiscal circumstances, and in particular the likely impact of the decision on taxation, public spending and public borrowing;**

**(e) social circumstances, and in particular the likely impact of the decision on fuel poverty;**

We agree that Government should take social circumstances, and the likely impact on fuel poverty, into account in assessing the emissions reduction pathway, as certain policy options could have a more negative impact on vulnerable sectors of society. The Government's statutory fuel poverty targets are already very challenging and cannot risk being undermined. They reflect the fact that Government has ultimate responsibility for eradicating fuel poverty, which is caused by a combination of low income, poor housing and energy costs. We believe that the concept of fuel poverty is misleading as it really refers to households living in poverty and struggling to meet costs, of which energy costs are just one part. Whilst energy suppliers have a role in tackling poor housing and energy cost aspects, Government must also ensure that household incomes are at an appropriate level if sustainable solutions are to be delivered.

**(f) energy policy, and in particular the likely impact of the decision on energy supplies and the carbon and energy intensity of the UK; and,**

Suppliers have an excellent record for energy saving in the domestic sector - carbon savings from EEC2 are expected to be 0.62 MtC annually by 2010. CERT is expected to deliver 3m CWI and 56m CFLs. The total carbon saving is predicted to be 1.2MtC per annum.

Energy suppliers have an important role in educating their customers on their energy use, and they recognise that their business model is shifting from being pure 'energy supply' companies to a more holistic approach, where they offer advice and instruments to consumers to understand better and manage their energy use.

**15. Do you agree the Committee on Climate Change should be comprised of technical experts rather than representatives of stakeholder groups?**

The Committee on Climate Change should be comprised of technical experts who represent a broad spectrum of experience and knowledge. These experts should be able to understand the positions of stakeholders, but must be independent in their approach and decisions making. Only through this independence can the Committee establish itself as a respected arbiter of the positions of competing stakeholder groups. Although comprised of experts who are able to undertake their own analysis, the Committee should establish a consultation process to ensure the views of wider stakeholders are actively sought.

**16. Are these the appropriate areas of expertise which should be considered? Do you consider there are further areas that should be considered or any areas that are less important?**

These are the appropriate areas of expertise.

**17. Do you agree with the principle of taking enabling powers to introduce new trading schemes?**

Whilst it is clear that robust and timely actions must be introduced, caution must be taken when implementing new trading schemes or consolidating or extending current trading schemes as trading is not the omnipotent answer. This approach may in fact overlook more challenging policies such as renewables and energy efficiency.

It should be recognized that trading schemes cannot realistically be introduced quickly in the same way as carbon taxes. Trading schemes require detailed consideration with potential participants to ensure they are structured effectively. For example, the current Carbon Reduction Commitment concept for a “simple” scheme with “light-touch” regulation is actually very complex in many areas, e.g. definition of organisation, auction proceeds recycling.

The scope of the “trading schemes” that the legislation will enable to be introduced from the consultation document appears to be obligations and cap-and-trade schemes. It would seem prudent to provide for the introduction of all types of measures that cannot be provided for via other routes (e.g. the annual Finance Bill) to provide the full-range of options to the government. To exclude any types of measures would be to pre-empt the findings of the first report by the Committee for Climate Change and may delay or prevent the introduction of the optimal set of carbon abatement reduction measures.

**18. Do you consider that these powers are sufficient to introduce effective new policies via secondary legislation? If not, what changes would you make?**

The enabling powers currently proposed cover an impressive range of design elements, including compliance mechanisms, appropriate penalties, and appeals mechanisms, and should be sufficient to introduce effective new policies. Because of the likely substantial and possibly novel implications of new trading schemes for UK industry, and the energy sector in particular, it would be desirable to ensure that the secondary legislation to implement such schemes is in all cases subject to no less than the affirmative resolution procedure.

**19. Do you agree that the Committee on Climate Change should be responsible for an independent annual report on the UK’s progress towards its targets which would incorporate reporting on a completed budget period every five years?**

The Committee on Climate Change should be responsible for the annual reporting of the UK’s progress towards its targets to Parliament. This independent report should not duplicate existing Government reporting effort and responsibilities, or create an environment where government and stakeholders focus on the short term reduction objectives rather than longer term driver that will deliver a low carbon economy.

The Committee should also undertake a comprehensive assessment of the emissions for the budget period every 5 years and the trajectory to meeting future budgets.

**20. Is statutory reporting the best way to drive forward progress on adaptation while at the same time ensuring Government is able to develop flexible and appropriate measures reflecting developments in key policy areas?**

In the UK, the adaptation framework is less mature than that for the mitigation of climate change. We believe a more coherent and strategic approach is required to identifying and monitoring regional impacts, and the management of climate change risks. Early preparation and a proactive approach to managing the impacts of climate change can help manage the implications. Statutory reporting has a role to play in progressing adaptation and increasing transparency.

I hope you have found this response useful. If you have any questions on any of the points raised above please do not hesitate to contact me on 020 7747 5431 or [Frances.Williamson@energy-retail.org.uk](mailto:Frances.Williamson@energy-retail.org.uk).

Yours sincerely,

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