European Commission
Directorate General Energy
Unit A1 – Energy Policy
Rue de Mot 24
B-1049 Bruxelles
Belgium

2 July 2013

Dear Sir / Madam,

# Response to consultation on Green Paper "A 2030 framework for climate and energy policies" (COM(2013) 169)

**About us, and this submission**

This submission is on behalf of Consumer Futures. Consumer Futures is the operating name for the National Consumer Council, which is a public body in the United Kingdom. The National Consumer Council was created by the Consumers, Estate Agents and Redress (CEAR) Act 2007 and has specific statutory duties to represent the interests of energy and postal consumers in mainland Great Britain.

Answers to many of the questions posed within the Green Paper are provided on the following pages.

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Yours,

**Richard Hall**
Head of Energy Regulation

## Annex – answers to questions posed in the Green Paper

### General questions

*Question: "Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?"*

Flexibility.

There are multiple low carbon tools available to policymakers and it is important to avoid unnecessary prescription that could increase consumer costs without adding any incremental benefit.

For example, production targets to this point have concentrated on setting targets for the deployment of renewable generation only. Renewable generation is a valuable tool towards meeting our carbon targets but it is not the only form of generation with low emissions. Nuclear can also provide zero carbon energy. In the event that Carbon Capture and Storage ("CCS") proves deployable at scale, it may also provide an option for zero, or near-zero, carbon generation.

Defining zero carbon production targets purely in terms of renewable generation may preclude Member States from considering these other options where they are viable. This may increase the costs to consumers both nationally and across the European Union (noting that power is traded across borders).

It could have the perverse consequence of reducing the amount of carbon savings that are made within the European Union by discouraging investment in some forms of zero carbon energy.

It could also hamper emissions reductions outside the European Union if it discourages the development of technologies within its borders that could help outside its borders. For example, demand for fossil fuels outside the EU has sharply increased and is forecast to keep on growing. If this is to be sustainable, it will be crucial for CCS technology to be deployed outside the EU. This may be frustrated if the incentives to develop this technology within the EU are dulled.

For the above reasons, if the EU is to set a target for electricity production in the period to 2030, we would urge this to take the broader form of a "clean energy" target rather than a narrower one that focuses on renewable generation only. This broader target should include renewable, nuclear[1] and CCS. It should also be defined flexibly enough to allow any emergent technologies that also produce zero, or near-zero, emissions to be counted towards it.

We recognise that technology choices have a political dimension and that different Member States will have their own views on what types of development are

[1] When nuclear is considered as an option, its full financial and greenhouse gas emission costs must be taken into account, eg including decommissioning, mining and transportation of fuel.

acceptable within their borders, most obviously in the case of new nuclear. Framing the target in this broad fashion should not prevent Member States from adopting their own national strategies on which technologies to adopt or preclude, provided they meet the overall clean energy target.

Affordability

Since the 2020 targets were set we have seen a global financial crisis and Member States are still coming to terms with its consequences.

In the UK, this has led to stagnant wage growth at a time when energy price inflation has been rampant. The average annual household dual fuel bill in the UK has doubled in the last seven years. As a consequence the affordability of energy is becoming a major problem. In 2011, 4.75 million households lived in fuel poverty in the UK; forecasts suggest that the figure is now likely to be around 6 million as a result of rising energy prices and stagnant incomes[2]. We expect that the UK is not alone in seeing declining energy affordability.

The Commission must put improving affordability at the heart of its 2030 framework. It should give greater priority to the socio-economic dimension of sustainability and build in mitigatory measures from the outset that address the distributional impacts of its policies.

The EU Emissions Trading Scheme ("ETS") needs reform to provide a more stable & credible carbon price.

A consequence of global downturn is that there has been an oversupply of European Union Allowances ("EUA") for carbon emissions. This oversupply has led to a consistently very low carbon price. The price of EUAs has also been quite volatile and hard to predict. This combination of oversupply and volatility appears to be diluting the credibility of the carbon price signal and its impact on investment decisions.

This has had several negative consequences.

Firstly, the inadequacy of the ETS price signal has led Member States to attempt unilateral action to try and compensate for the weakness in this common price signal. In the UK, our Government has introduced a Carbon Floor Price which is intended to act as a "top-up" tax to force the carbon price to a level where it thinks it may influence investment decisions. Because this creates a different carbon price in the UK when compared to all other Member States, this is likely to skew investment signals within the EU but without reducing overall emissions across the 27 Member States.

Secondly, the absence of a credible carbon price means that decarbonisation is not being driven by price signals but instead by non-market signals (subsidy). Each Member State has adopted its own schemes to stimulate investment in low carbon generation. The lack of consistency in support mechanisms across the EU is likely to create skewed and inefficient investment signals, with investment decisions

[2] Fuel poverty is defined by the UK Government as households who need to spend 10 per cent or more of their income to maintain an adequate heating and meet their other energy needs.

based on which Member States offers the most generous subsidy rather than based on which investment would reduce most emissions for the lowest price.

We recognise the difficulties in reaching common agreement on EU ETS reform but this remains crucial if the block as a whole is to maximise its decarbonisation and minimise its costs in so doing. Delivering a credible and common EU-wide carbon price must be a key part of the 2030 framework. In addition, it is crucial that the mechanism is flexible to background economic circumstances so that it provides a bankable investment signal.

We all contribute to carbon emissions, so we all need to contribute to paying for the solution to them.

There is a trend for Member States to try and protect their industrial consumers from the cost of decarbonisation by reallocating these costs to domestic consumers within their borders. In Germany, domestic consumers pick up the tab for decarbonising the energy provided to German industry. In the UK, our Government is attempting something similar, with various exemptions or rebates to heavy industry against the cost of Electricity Market Reform being considered. The more countries take such an approach, the greater the pressure will become on those that have not to follow suit in order to avoid being competitively disadvantaged.

This leads to a perverse outcome: that those who pollute the most, pay the least. It flies in the face of the commonly accepted principle of “polluter pays” (indeed, it actually embeds the opposite: non-polluter pays).

We recognise that industrial consumers feel the pain of high energy prices, but so do domestic consumers. Dumping costs on the latter to cushion the former is neither fair nor a recognisable part of a credible long-term solution that would encourage heavy polluters to clean-up their act. As part of its 2030 framework the Commission should crack down heavily on attempts by Member States to provide protection to their national industry against those of others Member States by displacing this financial burden on to domestic consumers.

Develop a framework for looking at total carbon emissions resulting from EU economic activity – not simply from that which occurs within its borders.

We live in a global economy. The EU’s carbon footprint is not simply a consequence of actions within its borders, but also of the consequences of its actions on activities outside its borders.

For example, a recent report by the UK’s Committee on Climate Change suggested its emissions are actually increasing, not decreasing, when you take into account the carbon emissions embedded in the products it imports[3].

Put simply, if the EU hits its own carbon targets but only does so by exporting its emissions to countries outside its borders then its decarbonisation policy will have failed. Our imports are as relevant to our carbon footprint as what we produce in our borders and the policy framework for energy needs to take this into account.

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[3] Committee on Climate Change (2013), *Reducing the UK’s carbon footprint and managing competitiveness risks.*

Creating a level playing field between EU and non-EU emissions should also reduce the likelihood of attempted protectionism outlined in the previous answer.

**Questions on Targets**

*Question: "Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?"*

We would strongly favour targets that focus on the outcome we need (i.e. no more than X tons of emissions) rather than on tools that might deliver that outcome (i.e. X gigawatts of technology Y). This would allow Member States the flexibility to tackle climate change in the most cost-effective manner.

Our concern with prescriptive targets on tools is that there is a very real risk that they may become outdated by events: that technology A may look the best bet now, but that in five years time it will be overtaken by technology B, or technology C. This can cause a real problem if you have set yourself long-term binding targets for technology A – you may have locked yourself on the wrong path.

It may also create real problems if there is a plethora of targets in one sector but not in others. For example, while we have seen real efforts being made to decarbonise the energy sector in the last few years this appears to have coincided with a boom in low-cost aviation. All sectors need to make a contribution.

We would like to see targets set up in a way that allows them to be tradable so that Member States can transfer obligations between them where it is economic to do so. This would help ensure that the EU as a whole decarbonises most cost effectively. This would likely require EU ETS reform in order to deliver a meaningful carbon price signal across the EU.

Insofar as we would support tool-specific targets we think this should only be in cases where there is a wider public good beyond achieving the most cost effective carbon reduction. For example, energy efficiency has wider societal benefits beyond decarbonisation and can reduce health problems[4], reduce poverty problems of EU citizens.

In order to demonstrate their commitment to meet their individual emissions targets, we think that each Member State should produce and report against their own national plans setting out their strategies to meet their target. These plans should be subject to periodic revision in order to reflect changes in circumstances. We think this would find an appropriate balance that gives confidence that each Member State is pulling its weight in delivering its agreed emissions reductions, but that allows them the flexibility to devise their own course to achieve this without the need for central prescription.

[4] According to the UK's Office of National Statistics there is an annual average of 26,700 excess winter deaths in England and Wales alone. The cost to the UK's National Health Service resulting from cold homes is estimated at £1.36bn (€1.59bn) per year (Age UK (2012), *The cost of cold*)).

A corollary of the above thinking is that we would favour:

- A legally binding EU emissions target, with each Member State set its own target within this.
- Effective trading mechanisms that allow Member States to transfer obligations between them when this provides a cost-effective way of meeting targets.
- No specific technology deployment or sector targets at EU level, but with Member States retaining the flexibility to set these at national level if they so choose.
- A requirement for Member States to set out their strategies for achieving their individual emissions targets, with appropriate reporting requirements to ensure that they are pulling their weight.

*Question: "Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?"*

The 20-20-20 targets appear to give equal weight to improving energy efficiency as to increasing renewable energy production. But all evidence that we see suggests that demand reduction is cheaper than building power stations. This would imply that a rational strategy would prioritise demand reduction over greening production.

There is also a lack of coherence and consistency in how different technologies contribute to different targets. For example, nuclear generation counts towards the greenhouse gas emissions target but does not count towards the renewables target. This sets out an ambiguous signal on whether it is an acceptable form of decarbonisation. Either methods of production contribute towards tackling climate change or they do not – this kind of ambiguity is unhelpful.

*Question: "Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO2 reductions for passenger cars and light commercial vehicles?"*

We think that such targets should be picked up in national plans, rather than at EU level. While overall economy-wide emissions targets should be binding we do not believe sector specific targets should be. This is because our ability to forecast the future is (highly) imperfect and there is a real risk that our view of what contribution each sub-sector can make in 2013 – however well informed and well-intentioned - may change significantly in five or ten years time.

*Question: "How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?"*

To some extent this question illustrates the problem we face as a consumer group in communicating with policy makers on decarbonisation: that the debate is focused on tools, not outcomes.

The maturity of technologies is not the problem that society faces. Climate change is the problem that society faces. It does not actually matter if some technologies never mature provided we decarbonise. The amount of finance that markets will bring forward to support decarbonisation, like the amount of finance that markets will bring forward to support investment in any sector, is finite. Different forms of generation are in competition for those funds. It is therefore imperative that we stretch this finance as far as we can – get the maximum amount of emissions reductions we can for the money we spend. Supporting technologies that may never make it at the expense of those that can may actually make it less likely that we hit emissions targets, not more likely.

We would like to see policy frameworks develop that will allow for competition between zero carbon technologies in the short to medium term.

Where industrial stimulus for technologies that cannot compete under a competitive framework is necessary we think it should be:

- Proportionate, targeted and time-limited. In return for continued support, citizens should expect to see evidence that supported technologies are making real progress towards reducing their costs and improving their efficiency.
- Paid for through progressive taxation, not through bill levies. Paying for industrial stimulus through bills rather than income taxes is regressive because it hits the poorest in society harder.
- Where levies are used to pay for energy policies, these should be recovered through the unit rate, rather than at a flat rate per household. This is broadly progressive, since consumption generally rises with income, and better reflects the "polluter pays" principle.

*Question: "How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?"*

It is commonly accepted that there are three key aims of energy policy: affordability; security of supply and decarbonisation. EU energy policy currently lacks a clear strategy in relation to affordability.

The EU needs to construct a coherent policy on energy affordability in order to ensure that its energy markets and infrastructure are meeting the needs of its citizens. It should recognise that its policies will inevitably have an uneven distributional impact, with lower income consumers often losing out. Recent research refers to the triple injustice of UK energy policy: low income consumers emit less carbon than more affluent consumers; pay proportionately more for climate change and energy policies; and receive the least benefits from these policies[5]. Similarly, research carried out for Consumer Futures found that low

[5] CSE (2013), *Distribution of carbon emissions in the UK: implications for domestic energy policy,* Joseph Rowntree Foundation

income consumers with electric heating were particularly hard hit by UK Government energy policies because the vast bulk of these costs fell on electricity, rather than gas, bills.[6]

We therefore consider it important that the EU takes steps to address the distributional impact of its policies. This might include:

- A requirement on Member States to address affordability as an integral part of their energy and housing policies (the latter play an essential role in driving up energy efficiency and heating system standards), including the establishment of milestones and indicators for assessing progress
- The development of a set of indicators for assessing progress towards meeting the goal of giving everybody the right to affordable energy services
- Establishment of pilots to develop good practice and cross EU learning on how best to integrate supply, demand and network initiatives to improve affordability. These should factor in the non-energy savings in, for example, health and welfare, through improving access to affordable energy.
- Establishment of a cross nation 'expert group' to advise on addressing affordability within energy and related policies.

Increased interconnection and open markets could help share and reduce supply risks across borders. In the area of interconnection, beyond looking at the overall level of interconnection available it would also be useful to look at the utilisation rate of these assets. Are they being used to their full capability?

**Questions on Instruments**

*Question: "Which measures could be envisaged to make further energy savings most cost-effectively?"*

A robust assessment and monitoring regime will increase the potential for making energy policy cost-effective.

We think that such a regime should include carrying out distributional impact assessments for all EU policy and legislative proposals and strong monitoring and enforcement of national progress against agreed indicators.

There also needs to be transparency and accountability for the investments that are made on behalf of citizens as a result of energy policies. This means we need to set and monitor criteria for measuring the consumer benefits of these polices. These criteria need to take into account the wider social benefits of policies where they exist. For example, the benefits of demand reduction cannot simply be measured in terms of carbon abatement costs but also need to include the impact on the wider economy, on fuel poverty, on health etc. There is also a need to map the consumer journey in order to ensure that related EU policies are co-ordinated. For example, the eco-design and labelling of white goods may have comparatively

[6] CSE (2013), *The hardest hit – going beyond the mean,* Consumer Futures

less impact on poorer consumers – so gaps here may need to be picked up in fuel poverty policies.