

Energy White Paper

Presentation to The Foundation for Science and
Technology

20 June 2007

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centrica
taking care of the essentials

The Energy White Paper

- **Introduction**
- Where are we now?
- Security of supply
- Carbon abatement
- Conclusions

About Centrica

- De-merged from British Gas plc in 1997
- Focus on energy & related services
- Market cap around £10bn
- Around 27 million customer-product relationships in Great Britain
- Growing North American businesses
- Foothold in Continental Europe
- 2.1 tcf gas reserves & 3.9 GW generation capacity worldwide
- Employs over 30,000 people
- Assets include gas fired power stations, Rough storage facility, and wind farms
- Largest supplier of electricity and gas in the UK
- £16.5bn turnover, £1.4bn operating profit in 2006
- British Gas Residential £143 million loss in the first half of 2006 and only £95 million profit in 2006

UK Downstream



UK Upstream



International



3

Introduction: The Energy White Paper

“Over 10 years, I have watched energy policy go from a relatively quiet backwater to something taking on a strategic importance that could be as crucial to our country’s future as defence.” Tony Blair 2007

- Gave priority to security of supply and climate change
- Delivery mechanism will be the “market” working within constrained policy frameworks
- An “eye” being kept on vulnerable customers and Government hoping energy suppliers step up to the mark
- But was it an exercise in “protracted throat clearing” or a new “Gosplan” brought up-to-date and re-named “Greenplan”?

4

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5

Where are we now? Government interventions

Taxes CCL (with CCA's), VAT (low on energy use, high on energy saving?), Upstream Corporation Tax, PRT...

Policy Mechanisms UK Emissions Trading Scheme (UK ETS) led to EU Trading Scheme (EU ETS)
Energy Efficiency Commitment (EEC) leading to Carbon Emissions Reduction Target (CERT)
NFFO led to the Renewable Obligation (RO) which progresses to RO with Banding
Energy Performance Commitment now called Carbon Reduction Commitment (CRC)
Energy Performance Certificates (at some point...)
EU Renewable Energy Target could undermine or support much of the above

Regulation EU clampdown on inefficient light bulbs, UK housing regulations or possible self-regulation relating to stand-by technology

I wouldn't have started from here.....

6

Nor would I start from here....Institutions

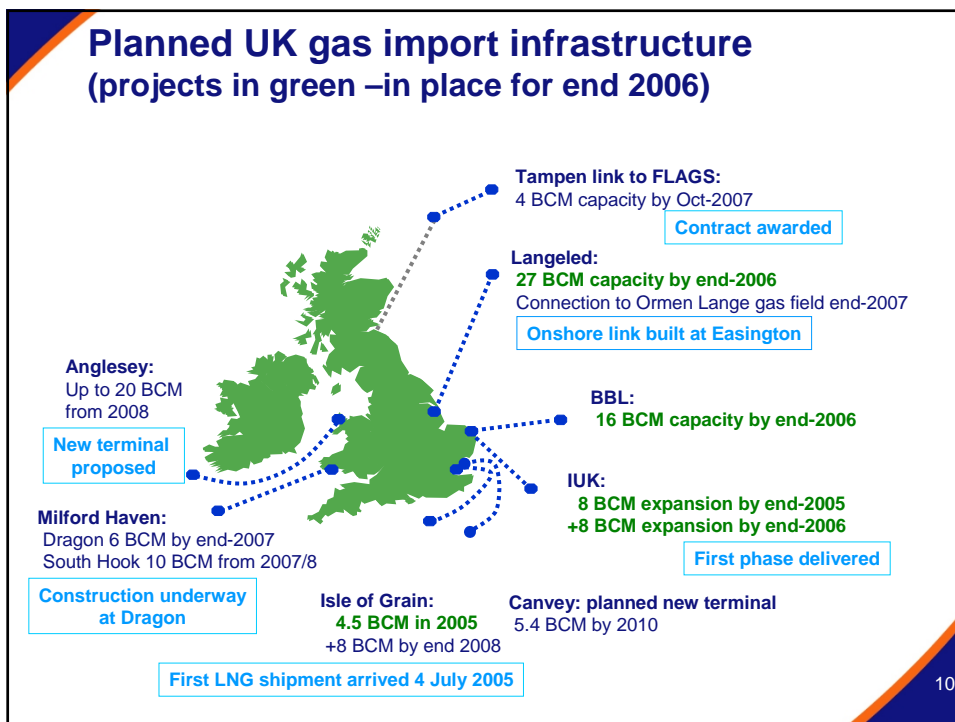
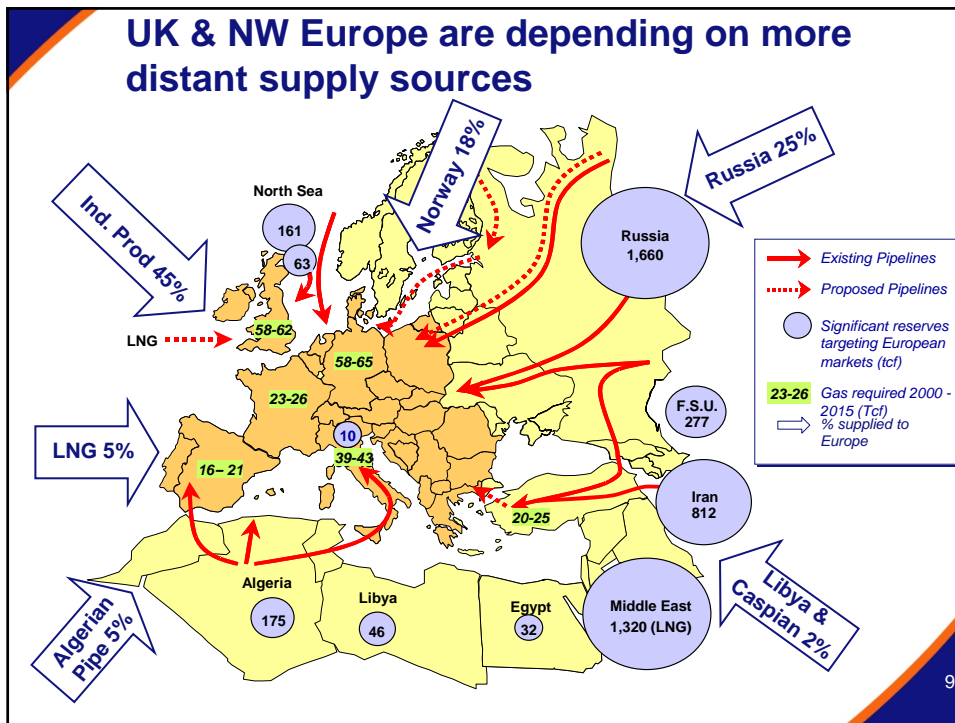
Government	European Commission, European Parliament, Council of Ministers, DTI, DEFRA, HMT, DCLG, DWP, No.10, FCO
Government Agencies	Environment Agency, Energy Saving Trust, Carbon Trust, Sustainable Development Commission, OFGEM, Energywatch (National Consumer Council), Energy Technology Institute, Environmental Transformation Fund, Office for Climate Change, Climate Change Committee (falling out of Climate Change Bill), Fuel Poverty Action Group (FPAG), Infrastructure Planning Commission (falling out of possible Planning Bill)

7

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8



What did the EWP deliver? Security of Supply

Planning

A welcome initiative, recognised as key barrier to new wind power, power generation, storage, nuclear, in fact almost anything...

Should this have been done sooner? Probably yes

Generation

Resisted knee jerk response for "me too" policy support mechanisms such as capacity payments, nuclear obligation, strategic storage, Clean Coal Technology Obligation, CHP Obligation, CCS Obligation etc

Not a question of when plant will be built but what will be built. A "dash-for-gas" or a steady stroll...

Nuclear

Door more open than closed, await outcome of further consultation but it will be the market that decides

Market Signals

No "Carbon Contract" but strong support for EU ETS and funding for CCS (although we're not sure how much)

11

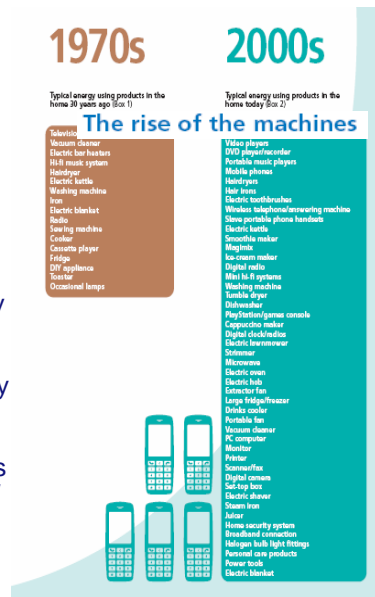
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12

Energy saving starts at home

- We face an environmental challenge
- Households account for over 20% of carbon emissions
- EST 'Rise of the Machines' report clearly shows the extent of the problem
- Henley Centre highlights 15% proactively concerned about the environment
- Higher energy costs have led consumers to proactively seek ways to save money/ use less energy



What did the EWP deliver? Carbon abatement

<u>EU ETS</u>	Renewed support for EU ETS as corner stone of carbon reduction. Move towards auctioning to reduce generator windfall but as Phase 2 NAPs push up price of carbon allowances we will see windfalls rise not fall, all the way to 2012
<u>CRC</u>	Introduction of Carbon Reduction Commitment as a mandatory cap-and-trade scheme for large non-energy intensive organisations in the private and public sectors. Better than a "levy"?
<u>Banding of RO</u>	Successive tinkering with the RO can damage confidence however banding will make many offshore Round 2 projects viable
<u>CERT</u>	Energy Efficiency Commitment (EEC) replaced by Carbon Emissions Reduction Certificate for next period 2008-11. Cost to consumers will double and microgeneration will be included in technologies that suppliers can use. Big questions is where to go from 2011, more of the same or a "cap and trade" obligation on the supplier or homeowner?
<u>Smart meters</u>	Mandated for business, "free" visual displays Units for new homes before roll out of smart meters universally to residential market
<u>Renewable Energy</u>	How will 20% EU Renewable Energy target impact EU ETS? Is it confusing means with ends? What will be the cost to the consumer?

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15

Conclusions

- EWP was never going to be definitive nor will it be the last EWP. Impact of EU Renewable Energy target has not been picked up by commentators but could have profound impact on UK energy policy
- Do we ever want Government to “tear up” what was on the table at every Energy Review and start again or would we prefer more incremental change?
- Political risk will always be with us – no Parliament can bind another. HMG in between a rock and a hard place: if too cautious they are not ambitious enough and not sending out the right signals. If too adventurous, seen to add to political risk and the unpredictability of Government policy
- Way out is to develop market mechanisms and trading schemes rather than flat taxes, as long as the mechanisms replicate as far as possible real market scenarios e.g. do not hand out EU ETS allowances that have a value for free
- Overall the EWP did more right than wrong and is taking UK energy market on a journey, tweaking policy on the way.

16