

Ed Davey MP, Secretary of State for Energy and Climate Change: UK energy priorities and their delivery

AS GUEST OF HONOUR AT THE FRENCH CHAMBER'S FIRST FRANCO-BRITISH ENERGY CONFERENCE, ED DAVEY MP ANSWERS KEY QUESTIONS ON THE UK GOVERNMENT'S ENERGY POLICY AND HOW IT WILL BALANCE ISSUES OF AFFORDABILITY AND INVESTMENT

What would be the right energy mix for the UK?

Our reforms to the electricity market have three objectives. First, to ensure the security of energy supplies and keep the lights on. Secondly, to make sure energy is affordable to consumers and businesses. And thirdly, to reduce our greenhouse gas emissions to tackle climate change. We want to see more renewable energy, such as wind, a new generation of nuclear power stations and to find new ways of exploiting our fossil fuels whilst reducing carbon emissions – through carbon capture and storage, for

example. As for the precise mix, we are not going to be prescriptive – it will be for the market to determine – but it does need to be a diverse mix to ensure that we are not over-reliant on any one source or fuel.

What are the solutions to cope with 'fuel poverty'?

Fuel poverty affects too many families who are on a low income and unable to keep warm at a reasonable cost. The Government is providing targeted support to those households least able to afford the costs of rising energy bills, for example through grants for efficient heating and insulation under the Warm Front scheme, and a Warm Home Discount for low-income households, which will take £135 automatically off the bills of around two million households next winter. Cold Weather Payments are targeted at those particularly vulnerable to the cold, such as disabled and older people. We are working on a new fuel poverty strategy – the first for over 12 years.

In many countries, energy companies and investors complain about the lack of a clear energy policy with a stable regulatory framework, which is a necessary condition to invest in capital-intensive, long-term projects. What is your view on this?

I agree with these firms and investors. Governments need to provide stability and certainty. In the UK that is a key objective and is why, since 2010, there has been over £29 billion of private sector investment in renewable energy, supporting 30,000 jobs, but we need much more to build the infrastructure we want. That is why we have introduced legislation that will create a more stable investment environment. The Energy Bill aims to attract around £110 billion of low carbon investment by 2020. It includes Contracts for Difference – contracts that guarantee a minimum



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return on investment – to give investors a stable and predictable income over an entire decade. With financial support from the Green Investment Bank and the Treasury's infrastructure guarantees, we believe the UK is the best and safest place in the world to invest in clean, green energy.

What is the right balance between state intervention and market mechanisms for an efficient and sustainable energy system?

If the state does not need to intervene it shouldn't. However, if we are to see the investment we need in our energy infrastructure to ensure a secure, affordable supply of electricity, we need to step in. The global population has expanded exponentially, pushing up demand for energy and doubling consumption over the last 30 years alone. By 2040 we expect to see two billion more people – a quarter's of the world's population – needing access to water, fuel and food. Energy security and decarbonisation cannot be entrusted to the market alone.

Considering the fact that major countries such as the US or China do not seem to care so much about sustainability, many wonder if it makes sense for EU countries to make efforts for a carbon free energy system at the expense of competitiveness. Do you share this view?

No – because this view is both ill-informed and out of date. The United Nations Intergovernmental Panel on Climate Change report published last month makes abundantly clear the economic and moral importance to act to tackle climate change. The ice caps are melting as sea levels rise and extreme weather sets in more regularly. Inaction is not an option. When we negotiate with major economies like the US and China, we are strengthened by our position in the

European Union, and increasingly we find the US and China taking climate change more seriously. In Europe, in taking a collective approach we can have enormous influence – already countries responsible for four-fifths of carbon emissions are following the EU's lead in mitigation pledges. Europe must continue to take a leading role in the new global climate deal the United Nations need to sign by 2015.

Ed Miliband's Opposition Government has pledged to freeze energy prices if elected. Just as you will guarantee a minimum return for investors through contracts for difference, would you consider freezing prices for consumers?

No. But I do worry about energy bills. Energy companies need to be much more transparent about their profits to ensure consumers are getting a fair deal. At the heart of our energy policy is achieving security of supply and decarbonisation at a price that is affordable. But price-fixing was attempted in California and resulted in an electricity crisis and widespread blackouts. Returning to the power cuts of the 1970s and the three-day week is not something we can countenance if we are to retain our standing in the world. The Government has introduced a huge amount of support for consumers, as well as 'tariff reforms' to ensure bills are simplified. Our programmes on energy efficiency are aimed at helping people save energy, so they can reduce their energy bills. I want to put a 'wedge' between higher energy prices and consumers' bills. Mr Miliband's policy could end with the worst of all worlds – with higher bills, as energy firms put up bills before and/or after his freeze, and a reduction in investment because of increased uncertainty. ■ **Interview by Patrick Gougeon, UK Director, ESCP Europe Business School, and Co-Chair of the French Chamber's Finance Forum**



Electricity



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