

Interview with Charles Hendry, United Kingdom Minister of State for Energy



Charles Hendry is the UK Minister of State for Energy. We asked him about Electricity Market Reform in the UK and the investment challenges which the current government are facing.

What investment challenges is the UK currently facing?

The UK's coalition government has made clear its intention to become the greenest government that the country has ever had. Working towards an 80% emissions cut by 2050 is crucial to this, but so too is ensuring a secure and affordable energy supply.

The global picture is one of steadily increasing energy demand, driven not just by the emerging economies, but also by producer countries. To meet it, the IEA estimates we need \$33 trillion of investment in energy infrastructure by 2035: twice the GDP of the European Union. In the UK alone, we need to secure £200 billion of investment in energy infrastructure over the next ten years. But this investment cannot simply build more of the same. For countries and companies making long-term planning decisions, there's another factor to consider: we must cut greenhouse gas emissions, and move toward a low-carbon future.

These challenges are shared. Investment decisions transcend national borders. Producer and consumer countries both have an interest in price stability; in security not just of supply, but of demand. And action on climate change is a global concern.

In the UK, although the current electricity market has served us well, it cannot be relied upon to deliver long-term investment on the scale we need, nor can it give consumers the best deal. A quarter of the UK's existing generation capacity will need replacing by 2020, as many nuclear and coal plants reach the end of their lives - this is around 19GW, or 20 large power stations. Although we already expect new plants to be built over the coming years, we are not content to rely on the tighter margins forecast for the 2020s: we want to see greater capacity brought online to ensure our energy security.

We need to bring forward twice the amount of investment you would normally see in this type of investment cycle. We are therefore currently consulting on proposals to radically reform the UK's electricity market, so that we have the low-carbon, secure and affordable energy mix we need.

Our reform will examine the levers we could use to secure investment at scale in cleaner, greener electricity generation. It is about working with our partners to build a market framework that can deliver secure, affordable, sustainable energy for decades to come.

What action is needed to achieve these aims?

There are four key elements:

-Carbon price support would create greater long term certainty around the additional cost of running polluting plants, to make lower-carbon investment more attractive. Supporting the carbon price directly tackles the core problem – putting a better price on emissions, increasing the cost of fossil fuel based generation, and strengthening the EU Emissions Trading System carbon price.

-Feed-in tariff would guarantee higher prices for low carbon generation, making clean energy investment more attractive still. Through the proposed contract for difference in feed-in tariff, the Government will ensure a fixed long term price is paid to low-carbon generators.

-Capacity mechanism would provide additional payments to encourage the construction of reserve plants or demand reduction measures to ensure the lights stay on. Capacity payments will create an adequate safety cushion of capacity as the amount of intermittent and inflexible low carbon generation increases.

-Emissions Performance Standard would provide a back-stop to limit how much carbon any new coal-fired power stations emit. An emissions performance standard will reinforce the existing requirement that no new coal is built without carbon capture and storage.

These proposals will mean that our focus will shift permanently from conventional fossil fuel-fired electricity to a combination of low carbon technologies – renewables, nuclear and cleaner fossil fuel power stations - thus making the UK a prime location for low carbon energy investment. It will lay the foundations for the sustainable economy of the future, bringing with it jobs and growth, up and down the supply chain.

*Note: The EMR Consultation Document is the statutory consultation on the government's preferred electricity market framework. The Consultation period will run for 12 weeks to **March 10 2011**. Details can be found online, at:*

www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx

Special Notice: Full details of the World Energy Council's new Work Programme, including membership lists for the Activity Areas and Knowledge Networks, will be live on the WEC website from March 2: <http://www.worldenergy.org/>

WEC Agenda

We invite our members to attend the following events:

March 17; Buccharest, Romania

- WEC Romania National Committee event
- Launch of the 11th Edition of WEC Regional Energy Forum – FOREN 2012
- Contact: ghbalan@cnr-cme.ro

March 22; Brussels, Belgium

- Joint European Commission-WEC Europe Seminar
- 'European Energy Infrastructure: sharing responsibility between policy & business'
- Contact: slavov@worldenergy.org

March 24; London, UK

- UKWEC Workshop – Understanding aspects of 'Green Finance' - the Green Investment Bank & the Green Deal
- Contact: UKWEC@energyinst.org

March 24-25; Bangkok, Thailand

- WEC Asia Regional Meeting & Green Energy Conference
- 'Green Energy: Global Challenge, Regional Opportunities'
- Contact: leechongmoo@live.co.kr

March 25-26; Bangkok, Thailand

- Scenarios Workshop
- Contact: qahtani@worldenergy.org

April 4-5; London, UK

- Meeting of the SERT & Energy Efficiency Study Groups & Knowledge Networks
- Contact: biesel@worldenergy.org

For further events and more details, please check the Events page on the WEC website...

http://www.worldenergy.org/news_events/18.asp

Inside Insight

Fossil Fuel Consumption Subsidies

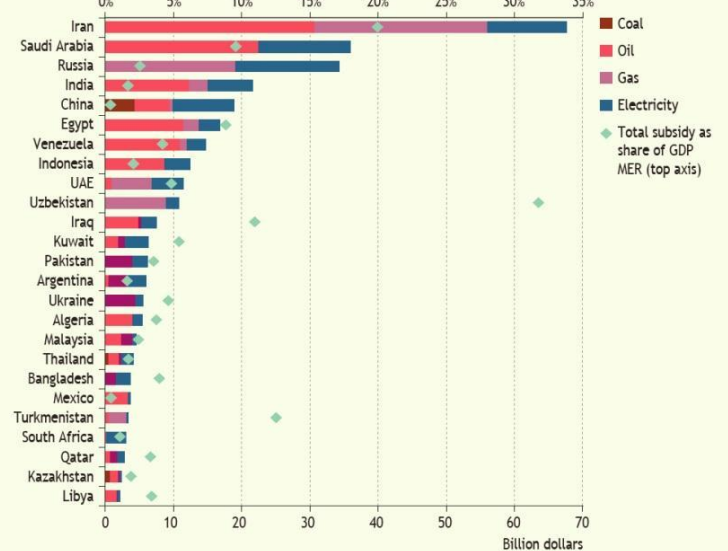
According to the IEA estimations, the fossil fuel subsidies to consumers amounted to US\$ 558 billion in 2008 and US\$ 312 billion in 2009. In absolute terms, the biggest subsidies are in those countries with the largest resource endowments such as Iran, Saudi Arabia, Russia, India and China. The magnitude of energy subsidies fluctuates from year to year, with changes in world prices, domestic pricing policy, exchange rates and demand. Of these factors, movements in world prices typically have by far the greatest impact on variations in subsidy levels. The G20 leaders have committed to rationalise and phase out over the medium term, inefficient fossil fuel subsidies that encourage wasteful consumption, while providing targeted support for the poorest.

Figure 19.2 Economic value of fossil-fuel consumption subsidies by type



Source (above and right): IEA, World Energy Outlook 2010

Figure 19.3 Economic value of fossil-fuel consumption subsidies by country and type, 2009



Note: MER = market exchange rates.

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