

Energy perspectives

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cornwallenergyassociates

Budget 2006-Has chancellor Brown gone green?

Chancellor Gordon Brown delivered the details of his tenth budget on Wednesday 22 March.

Dubbed “a budget for the future”, Mr Brown proclaimed “The government is committed to delivering a strong economy based not just on high and stable levels of growth and employment but also on high standards of environmental care,” sounding very much like he did on the last nine occasions. But possibly to deflect attention from more intractable issues surrounding the economy (his speech contains five references to problems attributable to high and volatile oil prices and also a side-swipe at “incomplete liberalisation of European energy markets”), MPs then heard that “this budget sets out the next stage in the government's strategy for tackling the global challenge of climate change”.

After a winter of non-policy statements on strategy and delay on the conclusion of the climate change programme review, only the most optimistic of MPs could have expected what followed—a veritable feast of new policy measures and proposals.

Full of energy

It would probably only be a small



exaggeration to say that this budget contained more on energy and the environment than the last nine put together. The news headlines today are predictably dominated by the announcement of the government's intention to sell-down part of its British Energy stake at some future point after the energy reports mid year, but this should not obscure the significance of a raft of other measures and proposals, especially in chapter 7 of the budget report.

The new initiatives Mr Brown set out include:

- (despite growing calls for its abolition), continued encouragement for energy efficiency in the business sector through an increase in the **climate change levy**, in line with inflation, from 1 April 2007, representing the first ever increase in its absolute level since its introduction in 2001;
- a suite of further measures to improve **household energy efficiency**, including:
 1. changes to the energy efficiency commitment designed to facilitate an extra 250,000 installations of **subsidised insulation in homes** over the next two years, intended to cut energy bills by around £20mn and also saving 35,000 tonnes of carbon a year. The Landlords Energy Saving Allowance is also to be extended to include draught proofing of hot water insulation;
 2. there is £20mn from government to help fund and promote the take-up of local initiatives such as **cutting council tax on homes that install insulation**;
 3. trialling the use of 'smart' **energy meters** with £5mn of fund-

ing earmarked for pilot studies; and

4. introduction of a new voluntary initiative with major retailers to **reduce the energy use of consumer electronics**;
- the development of a **new National Institute of Energy Technologies**, in partnership with the private sector (that is funded by it), to better leverage substantial public sector funding of energy research;
 - significant further support to the tune of £50mn for the development of alternative energy sources under the **Low Carbon Buildings Programme**, essentially to stimulate micro-generation technologies;
 - the launch of a consultation document on the barriers to large-scale commercial deployment in the UK of **carbon capture and storage**;
 - further detail on last year's **Renewable Transport Fuel Obligation** to increase the use of biofuels - with the obligation set at 2.5% in 2008-09 and 3.75% in 2009-10, and then rising to the legislated target of 5% the following year, and commitment to a buy-out price of 15p/ litre;
 - the **biofuels duty** incentive maintained at 20p per litre in 2008-09, which added to the buy-out means a 35p per litre to incentive to biofuels producers;
 - reforms to **vehicle excise duty** (VED) to sharpen environmental incentives, including reducing the rate to zero for cars with the very lowest carbon emissions and introducing a new top band for the

most polluting new cars. 50% of cars will see their VED frozen or reduced;

- the deferral to 1 September 2006 of the inflation-only increase in main **road fuel duties**, reflecting political concerns about the continuing volatility in the oil market; and
- the same increase of 1.25p per litre, also from 1 September 2006, in duty for **rebated fuels**, maintaining the differential with main fuel duty rates to support the oils strategy.

And the environment

The budget also reports on the government's strategy for tackling other environmental challenges, including:

- an increase in the value of the **landfill tax credit scheme** to £60mn in 2006-07, with a challenge issued to private and voluntary sector partners in the scheme to provide additional opportunities for young people to volunteer on environmental projects;
- a freeze in the rate of the **aggregates levy**; and
- last but not least, the government will also "strengthen and extend" the **EU emissions trading scheme** and proposals will shortly be introduced, and the budget notes that the chancellor has already written to EU finance ministers arguing the merits of such an approach.

And not to lose sight of the international dimension, at the World



Bank meeting in April, the UK will propose leverage of £20bn into alternative energy, climate change adaptation and energy efficiency.

Lest we forget...

The budget measures are additional to those announced last December in the pre-budget report. Perhaps the key announcement for the energy industry then was the introduction of a higher tax rate on oil and gas production. In that pre-Budget speech Mr Brown said that he would raise the North Sea supplementary tax rate for North Sea producers by 10%, taking the supplementary tax rate up from 10% to 20%. That would increase the total tax rate on producers from 40% to 50%, and certain older fields that came on-stream before 1993 would see their tax rates rise to 75%. (Mr Brown also announced in the pre-Budget speech that he would allow North Sea companies to defer 100% relief for capital expenditure incurred in 2005 into the following year. And he offered a new "ring fence expenditure supplement" to uplift all spending by oil companies without taxable income.) As expected (and because of the seismic nature of those earlier announcements), there were no further surprises for North Sea gas and oil producers in the budget.

Green with shades of grey

For the first time we can remember (with the possible exception of 1999 when the CCL was first announced), most NGOs and pressure groups—albeit tentatively—welcomed the new measures.

The Renewable Energy Association was quick to get out the bunting for the announcement of the significant injection of new monies into micro-generation, having just recently indicated its worries about threats to existing funding under the Low Carbon Buildings Programme: "This announcement will not just provide relief, it will be celebrated", said REA's Seb Berry. But the celebration will be confined to just one side of the office at the REA as it was also

quick to criticise the government for setting the buy-out rate under the RTFO at half the rate it has been proposing, and for the softness in the targets in the years before 2010-11. It characterised these as no more than business as usual. It went on to claim that the oil companies were the winners and alleging that the chancellor was "gambling with biofuels targets".

The BWEA and the Micropower Council also issued a joint press notice "warmly welcoming" the "transformational policy" on micro-generation.

Guy Thompson of the Green Alliance used measured praise: "Gordon Brown has set the right direction of travel on climate change and these measures signal intent to start changing behaviour at a household level. He now needs to take the next logical step and champion the supply-side measures that the government needs to take to reduce carbon in the energy review." While disappointed by what he sees as a failure to tackle waste issues, he nonetheless continued, "Now that the chancellor has restored his green credentials, we hope he will use the waste strategy review to introduce variable charging for local authorities and raise the landfill tax escalator at the Pre Budget Report.....The Treasury also needs to urgently address the issue of who pays for the introduction of universal water metering."

Also commenting very favourably on the chancellor's announcements, David Green of the UK Business Council for Sustainable Energy, said: "The initiatives announced today demonstrate that smarter energy policy can deliver savings for the consumer and real benefits for the environment. We welcome today's announcements, the direction it sets for future action, and the chancellor's continued willingness to work with us to deliver creative solutions to the twin challenges of climate change and energy security."

Greenpeace was also uncharacteristically effusive in its support on key

elements of the package. Stephen Tindale said: "This budget may be the first sign that we're about to get a Prime Minister who acts on climate change instead of just talking about it. Many of these measures will make a difference if properly implemented, though the real test for Brown comes next month when the government has to decide how much carbon British industry is allowed to emit." He added: "The measures on energy efficiency and micro-generation are very positive and will help bring forward low-carbon buildings and a decentralised energy system." But the context of the support was then qualified: "The key decisions on this, however, will be made in the energy review, where the Prime Minister's obsession with all things nuclear still threatens to derail progress towards safer, cleaner and cheaper energy."

On the UKETS Greenpeace also welcomed the Chancellor's commitment to strengthen the European emissions trading system. "We'll see whether Brown, unlike Blair, follows rhetoric with action when the government publishes its plans for the next stage of emissions trading before Easter", stated Tindale reverting to his own brand of rhetoric.

Blue funk

The political parties adhered to tradition, and predictably rounded on the government. The Tories were the most aggressive. Shadow environment secretary Peter Ainsworth said: "Forget the hype about a green budget: This was just Brown." "The budget merely tinkered at the edges of existing policy, and far from showing a genuine commitment to tackling climate change, featured only the green window dressing which is this government's speciality", he added.

Turning to the specifics, Ainsworth criticized the RTFO targets as "miserably unambitious", noting that the home energy efficiency measures merely "merge two existing targets into one." "Whilst we welcome the £50mn pledge to support micro generation, this must be seen in the context of woefully inadequate support

for new, clean energy technologies."

More fundamentally "There was nothing in this budget offering industry a clear, long-term framework to give them the confidence to invest in technologies that will enable the UK to both tackle climate change and take advantage of the commercial opportunities which our international competitors are already exploiting." "Instead, the government clings to the pretence that the Climate Change Levy is the solution to all our problems. It covers a fraction of total UK emissions, which continue to go up."

Liberal Democrat leader Sir Menzies Campbell delivered a more tempered attack, but described the statement as a "wasted opportunity" on issues from the tax system, which he described as "unfair", to environmental issues.

Greener than before

One would have to be rather niggardly not to acknowledge that the breadth of the budget proposals that concern us reflects deep and wide ranging consideration of fundamental issues. The budget contains some incisive proposals that address the two particularly problematic areas of the 2003 white paper, namely energy efficiency and transport. At a time of retrenchment and refocusing on other key political areas, the chancellor has managed to find funding for key energy and environmental areas at a time when he would have been able to run for cover with the immminence of the climate change policy review and the energy review.

At first pass at least, the position on domestic energy efficiency, combined with proposals going through parliament designed to broaden the EEC into a carbon obligation in all but name, promises a very positive shift in the government's thinking.

On micro-generation, the government has given a clear, and to many unexpected, signal that it intends to push decentralised energy solutions vigorously. Coming in advance of the revelation of its micro-generation strategy, still expected before the

end of March, this confirmation of direction will not only provide a real fillip for the smaller end of the generation industry and energy services providers, but it should also significantly undermine the positions being taken by the government's opponents who have focused on this issue in the early exchanges on the energy review.

Of those areas where short-term measures are very necessary, specific policy measures have been produced.

The first is fuel poverty. The government has committed to eliminating fuel poverty in vulnerable households by 2010. But it said recently that without new intervention it would be likely a million vulnerable households would remain in fuel poverty in 2010. The new measures on domestic energy efficiency and local authority incentives show that the government means to work towards this objective – notwithstanding soaring energy prices – and that it can update policy support mechanisms to deliver incentives that can build on benefits delivered for priority customers under the EEC. Taken with the fuel rebate payments set in the pre-budget report to the elderly, these changes have delivered something for vulnerable customers at a time when fuel poverty is set to become a much bigger political issue.

And the detailing of the policy on biofuels and the RTFO were very necessary and, given the newness of the obligation mechanism and the state of the industry, sensible.

It will not be possible to write a full testimonial for the chancellor's environmental credentials at least until some clarity emerges out of the processes surrounding the energy review, the fall-out of the climate change programme review and the development of proposals on phase 2 of the emissions trading scheme. But the budget gives a very strong message that the policy framework will be updated in the light of experience of policies, and that money can be made available for priority areas.

Budget index