



## **UNISON Submission to Energy Market Reform Consultation**

**March 2011**

### **1 Introduction**

UNISON represents members across the energy industry. Our members work in call centres as customer service representatives, team leaders and call centre managers. Other members work in billing and data processing, finance, payroll, human resources, facilities management, procurement, logistics, meter reading, debt collection, information technology, administration facilities management, procurement, logistics, meter reading, debt collection, Inspection Services, network management and systems control. Many members need professional qualifications to carry out their jobs and we support a large number of qualified engineers.

In addition to representing our members in relation to industrial and occupational matters, UNISON contributes to wider debates about energy policy from a citizenship perspective. As such we welcome the opportunity to make this response to the Electricity Market Reform (EMR) consultation. Section two below provides some background to the review and summarises the central proposals. This is followed in section three by UNISON's key concerns around the energy market. Section four then sets out the union's response to the consultation questions on which we have developed a position.

### **2 Background**

UNISON welcomes the consultation's recognition that the UK electricity market faces profound challenges in the two decades ahead:

- by 2020k, a quarter of nuclear, coal, oil and gas plant is due to close, to meet EU emissions standards and as they reach the end of their design lives;
- by 2020, 30% of electricity will need to come from renewables, up from 7% in 2009;
- by 2020, £110bn investment in new power capacity is required, £75bn for power generation;

- by 2030, the UK electricity market will have to be almost complete decarbonised to meet the trajectory towards meeting carbon reduction targets set out by the Committee on Climate Change;
- high capital costs of low carbon power are not suited to the UK market, where prices are set by the economics of gas and coal power;
- demand for electricity may double by 2050, as the UK increasingly relies on electricity for transport and heating.

To face up to these challenges the EMR consultation proposes a package of four reforms. These are:

- setting a “floor price” for carbon, or carbon tax on top of the market price, to encourage investment in low carbon technologies;
- introducing feed-in tariffs with long-term energy supply contracts;
- providing capacity payments for standby power supplies when renewables are intermittent;
- establishing an Emissions Performance Standard to limit CO<sub>2</sub> from fossil fuel power stations.

We note that the review of the UK’s energy market is taking place against the backdrop of a faltering economy, rising unemployment and fuel poverty. Energy market reforms should therefore be seen as a prime opportunity to deliver green jobs growth and affordable energy. Yet this energy review seems disconnected from the urgent need to create jobs and provide energy at prices that industry and domestic consumers can afford.

### **3 UNISON’s key concerns and recommendations**

(i) The electricity market should operate first and foremost in the national interest. It must guarantee the required investment in secure, affordable and clean technology. Whatever the merits or failures of the electricity market over the last 25 years, there is no doubt that it continues to fail in terms of delivery of the long term investment we need to see. What’s more, the energy market operates in the context of wider capital markets in which policy uncertainty, technology choices and variable technology costs might make the energy companies (most of which are foreign owned) and other investors reluctant to invest in a balanced energy portfolio in the UK. As such, a properly capitalised Green Investment Bank should be an essential part of the policy response that both decarbonises our power supply and meets the immediate challenge of stimulating our economy and creating new jobs.

(ii) Increases in domestic energy prices will increase fuel poverty. As is often remarked, the goals of security of supply and decarbonisation are not easily

reconciled with affordability and there is no evidence that retail competition delivers cheaper bills for hard pressed consumers. Reform of the energy market will need to address this, with further consideration of tariff reform and a more robust and systematic approach to domestic energy efficiency than the measures set out in the current Energy Bill.

(iii) The EMR makes no assessment of the skills and training investment needed to match its ambitions; nor how a workforce strategy for new energy infrastructure would fit within the much wider infrastructure challenge the UK faces in the next decade. This must be addressed in the forthcoming white paper.

(iv) The CO2 floor price is aimed to provide long-term carbon price trajectory right through to 2030. This will help sustain investments in high capital, low carbon technologies. But a CO2 tax is likely to deter investment in clean coal technology with carbon capture & storage. The UK could lose the employment and investment opportunity of developing CCS for a new global market. As a consequence there is a danger that this will force the premature closure of UK deep mines, replacing all indigenous coal-fired generation with imported gas. In the long-term when the UK's gas installations have to fix CCS, this technology will be imported. The reforms must be designed in a way that avoids this outcome.

(v) The review looks set to increase energy costs. This will present particular risk to investment and jobs in our energy intensive industries (cement, steel, chemicals and ceramics etc.) and risks carbon leakage from the UK. Measures need to be developed in parallel with the EMR to address these risks.

#### **4 Electricity Market Reform Consultation: responses to specific questions on which we have a developed view**

##### **Current Market Arrangements**

**Q1. Do you agree with the Government's assessment of the ability of the current market to support the investment in low-carbon generation needed to meet environmental targets?**

From our experience the current market is not delivering the investment required. New sources of investment and new generators are needed. It's not at all clear where this money will come from, or how it will be allocated across the new energy portfolio.

The consultation calls for at least £110bn in new generation and transmission assets in electricity – over double the rate of the last decade. But the scale of the investment challenge supports the case for a government-led, coordinated and large scale initiative to 2020, underpinned both the resources of a well funded Green Investment Bank, and by other Government instruments, such as funding for four

CCS projects. As a matter of high priority, details of the GIB should be published in Budget 2011.

**Q2. Do you agree with the Government's assessment of the future risks to the UK's security of electricity supplies?**

We do not believe that the current market will deliver on the Government's objectives for security of supply and affordability for consumers.

*UK coal reserves – vital for energy security*

The current review makes no reference to the UK's coal reserves. Given the abundance of proven UK coal reserves and its relative low costs and flexibility to meet fluctuations in demand for power, there is a long-term future for coal in the UK. Coal fired generation with CCS is an essential part of the low - carbon generation mix.

*Lack of an energy skills strategy*

As Project Discovery noted (para 3.50), the UK is "gearing up for an unprecedented deployment of new technologies within a very short space of time. Additional barriers to rapid deployment of low carbon technologies are availability of skills and the establishment of supply chains."

The EMR makes no assessment of the skills and training investment needed to match its ambitions. Decisions elsewhere in Government to reduce skills funding and increase university tuition fees may well have an adverse impact.

**Options for Decarbonisation**

**Feed-in Tariffs**

**Q3. Do you agree with the Government's assessment of the pros and cons of each of the models of feed-in tariff (FIT)?**

Wholesale electricity prices generally follow the price of gas fired generation plus carbon price, so there is little fuel price risk facing the gas fired generator. The FIT must be designed to provide a benefit compared with the alternative of an unabated gas plant, which is maintained if either gas or coal prices increase.

**Emissions Performance Standard**

**Q12. Do you agree with the Government's assessment of the impact of an emission performance standard (EPS) on the decarbonisation of the electricity sector and on security of supply risk?**

No. These proposals do not incentivise the construction of new plant with CCS; they merely disincentivise the construction of new coal fired plant. This will reduce, not increase security of supply.

We note the TUC's analysis showing that the introduction of a single EPS, not fuel specific, would always weigh more heavily on coal than gas. We do however recognize that an EPS may be necessary in order to define what is meant by "low carbon generation" in the context of Feed-in Tariffs or Carbon Price Support exemption.

Potential investors in coal fired power plant with CCS need clarity on how the proposed rules will apply to coal plant and also to gas plant; and the funding rules for CCS demonstration plants.

**Q13. Which option do you consider most appropriate for the level of the EPS? What considerations should the Government take into account in designing derogations for projects forming part of the UK or EU demonstration programme?**

Current proposals discriminate against investment in CCS for coal plant to a greater extent than justified by the relative unabated emissions. The review needs to provide for a more even playing field, requiring CCS or capture readiness for new gas fired power stations.

An EPS should not encourage gas plant to be built unabated as to CO<sub>2</sub>, whilst effectively imposing CCS on coal generation. The consequences include:

- little incentive to invest in coal generation -operators would simply invest in gas with no carbon abatement;
- locking in carbon emissions over the next several decades;
- further weakening of our diversity and security of supply by turning away from our indigenous coal supplies - locking in imported gas dependency; and
- exposing UK consumers to future moves in international oil and gas prices, and possible supply interruptions.

**Options for Market Efficiency and Security of Supply**

**Q19. Do you agree with our assessment of the pros and cons of introducing a capacity mechanism?**

Capacity payments are one way to ensure there is sufficient spare power generation capacity to cover downtimes during intermittent renewable supply. We understand the government's concern that there will be insufficient investment in new generation capacity to replace the plants that are due to close. As such capacity payments to compensate for the high capital costs and modest load factors appear to be sensible policy response.

**Q31. Do you have views on the role that auctions or tenders can play in setting the price for a feed-in tariff, compared to administratively determined support**



**levels: Should auctions, tenders or the administrative approach to setting levels be technology neutral or technology specific?**

We supports the development of a balanced low carbon energy supply. As such we believe that the government should set broad limits to prevent any one technology dominating.

**Q32. What changes do you think would be necessary to the institutional arrangements in the electricity sector to support these market reforms?**

We agree that, "the Government needs to ensure a coordinated approach in our decarbonisation policies and institutional reform programme." A greater diversity of institutional investors and generators needs to be drawn into the energy supply, as the EMR acknowledges. Yet it is unclear which body will manage the complex new funding and market regulations, and manage the "significant risk of either over-paying or of not obtaining the desired level of capacity".

Between now and the White Paper, the Government will define these changes and seek a future institutional framework which will ensure continued functioning of the electricity market.

Our response is based on the principle that electricity market should operate first and foremost in the national interest.

- A diverse, low carbon, secure energy supply (clean coal and gas with CCS and, renewables), with balancing action in the workplace to cut energy demand; supported by
- Market interventions to achieve specific targets, including CO2 emissions, to bring forward investment in new, low carbon/carbon free energy supplies, and to drive innovation and energy efficiency in industry, transport and the domestic sectors.
- A "just transition" model of economic and social change. The drive towards a low carbon economy will bring both opportunities and risks for jobs and skills. Delivering a low carbon shift therefore calls involving consultation at all levels and investment in green jobs, low carbon energy and skills for a resource efficient economy.

The current electricity market therefore requires a new delivery model, operating a regulated energy market in the national interest, defined as providing secure, affordable and low carbon energy supply for the long term.

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