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Research Paper

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ETI COMMITTEE MOTION ON RISING ENERGY COSTS

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&

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This paper examines the potential impact of recent energy price increases, through the particular lens of fuel poverty. An overview of the following topics is provided: existing measures to increase energy efficiency and reduce fuel poverty, a summary of the UK Government's White Paper on Energy, intergovernmental energy cooperation within the UK and Ireland, and a summary of the debates surrounding the use of windfall taxes as a means of alleviating the burden of those in fuel poverty.

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EXECUTIVE SUMMARY

This paper examines the potential impact of recent energy price increases, through the particular lens of fuel poverty.

The definition of fuel poverty used by all Departments is as follows¹;

“A household is in fuel poverty if, in order to maintain an acceptable level of temperature throughout the home, it would have to spend more than 10% of its income on all household fuel use”.

1 ENERGY EFFICIENCY AND FUEL POVERTY IN NORTHERN IRELAND

FUEL POVERTY

Northern Ireland’s current Fuel Poverty policy is formed on the basis of ‘Ending fuel poverty – A Strategy for Northern Ireland’

The strategy established two groups, the Inter-Departmental Group on Fuel Poverty (IDGFP) and the Northern Ireland Fuel Poverty Advisory Group (NIFPAG), tasked with working towards the eradication of fuel poverty.

Ending fuel poverty – A Strategy for Northern Ireland’ states fuel poverty is a bigger problem in Northern Ireland than in the rest of the United Kingdom, partly due to relatively low income and high fuel costs in Northern Ireland. In the Republic of Ireland, Sustainable Energy Ireland (SEI) has estimated some 62,000 households are in persistent (chronic) fuel poverty. It has been reported (2008) that approximately 144,171 homes in Northern Ireland have experienced fuel poverty, with the 13 per cent of disposal income devoted to energy.

There is considerable variation in the rates of fuel poverty found in each of Northern Ireland’s 26 district council areas; there is little difference between rural and urban areas. A comparatively high rate of Northern Ireland housing Executive (NIHE) residents experience fuel poverty.

Progress has been made in identifying the fuel poor and carrying out measures to address the problem, including:

- NIHE’s The Home Energy conservation Report
- Development of a solar water heating programme for Housing Executive properties. This is funded by the Environment & Renewable Energy fund, managed by DETI. The housing Executive received £1.2 million from the Fund in 2006/07 and £2.5 million in 2007.08 with over 1,200 installations completed to date and further installations ongoing

¹ Department for Social Development, ‘Ending Fuel Poverty: A Strategy for Northern Ireland’, http://www.dsdni.gov.uk/ending_fuel_poverty_-_a_strategy_for_ni.pdf (retrieved 19/06/08)

- Improvements in energy efficiency of private sector housing through the DSD's Warm homes Scheme, managed by EAGA Partnership
- The Energy Efficiency Programme, managed by NIE, funded a wide range of domestic energy efficiency projects
- Provision of energy advice to over 67,000 households throughout Northern Ireland by the EST Advice Centre
- Successful implementation of the energy efficiency marketing plan including TV advertising jointly funded by the Housing Executive and the Energy Saving Trust
- Holding the UK HECA conference in Belfast in May 2007, the first time the event was held in Northern Ireland

ENERGY EFFICIENCY

Energy Watch state that rising prices, between 2003 and 2006, resulted in average domestic gas bills increasing by 94 per cent, with electricity bill rising by 60 per cent.

Energy Watch's 'a Social Responsibility' suggests social tariffs as an integral part of an 'Energy Assistance Package'.

The Home Energy Conservation Act 1995 (HECA) requires, "every UK local authority with housing responsibilities (energy conservation authorities) to prepare, publish and submit an energy conservation report

The Energy Saving Trust states that the most effective way of ensuring household affordable warmth is to reduce the amount spent on heating, hot water and supplying electrical appliances.

The Energy Saving Trust has also identified a separate category of housing in relation to energy efficiency. 'Hard to Treat Homes' are defined as "those dwellings that cannot accommodate typical energy efficiency measures".

2 COORDINATED ENERGY POLICY

The 2007, UK government's *A White Paper on Energy* presents the UK government's current policy document with regard energy. The paper suggests policy intervention across three broad areas, saving energy, developing cleaner energy, and securing reliable energy supplies.

'Saving energy' includes strategies for business, households, transport and the public sector.

'Developing cleaner energy' involves policy in the following areas; heat and distributed energy, cleaner large scale electricity generation, renewable energy, fossil fuel electricity generation and carbon capture and storage, and nuclear energy. It proposes investment

into alternative energy sources in conjunction with the 'cleaning-up' of current energy sources.

'Security of Supply' identifies the difficulties facing the UK's energy supply, including:

- increasing reliance on imports of oil and gas in a world where energy demand is rising and energy is becoming more politicised; and,
- a requirement for substantial, and timely, private sector investment over the next two decades in gas infrastructure, power stations; and electricity networks.

3 INTER-GOVERNMENTAL COOPERATION

Two examples of intergovernmental energy cooperation exist between governments in the UK and the Republic of Ireland, the Single Electricity Market and the British Irish Council.

ALL ISLAND SINGLE ELECTRICITY MARKET; coming into operation in November 2007, the SEM has replaced the previous arrangement where electricity is bought directly by supply companies from power generators based on a series of contracts. Now, a 'pool market' has been established where competing generators offer their output and all electricity for the whole island will be bought and sold.

BRITISH – IRISH COUNCIL; established under Strand Three of the Agreement reached in Belfast on Good Friday on 10th April 1998 'to promote the harmonious and mutually beneficial development of the totality of relationships among the people of these islands'. The British Irish Council, works across nine sectors, including social inclusion.

4 WINDFALL TAX

Windfall taxes (or their equivalent) have been used by various UK governments as a source of revenue, most notably in 1997 to fund the welfare-to-work programme.

Prior to Labour's budget 2008, there was a considerable amount of speculation in the media regarding the possible introduction of windfall tax measures. The final budget did not contain any windfall tax measures.

The Norwegian Government Petroleum Fund (NGPF), a scheme similar to windfall tax, was established in 1990. The fund has had a twofold purpose, on the one hand smoothing out spending of oil revenues and on the other, acting as a long-term vehicle enabling the Norwegian Government to accumulate financial assets to help cope with expenditures associated with an ageing population. At the end of 2005 the NGPF stood at approximately \$210bn or the equivalent to \$ 45,000 per person.

Those in favour of windfall taxes argue that utility company profits have been excessive and could be used to assist those in fuel poverty or to set up an Oil Legacy Fund, to develop renewable technologies. Those arguing against their use suggest that windfall taxes would dissuade utility company investment, hamper their ability to reach carbon emissions targets and offer no long-term solution to the fuel poverty problem.

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1 INTRODUCTION

In April 2008, Phoenix gas announced a price rise of 28%², this was followed by Northern Ireland Electricity's announcement in May that prices were set to rise by 14% from the beginning of July, with a potential total rise of 33% by the Autumn.³

This paper examines the potential impact of these increases, largely through the particular lens of fuel poverty. The sections here correspond to the Terms of Reference of the ETI Committee's motion on rising energy costs. As such, an overview of the following topics is provided: existing measure to increase energy efficiency and reduce fuel poverty, a summary of the UK Government's White Paper on Energy (to demonstrate current energy policy coordination), intergovernmental energy cooperation within the UK and Ireland, and a summary of the debates surrounding the use of windfall taxes as a means of alleviating the burden of those in fuel poverty.

² <http://www.consumercouncil.org.uk/newsroom/443/>

³ http://news.bbc.co.uk/1/hi/northern_ireland/7422988.stm

2 ENERGY EFFICIENCY AND FUEL POVERTY IN NORTHERN IRELAND

2.1 FUEL POVERTY

ENDING FUEL POVERTY: A STRATEGY FOR NORTHERN IRELAND

The definition of fuel poverty used by all Departments is as follows⁴;

“A household is in fuel poverty if, in order to maintain an acceptable level of temperature throughout the home, it would have to spend more than 10% of its income on all household fuel use”.

In 2004, the Department of Social Development published ‘Ending fuel poverty – A Strategy for Northern Ireland’ which states that fuel poverty in vulnerable household in Northern Ireland should be eliminated by 2010, and in all households by 2016⁵.

A task force has been established in relation to fuel poverty and it will;

- identify who is affected by fuel poverty,
- establish where funding could come from to deal with fuel poverty
- ensure that the fuel prices charged are fair

This strategy established two groups, the Inter-Departmental Group on Fuel Poverty (IDGFP) and the Northern Ireland Fuel Poverty Advisory Group (NIFPAG), tasked with working towards the eradication of fuel poverty⁶.

The World Health Organisation’s definition of a ‘satisfactory heating regime’ has been adopted which recommends a heating regime of 21 degrees C in the living room and 18 degrees C in the other occupied rooms.

COMPARISON WITH GREAT BRITAIN AND THE REPUBLIC OF IRELAND

‘Ending fuel poverty – A Strategy for Northern Ireland’ states fuel poverty is a bigger problem in Northern Ireland than in the rest of the United Kingdom, partly due to relatively low income and high fuel costs in Northern Ireland. It has been reported (2008) that approximately 144,171 homes in Northern Ireland have experienced fuel poverty, with the 13 per cent of disposal income devoted to energy⁷. In England, 9 per cent of

⁴ Department for Social Development, ‘Ending Fuel Poverty: A Strategy for Northern Ireland’, http://www.dsdni.gov.uk/ending_fuel_poverty_-_a_strategy_for_ni.pdf (retrieved 19/06/08)

⁵ The Consumer Council for Northern Ireland, <http://www.consumercouncil.org.uk/key-issues/fuel-poverty/> (retrieved 19/06/08)

⁶ The Consumer Council for Northern Ireland, <http://www.consumercouncil.org.uk/key-issues/fuel-poverty/> (retrieved 19/06/08)

⁷ Irish News, *Increase in fuel affecting families*, June 18 2008

households were fuel poor in 2001, and in Scotland 13 per cent of households were fuel poor in 2001.

In the Republic of Ireland, Sustainable Energy Ireland (SEI) has estimated some 62,000 households are in persistent (chronic) fuel poverty, with a further 165,000 experiencing occasional fuel poverty⁸.

GEOGRAPHICAL VARIATION ACROSS NORTHERN IRELAND

There is considerable variation in the rates of fuel poverty found in each of Northern Ireland's 26 district council areas. However, fuel poverty strategy states there was a little difference between the rate of fuel poverty in rural and urban areas, although fuel poverty can be particularly difficult to address in some isolated rural areas⁹.

There is a comparatively high rate of fuel poverty in Northern Ireland housing Executive (NIHE) housing. However, over half of all fuel poor households are found in the owner-occupied sector. The group most likely to be in fuel poverty are those households headed by a person aged 18-24. However, people aged between 60 and 74 and over 75 are very likely to be fuel poor. Single person households were most likely to suffer fuel poverty. These factors are likely to correspond to income. Household income is a major factor in fuel poverty. The majority of households with total incomes under £10,000 per year were found to be fuel poor, whilst very few of those with incomes of £15,000 - £20,000 per year were fuel poor. Above £20,000 per year, fuel poverty was rare¹⁰.

INTER-DEPARTMENTAL GROUP: PROGRESS ON TACKLING FUEL POVERTY

Progress has been made in identifying the fuel poor and carrying out measures to address the problem.¹¹ The Home Energy conservation Report, published by the Northern Ireland Housing Executive (NIHE), highlights a 17.2 per cent improvement in energy efficiency of housing stock between 1996 and 2004.

Key findings from the report are as follows¹²,

- almost 99 per cent of dwellings now have full central heating
- solid fuel's share of the domestic heating market has reduced from 40.4 per cent in 1996 to 5.2 per cent in 2006, oil has increased from 36 per cent to 70 per cent and natural gas from 0 per cent to 12 per cent

⁸ Department for Social Development, *'Ending Fuel Poverty: A Strategy for Northern Ireland'*, http://www.dsdni.gov.uk/ending_fuel_poverty_-_a_strategy_for_ni.pdf (retrieved 19/06/08)

⁹ Department for Social Development, *'Ending Fuel Poverty: A Strategy for Northern Ireland'*, http://www.dsdni.gov.uk/ending_fuel_poverty_-_a_strategy_for_ni.pdf (retrieved 19/06/08)

¹⁰ Department for Social Development, *'Ending Fuel Poverty: A Strategy for Northern Ireland'*, http://www.dsdni.gov.uk/ending_fuel_poverty_-_a_strategy_for_ni.pdf (retrieved 19/06/08)

¹¹ Department for Social Development, *'Tackling fuel Poverty: A Strategy for Northern Ireland'*, http://www.dsdni.gov.uk/dsd_fuel_pov_1.pdf (retrieved 19/06/08)

¹² Department for Social Development, *'Tackling fuel Poverty: A Strategy for Northern Ireland'*, http://www.dsdni.gov.uk/dsd_fuel_pov_1.pdf (retrieved 19/06/08)

- 95 per cent of dwellings with lofts have loft insulation
- 78 per cent of dwellings now have some form of wall insulation (mainly cavity insulation)
- 86 per cent of dwellings now have either full or partial double glazing
- 38 per cent of household use low energy light bulbs

RESOURCES

The following resources went directly into tackling fuel poverty in 2006/07¹³;

- Warm Homes Scheme - £21.23 million
- NIHE Funding - £30.75 million
- Fuel Poverty Partnership funding - £500,000
- Clever Homes Scheme – 734,522 Euro under Interreg III Priority 2 Measure 3 over the period 2005-07
- Investing For Health Funding - £269,455
- Winter Fuel Payments - £50.2 million

The following resources will be directed towards Fuel Poverty projects in 2007/08¹⁴;

- Warm Homes Scheme - £20.35
- Fuel Poverty Partnership funding - £500,000
- Energy Efficiency Levy Programme - £4.5 million
- NIHE funding - £22.9 million
- Investing for Health funding - £112,000
- Environment and Renewable energy fund - £7.925 million allocated to Housing Association £0.25 million, NIHE £2.5 million, Warm Homes £4.5 million and owner occupier £0.875 million

Resources that will indirectly tackle fuel poverty in 2007/08¹⁵;

¹³ Department for Social Development, *Tackling fuel Poverty: A Strategy for Northern Ireland*, http://www.dsdni.gov.uk/dsd_fuel_pov_1.pdf (retrieved 19/06/08)

¹⁴ Department for Social Development, *Tackling fuel Poverty: A Strategy for Northern Ireland*, http://www.dsdni.gov.uk/dsd_fuel_pov_1.pdf (retrieved 19/06/08)

¹⁵ Department for Social Development, *Tackling fuel Poverty: A Strategy for Northern Ireland*, http://www.dsdni.gov.uk/dsd_fuel_pov_1.pdf (retrieved 19/06/08)

- Benefit Uptake Pilot - £350,000
- Skills and Science fund 2006-08 - £35 million

EVENTS IN THE PAST YEAR

- Development of a solar water heating programme for Housing Executive properties. This is funded by the Environment & Renewable Energy fund, managed by DETI. The housing Executive received £1.2 million from the Fund in 2006/07 and £2.5 million in 2007.08 with over 1,200 installations completed to date and further installations ongoing
- Improvements in energy efficiency of private sector housing through the DSD's Warm homes Scheme, managed by EAGA Partnership
- The Energy Efficiency Programme, managed by NIE, funded a wide range of domestic energy efficiency projects
- Provision of energy advice to over 67,000 households throughout Northern Ireland by the EST Advice Centre
- Successful implementation of the energy efficiency marketing plan including TV advertising jointly funded by the Housing Executive and the Energy Saving Trust
- Holding the UK HECA conference in Belfast in May 2007, the first time the event was held in Northern Ireland

FUEL POVERTY

The UK 'Poverty site', which provides statistics on poverty and social exclusion – highlights figures in relation to fuel poverty. They state that very high rates of fuel poverty are experienced by low income and pensioner households. According to 2004 data, 24 per cent of households in Northern Ireland, (equivalent to some 150, 000 households) were in fuel poverty. Fuel poverty amongst pensioners was 40 per cent in the same year. Those on low incomes were especially at risk of fuel poverty (50 per cent of households with an annual income of under £10,000), however those renting were no more likely to be in fuel poverty than owner occupiers. These statistics are in contrast to the equivalent data for 2001, where those renting were approximately twice as likely as owner occupiers to be in fuel poverty.¹⁶

¹⁶ The Poverty site, Fuel Poverty Northern Ireland, <http://www.poverty.org.uk/148c/index.shtml> (retrieved 19/06/08)

CONSUMER COUNCIL NORTHERN IRELAND

The Consumer Council states that Northern Ireland has the highest rate of fuel poverty in the United Kingdom. In 2006, 34 per cent of the population of Northern Ireland were living in fuel poverty. The definition of 'fuel poverty' used by the Consumer Council is as follows¹⁷;

Fuel poverty means not being able to keep your home adequately warm at a reasonable cost, which is spending more than 10 per cent of your household income on fuel.

A combination of three factors can result in Fuel poverty;

- Poor household energy efficiency
- Low income
- Expensive fuel or heating system

The following price increases have occurred in relation to the following fuels in Northern Ireland over the last year (2007);

- 19 per cent for electricity
- 28 per cent for natural gas and coal,
- 75 per cent for oil.

Combined with other increases to the household bill, this has given urgency to tackle fuel poverty.

Vulnerable groups such as the elderly, children and people living with disabilities or chronic illness can have their health and well-being severely affected by Fuel poverty. Dealing with fuel poverty has been identified as an important issue by Government in tackling disadvantage in communities¹⁸.

¹⁷ The Consumer Council for Northern Ireland, <http://www.consumercouncil.org.uk/key-issues/fuel-poverty/> (retrieved 19/06/08)

¹⁸ The Consumer Council for Northern Ireland, <http://www.consumercouncil.org.uk/key-issues/fuel-poverty/> (retrieved 19/06/08)

2.2 ENERGY EFFICIENCY

ENERGY WATCH: A SOCIAL RESPONSIBILITY

Energy Watch state that rising prices, between 2003 and 2006, resulted in average domestic gas bills increasing by 94 per cent, with electricity bill rising by 60 per cent. These increases created a situation wherein the average household energy bill broke through the £1,000 barrier in 2006. In 2003 that figure was £572. Energy Watch argue the high cost of energy will send an additional one million vulnerable households into fuel poverty between 2004 and 2006 in England alone¹⁹.

The document 'a Social Responsibility' suggests social tariffs as an integral part of an 'Energy Assistance Package'. Such a package should ensure fuel poverty is dealt with in three ways²⁰;

- the impact of high energy prices will be lessened by a social tariff;
- the heating and energy efficiency requirements of the dwelling would be addressed by the provision of Energy Efficiency commitment Priority Group measures, cross referral with Warm Front and its devolved equivalents, and relevant initiatives targeted at social housing
- cross-referral with Department of Work and Pensions sponsored benefit entitlement checks would ensure household income is maximised.

HOUSING ENERGY STRATEGIES

The Home Energy Conservation Act 1995 (HECA) requires, "every UK local authority with housing responsibilities (energy conservation authorities) to prepare, publish and submit an energy conservation report"²¹. Any such report should identify measures to improve the energy efficiency of all residential accommodation in their area by 30 per cent between 1995 and 2005/10.

The Energy Saving Trust states that the most effective way of ensuring household affordable warmth is to reduce the amount spent on heating, hot water and supplying electrical appliances. Thus, improvements need to be made to the fabric of the building to minimise heat loss, installing an efficient heating system with appropriate controls, installing low energy light bulbs and providing low energy appliances.

¹⁹ Energy Watch, http://www.energywatch.org.uk/uploads/a_social_responsibility_executive_summary.pdf (retrieved 19/06/08)

²⁰ Energy Watch, http://www.energywatch.org.uk/uploads/a_social_responsibility_executive_summary.pdf (retrieved 19/06/08)

²¹ Energy saving Trust, *Delivering affordable Warmth in northern Ireland*, http://www.energysavingtrust.org.uk/uploads/documents/housingbuildings/04_delivering_affordable_warmth_ni.pdf (retrieved 19/06/08)

Landlords should²²;

- prioritise energy improvements to maximise the effect of investment
- establish energy and affordable warmth targets and standards for improvements to stock
- review repairs and maintenance specifications and schedules
- incorporate sustainable technologies

HARD TO TREAT HOMES

The Energy Saving Trust has identified a separate category of housing in relation to energy efficiency. 'Hard to Treat Homes' are defined as "those dwellings that cannot accommodate typical energy efficiency measures"²³. Examples of homes which are labelled hard to treat include;

- homes with solid walls
- homes which are of non-traditional construction (high rise flats)
- homes that are off the gas network
- homes with no loft space

²² Energy saving Trust, *Delivering affordable Warmth in northern Ireland*, http://www.energysavingtrust.org.uk/uploads/documents/housingbuildings/04_delivering_affordable_warmth_ni.pdf (retrieved 19/06/08)

²³ Energy saving Trust, *Delivering affordable Warmth in northern Ireland*, http://www.energysavingtrust.org.uk/uploads/documents/housingbuildings/04_delivering_affordable_warmth_ni.pdf (retrieved 19/06/08)

3 A COORDINATED ENERGY POLICY

The 2007, UK government's *A White Paper on Energy*, represents a robust summation of what a coordinated energy policy might look like. The strategy is based upon three interconnected issues; saving energy, developing cleaner energy, and securing reliable energy supplies at prices set in competitive markets. These will be looked at in turn, presently, however, the strategy also outlines the following key actions:²⁴

- Establish an international framework to tackle climate change;
- Provide legally binding carbon targets for the whole UK economy, progressively reducing emissions;
- Make further progress in achieving fully competitive and transparent international markets;
- Encourage more energy saving through better information, incentives and regulation;
- Provide more support for low carbon technologies;
- Ensure the right conditions for investment.

3.1 SAVING ENERGY

BUSINESS; Although energy intensive businesses already face incentives to save energy and reduce emissions, the government proposed a mandatory cap and trade scheme, which apply to the largest organisation. All business will be required to have an Energy Performance Certificate when built, sold or rented.²⁵

HOUSEHOLDS; Proposed measures include – phasing out inefficient light bulbs by 2011, requiring domestic energy suppliers to double their carbon reduction targets, providing householders with clearer energy bills, the launch of an online CO₂ calculator, and energy performance certificates for new and existing homes.²⁶

TRANSPORT; energy saving measures in the transport sector include – the development of a Low Carbon Transport Innovation Strategy, and reducing car emission by 100 grams of carbon dioxide per kilometre by 2012. Tax and tax incentives have also been proposed, such as a Company Car Tax and Vehicle Duty for smaller, more efficient cars.²⁷

PUBLIC SECTOR; the overarching aim in this area is to ensure all government buildings are carbon neutral by 2012. To achieve this the following measure are to be introduced; a Carbon Reduction Commitment Scheme, all new social housing complies with level 3

²⁴ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

²⁵ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

²⁶ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

²⁷ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

of the Code for Sustainable Homes, suggest homes greater than 1,000m² will be required to display energy rating certificates, and the introduction of new energy efficiency standards in 2008.²⁸

3.2 CLEAN ENERGY SUPPLIES

HEAT AND DISTRIBUTED ENERGY; “In the short and medium-term, a combination of new and existing technologies are opening up new possibilities for carbon reduction by producing and using heat and electricity at a local level; that is, distributed or decentralised energy. This includes microgeneration, district heating schemes, combined heat and power and biomass fuelled heating at community and industry scale. Biomass heating is already cost competitive with fossil fuels for some purposes. Alongside this White Paper, the Government is publishing its Biomass Strategy, which aims to expand the supply and use of energy from this renewable fuel source in a sustainable way”. Proposals to assist more widespread deployment of distributed and heat generation, include²⁹:

- more flexible market and licensing arrangements for distributed, low carbon electricity supply, to be implemented by the end of 2008;
- greater clarity on the terms offered by energy suppliers to reward microgenerators for the excess electricity they produce and want to export back to the grid;
- provision of information and advice to those individuals, communities and developers considering distributed energy solutions, alongside advice on energy saving; and
- incentivising Distributed Network Operators to ensure more efficient and speedy connection to networks.

CLEANER LARGE SCALE ELECTRICITY GENERATION; Companies will need to make substantial new investments over the next 20 years, as many of our nuclear and coal power stations close. These investment decisions will affect our generation mix. In setting the market framework in which these decisions are taken, the Government needs to ensure that, over time, we also move towards a low carbon mix.³⁰

RENEWABLE ENERGY; Barriers to renewable energy investment should be removed, as such³¹:

- large scale renewables projects will benefit immediately from the improved planning inquiry rules that we introduced from the beginning of April 2007;
- longer term, as set out in the planning White Paper 2007, Planning for Sustainable Future published in May 2007, we shall implement fundamental

²⁸ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

²⁹ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

³⁰ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

³¹ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

reform of the planning system which will bring benefits to all large scale energy infrastructure, including large scale offshore and onshore renewable electricity project; and

- the government shall act jointly with Ofgem and National Grid to remove key barriers to connecting renewables projects to the transmission grid.

FOSSIL FUEL ELECTRICITY GENERATION AND CARBON CAPTURE AND STORAGE; the White paper states that although there needs to be a reduction in carbon emission by exploiting renewable energy, in the short-term fossil fuels will still be necessary. To account for this the report states “to meet our carbon reduction goals, sources such as coal and gas must become cleaner. And it is in our own vital interests that the technologies necessary to mitigate the emissions from burning fossil fuels are developed and deployed as rapidly as possible – especially as fossil fuel use by emerging economies, such as China and India, is growing rapidly as their economies expand. Carbon capture and storage (CCS) is an emerging combination of technologies which could reduce emissions from fossil fuel power stations by as much as 90 per cent”.³²

NUCLEAR ENERGY; the White Paper states that the UK is at a point where it needs to consider replacing significant amounts of nuclear power resource. The report states “there are advantages and disadvantages with new nuclear power. But having reviewed the evidence and information available we believe that the advantages outweigh the disadvantages and that the disadvantages can be effectively managed”.³³

3.3 SECURITY OF SUPPLY³⁴

The challenges facing the UK, with regards security of supply are outlined as;

- increasing reliance on imports of oil and gas in a world where energy demand is rising and energy is becoming more politicised; and,
- a requirement for substantial, and timely, private sector investment over the next two decades in gas infrastructure, power stations; and electricity networks.

In addition to the above, the importing of fossil fuels is deemed to present its own risks;

- increased competition for energy resources in the face of growing global energy demand;
- reserves becoming increasingly concentrated in fewer, further away places;

³² <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

³³ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

³⁴ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

- the need to purchase supplies from markets which are neither transparent nor truly competitive; and
- the possibility that there will be insufficient investment in key producer countries in new oil and gas production.

To ensure security of supply, the following steps have been proposed;

- maximising the economic production of our domestic energy sources which, together with our energy saving measures, will help reduce our dependence on energy imports;
- working for more effective and transparent international energy markets so that our companies can get fair access to the energy resources we need; and
- strengthening the UK energy investment framework so that investors have the confidence to make timely investments in new gas and electricity infrastructure consistent with our energy goals.

3.4 FUEL POVERTY³⁵

The White Paper also contains a note on fuel poverty, in which the following commitment is mapped out:

We will better target existing assistance to ensure those who are entitled to support receive it, for example, by enabling the sharing of benefit data between organisations responsible for tackling fuel poverty. We will also be changing Warm Front to offer more benefit entitlement checks. We will be working with energy companies to encourage all companies to put in place an effective programme of assistance for vulnerable customers. Together with the measures stimulated by the funding announced in the 2006 Pre-Budget Report, we expect our new initiatives to take around 200,000 households in the UK out of fuel poverty.

³⁵ <http://www.berr.gov.uk/files/file39387.pdf> (retrieved 19/06/08)

4 INTER-GOVERNMENTAL COOPERATION

4.1 ALL ISLAND SINGLE ELECTRICITY MARKET

The All Island Single Electricity Market (SEM) is the wholesale electricity market implemented across the entire island of Ireland. This energy market came into operation in November 2007. SEM has therefore replaced the current arrangement where electricity is bought directly by supply companies from power generators based on a series of contracts. Now, a 'pool market' has been established where competing generators offer their output and all electricity for the whole island will be bought and sold. The Republic of Ireland will be required to buy and sell energy through this market³⁶.

The SEM is designed for contribution for national scale electricity generators; contributions from small scale generators are not applicable for the SEM. The SEM is a joint venture between the energy regulators in Northern Ireland and the Republic of Ireland. It was launched to establish a competitive market, where any electricity generated on the Island of Ireland must be purchased from the central market³⁷.

The project was started following a joint policy decision by the Minister for Enterprise, Trade and Investment in Northern Ireland and the Minister for Communications, Marine and Natural Resources in the Republic of Ireland³⁸.

4.2 BRITISH – IRISH COUNCIL

The Council was established under the Good Friday Agreement 1998 in order to;

'to promote the harmonious and mutually beneficial development of the totality of relationships among the people of these islands.

Membership of the British-Irish Council comprises representatives of the Irish and British Governments and of the devolved administrations in Northern Ireland, Scotland and Wales, together with representatives of the Isle of Man, Guernsey and Jersey³⁹.

There are currently nine agreed work sectors within the British-Irish Council. Each of the administrations involved in the Council is responsible for advancing individual sectoral areas. The work sectors are: Misuse of Drugs (Ireland); Environment (United Kingdom); Social Inclusion (Scotland and Wales); Transport (Northern Ireland); Knowledge Economy (Jersey); Tourism (Guernsey); e-Health (the Isle of Man); Minority and Lesser-Used Languages (Wales), and Demography (Scotland)⁴⁰.

³⁶ Utilisoft, All Island Electricity Market Project, <http://www.formfill.co.uk/Markets/EnergyTrading/AllIslandSingleElectricityMarket/tabid/83/Default.aspx> (retrieved 20/06/08)

³⁷ Utilisoft, All Island Electricity Market Project, <http://www.utilisoft.co.uk/Clients/AllIslandSingleElectricityMarket/tabid/199/Default.aspx> (retrieved 20/06/08)

³⁸ Utilisoft, All Island Single Electricity Market Project, <http://www.utilisoft.co.uk/Portals/0/Documents/Utilisoft%20All%20Island%20SEM%20Case%20Study.pdf> (retrieved 20/06/08)

³⁹ British-Irish Council, <http://www1.british-irishcouncil.org/work/environment.asp>

⁴⁰ British-Irish Council, <http://www1.british-irishcouncil.org/work/environment.asp> (retrieved 20/06/08)

The UK Government takes responsibility for advancing work in relation to the Environment. To date Ministers have discussed the following⁴¹;

- Objectives contained in the Oslo and Paris Convention Strategies;
- European Marine Strategy;
- Sustainable Development and biodiversity;
- Sellafield and radioactive waste;
- Integrated coastal zone Management;
- Waste Management.

5 WINDFALL TAX

5.1 BACKGROUND

A windfall tax is defined as:

*A tax levied by governments against certain industries when economic conditions allow those industries to experience above-average profits... The benefits of a windfall tax include proceeds being directly used by governments to bolster funding for social programs. However, those against windfall taxes claim that they reduce companies' initiatives to seek out profits.*⁴²

Previous UK governments have utilized windfall taxes (or similar mechanisms) as a means of raising revenue for specific projects. In the 1981 Conservative Budget a *Special Tax* was imposed upon banks, justified on the grounds that high interest rates had raised the profits of clearing banks considerably. A 2.5 per cent tax was imposed on banks' non-interest-bearing current account deposits, although not called a windfall tax at the time, the policy was successful in raising approximately £350m in revenue (figure not at contemporary prices).⁴³

In the 1997 Budget, the Labour Government announced a '*windfall levy on all the excess profits of the privatised utilities*'. The tax was justified with the argument that during the process of their privatisation utility companies, such as British gas and British Telecom were sold too cheaply. This was coupled with the ascertain regulation of the utilities market had been to lax allowing some companies to develop a monopoly. The money

⁴¹ British-Irish Council, <http://www1.british-irishcouncil.org/work/environment.asp> (retrieved 20/06/08)

⁴² INVESTOPEDIA – WINDFALL TAX <http://www.investopedia.com/terms/w/windfalltax.asp> (retrieved 18/06/08)

⁴³ HOOKED ON OIL, a report by the WWF and the New Economic Forum, p6 <http://www.neweconomics.org/gen/uploads/hya3c255clsra5yk04fkvh3n23102006092016.pdf> (retrieved 18/06/08)

raised through the initiative, around £5bn, was used to fund the government's 'welfare-to-work programme'.⁴⁴

Since 1997, there have been a number of occasions where windfall taxes were proposed as a source of revenue. In 2001, pressure was levelled on the Government to impose windfall tax on oil companies recording record profits. BP had finished the previous year with a profit of £9.7bn, believed in part to be on account of high petrol prices. No action was taken by the government.

In 2005, Martin O'Neill, then Chair of the Commons Trade and Industry Select Committee, put forward the idea that a windfall tax should be used to assist those facing fuel poverty, stating:

'it is not unreasonable to assume that the profits that come from these companies should be directed. A least in part – either voluntarily or fiscally – to the UK's disadvantaged energy consumers'.⁴⁵

In the Tackling Fuel Poverty: A Partnership Approach The Northern Ireland Fuel Poverty Advisory Group's 2007 Annual Report, the Fuel Poverty Advisory Group (FPAG), proposed windfall taxes as an additional source of revenue which could be directed towards tackling fuel poverty. Such suggestions have been rejected by the government, on the grounds that *there was no evidence of its potential impact*.⁴⁶

Prior to Labour's budget 2008, there was a considerable amount of speculation in the media regarding the possible introduction of windfall tax measures (see⁴⁷, ⁴⁸, and ⁴⁹). The final budget did not contain any windfall tax measures.⁵⁰

5.2 THE NORWEGIAN GOVERNMENT PETROLEUM FUND

The Norwegian Government Petroleum Fund (NGPF) was established in 1990. The fund has had a twofold purpose, on the one hand smoothing out spending of oil revenues and on the other, acting as a long-term vehicle enabling the Norwegian Government to accumulate financial assets to help cope with expenditures associated with an ageing

⁴⁴ HOOKED ON OIL, a report by the WWF and the New Economic Forum, p6
<http://www.neweconomics.org/gen/uploads/hya3c255clsra5yk04fkvh3n23102006092016.pdf> (retrieved 18/06/08)

⁴⁵ HOOKED ON OIL, a report by the WWF and the New Economic Forum, p6
<http://www.neweconomics.org/gen/uploads/hya3c255clsra5yk04fkvh3n23102006092016.pdf> (retrieved 18/06/08)

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⁴⁷ http://www.thisismoney.co.uk/news/article.html?in_article_id=432533&in_page_id=2 (retrieved 19/06/08)

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http://www.theherald.co.uk/politics/news/display.var.2313893.0.pressure_mounds_to_slap_windfall_tax_on_uk_oil_companies.php (retrieved 19/06/08)

⁴⁹ <http://www.guardian.co.uk/environment/2008/mar/06/energy.utilities> (retrieved 19/06/08)

⁵⁰ http://www.hm-treasury.gov.uk/media/9/9/bud08_complereport.pdf (retrieved 19/06/08)

population. The fund serves as a fiscal management tool allowing for transparency in the use of petrol revenue.⁵¹

Norges Bank is responsible for the management of the Petroleum Fund. The fund is invested in financial instruments outside Norway, 60 per cent of such investments are fixed income instruments, while 40 per cent are equities.⁵² At the end of 2005 the NGFP stood at approximately £121bn or the equivalent to £22,809 per person.

In 2006, the fund was amalgamated with the Norwegian National Insurance Scheme Fund to form the Government Pension Fund. The value of the Government Pension Fund – Norway was £11.5 bn as of end 2007. The total revenue is the sum of:

- Total tax revenues and royalty deriving from petroleum activities collected pursuant to Petroleum Taxation Act (no. 35 of 13 June 1975) and the Petroleum Activities Act (no. 72 of 29 November 1996);
- Revenues deriving from tax on CO2 emissions due to petroleum activities on the continental shelf;
- Revenues deriving from tax on Nitrogen Oxide emissions due to petroleum activities on the continental shelf;
- Revenues deriving from the State's Direct Financial Interest in petroleum activities, defined as operating income and other income less operating expenses and other direct expenses;
- Central government revenues from net surplus agreements associated with certain production licences;
- Dividends from Statoil ASA;
- Transfers from the Petroleum Insurance Fund;
- Central government revenues deriving from the removal or alternative use of installations on the continental shelf;
- Any government sale of stakes representing the State's Direct Financial Interest in petroleum activities.

Less;

- Central government direct investments in petroleum activities;
- Central government expenses in connection with the Petroleum Insurance Fund;

⁵¹ <http://www.eu-norway.org/policyareas/economy+monetary> (retrieved 19/06/08)

⁵² <http://www.eu-norway.org/policyareas/economy+monetary> (retrieved 19/06/08)

- Central government expenses in connection with the removal or alternative use of installations on the continental shelf;
- Any government purchase of stakes as part of the State's Direct Financial Interest in petroleum activities.

5.2 DISCOURSE

Commentators are divided with regard to the pros and cons of windfall tax as a source of revenue and as solution to the fuel poverty problem; this section provides an overview of some of position in the debate.

PRO

AGE CONCERN; commenting on the 2008 Budget Age Concern's Director said; "Energy industry profits and the extra VAT revenue the government receives could have been re-directed into providing targeted support for the poorest pensioners and other groups hit hardest by the hikes. We wanted to see the £200 winter fuel payment raised to at least £300 and significant investment made in energy efficiency schemes, in particular increasing the maximum warm front grant available".⁵³

THE NEW ECONOMIC FORUM (NEF)/WWF; in their joint research paper, which made the case for the establishing of an Oil Legacy Fund, the NEF and WWF stated "[i]t is clear to us that the record profits can only be justified if they are used appropriately. To begin with, that means a major rollout of renewable energy technologies and a redesign of the UK's inefficient energy system and national grid in favour of a more efficient, decentralised system, In these circumstances, the UK might even stand a chance of reaching the greenhouse gas emission reduction targets set by the Government. The UK, then, would also have no excuse not to meet its overdue contributions to the special global funds set up to help poor countries adapt to climate change."

FRIENDS OF THE EARTH (FOE); prior to the 2008 budget FOE stated; "Energy companies have benefited from receiving free carbon emissions permits under the first phases of the European Emissions Trading Scheme. The companies have however passed on the nominal cost of these permits to consumers. The value of these free permits is estimated by Ofgem to total £9bn over the next 4 years. Friends of the Earth believe a windfall tax on these unearned profits is justified because of the unique time bound nature of the profits which are entirely due to government policy and not due to company business models or investment decisions".⁵⁴

UNIONS; a number of UK unions have voiced their support for the use of windfall tax as a means of assistance to those facing fuel poverty. The TUC have stated: excess profits do not flow from investment, innovation or hard work but simply result from the way that carbon trading has been implemented across Europe... While carbon trading has a crucial part to play in tackling climate change, these windfall profits will give it a bad

⁵³ <http://www.epolitix.com/briefings/article-detail/newsarticle/budget-2008-energy/> (retrieved 19/06/08)

⁵⁴ http://www.naturalchoices.co.uk/Friends-of-the-Earth-call-for-L5?id_mot=10 (retrieved 19/06/08)

name unless they are used to fund socially useful and green spending".⁵⁵ Calling for the introduction of a windfall tax Unite have stated: "Labour needs to address the real concerns of real life people. The price of oil is hitting drivers as is the rising prices of fuel, household goods and mortgages. If Labour is to win the next general election, Gordon Brown must reconnect with the core vote and put money back into their pockets".⁵⁶ Similarly, a UNISON spokesperson "condemned the blatant profiteering within the energy industry and agreed to endorse the call for an inquiry into the industry by the Competition Commission and a windfall tax on profits".⁵⁷

ANTI

NATIONAL ENERGY ASSOCIATION (NEA); commenting on speculation over the introduction of a windfall tax NEA have stated –"Fuel poverty requires more than an inadequate knee-jerk response, such as a windfall tax. The problem has progressively worsened for years with fuel prices having rocketed by up to 90 per cent since 2003. This year alone half a million households have plunged into fuel poverty, after five relentless price hikes. A one-off extra Winter Fuel Payment might bring some benefit to vulnerable households but it is not a long-term solution. Nor is a one-off windfall tax on the energy suppliers. A more concerted and sustained approach is needed in the form of increased funding for energy efficiency programmes; extension of the Winter Fuel Payment to other vulnerable groups including low-income families with children; and cheaper energy to be available to poorer households via a statutory duty on energy suppliers to offer a social tariff."⁵⁸

ASSOCIATION OF ELECTRICITY PRODUCERS (AEP); the AEP have called plans to introduce as windfall tax 'legalized piracy'. The organisation has commented - "Windfall taxes are a bad idea - and they are an especially bad idea for an industry that is about to embark on a £30billion investment programme... We have a fleet of ageing power stations that have to be replaced with cleaner, greener ones. This is not a good time to be picking the pockets of the companies that are going to have to pay for it."

DRAX; the Chief Executive of the UK's largest power station, Drax, attacked plans to impose a windfall tax on the grounds it would 'jeopardise the much publicised effort to spur a *green energy* revolution', stating such a move would be; "unwise, given the tens of billions that industry will have to invest in order to meet highly ambitious emissions reduction targets set out by the Government and the European Union". She added: "There is no clear justification for it. Our sector requires significant investment over the next decade to meet the growing capacity gap and to meet the Government's renewable objectives."⁵⁹

⁵⁵ <http://www.energysavingtrust.org.uk/fleet/news/dailynews/index.cfm/TUC--use-windfall-tax-to-end-fuel-poverty/?mode=view&articleid=18489669> (retrieved 19/06/08)

⁵⁶ http://www.energysavingtrust.org.uk/resources/daily_news/energy_efficiency_consumer_new_tag/unite_fuel_poverty_a_top_priority (retrieved 19/06/08)

⁵⁷ http://www.unison.org.uk/conference2008/news_view.asp?did=4366 (retrieved 19/06/08)

⁵⁸ http://www.nea.org.uk/Media_Centre/News_releases/?article_id=434 (retrieved 19/06/08)

⁵⁹ <http://www.independent.co.uk/news/business/news/drax-attacks-plans-for-windfall-tax-to-help-fuel-poverty-791410.html> (retrieved 19/06/08)

E.ON; Chief Executive of one of UK's leading power companies, E.on commented; "If [the Government] makes it more difficult for us to make money in the UK it becomes more difficult to make the level of investment we need to make." ⁶⁰

⁶⁰ <http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2008/03/09/ccenergy109.xml> (retrieved 19/06/08)