The Rise And Fall And Rise Again
Of A Department Of Energy

A lecture by Rt. Hon. Ed Miliband MP, Secretary of State for
Energy and Climate Change, at the Energy Futures Lab,
Imperial College

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Introduction

I want first of all to thank Imperial College and the Energy Futures Lab for hosting us this evening.

It’s the right place to talk about the future of our energy policy. Not only are you one of the world’s great centres of research and learning, you have shown a way to bring together academia and industry to meet the challenges we face.

As Sir Roy Anderson, Rector of Imperial, said in his Commemoration Day lecture last month, developing carbon-free energy sources “can only be described as the world’s most urgent need” – and it can’t be done without our universities.

I have titled this speech “The Rise and Fall and Rise Again of a Department of Energy” – not because departmental reorganisations mean much in themselves, but because sometimes they speak to a wider context.

And in the case of energy policy, history suggests there is a wider meaning to the entry and exit of Energy Secretaries from the Cabinet.

The Ministry of Fuel and Power was set up in 1942, with energy crucial to the war effort.

And abolished in 1969.

Energy became its own Department again in 1974, following the OPEC price spike.

And was abolished again in 1992 because the problems of energy, so the argument ran, had been pretty much solved by privatisation.

Today, we have a new Department of Energy and Climate Change and this does speak to changing times.
And that’s what I want to talk about today. What I want to do tonight is:

First, set out the proper objectives of a modern energy policy and explain how the fundamental assumptions that shape those objectives have changed since our energy markets were established two decades ago.

Secondly, I will describe what you might call the markets-only view of energy policy from the 1980s, and explain that in my view a more appropriate vision for energy policy today is to see dynamic markets combined with a strategic role for government.

Thirdly, I want to set out how this framework will guide our approach in the months ahead in the three key areas of sustainability, security and affordability.

As you’d expect of someone in the job for two months where decisions are for the long-term, the purpose of this speech is to set out the direction for the work we will be doing in the coming months.

Indeed, I want to work with all the stakeholders in this field, energy companies, consumer groups, academics and others, before we reach conclusions.

**Changing assumptions**

Let me start by setting out the objectives of a modern energy policy, which I think will be fairly commonly held:

Sustainability – that our energy policy must be compatible with tackling climate change.

Security – that we meet people’s need to have access to energy, that the lights stay on.

Affordability – that people can get energy at the lowest prices possible, consistent with the need for investment.

What is striking is how much the background assumptions relevant to each of these objectives have changed since the 1980s, when the framework for today’s competitive markets in energy was being established.

First and most obviously, twenty years ago, energy policy was not driven by concern about the climate.

There may have been an emerging scientific debate about climate change, but it had not permeated the political or policy-making biosphere.

When two-thirds of carbon emissions come from energy, as they do today, it is an absolute imperative that we make energy policy on this basis – and the scale of the challenge is immense given our target to reduce greenhouse gas emissions by 80 per cent by 2050.
And that explains why the old Department of Energy hasn’t been brought back, but we have a Department of Energy and Climate Change.

The second assumption that has changed is about Britain’s status as a net exporter of energy.

When today’s energy structures were set up 20 years ago, our energy sources were mostly British.

Now our own fossil fuels, no matter how much we do to get the most out of them, are in long-term decline.

Ten years ago, we produced a third more oil and gas than we needed.

Today, we’ve crossed the line from being net exporters to importers.

In ten years’ time, we will produce only half of what we need.

What’s more, we haven’t simply left behind a world in which we are energy-independent, we are net importers in a world where competition for resources is more intense.

By 2030, global demand for energy is predicted to grow by 45 per cent, with more than half of that growth from China and India alone.

And that shows the third assumption that no longer applies: stable and low commodity prices.

Today, whatever the recent fluctuations, given global trends it would be unwise to base policy on low prices.

Indeed, the safer assumption is of structurally high commodity prices.

So the first part of my argument is that three fundamental assumptions that shape our energy policy have changed, and this has implications for our objectives.

**Markets Only vs Strategic Government, Dynamic Markets**

The second part of my remarks concerns the best framework for meeting these objectives and the proper balance between market and state.

One of the features of British energy policy which is clear from reading the history is that each generation has looked again at the underlying relationship between market and state – sometimes for good, sometimes for ill.

We saw it in the wartime and post-war move to public ownership, and more recently in the 1980s move to privatisation and markets.

It’s that second move that I want briefly to examine.
In 1982, Nigel Lawson, then the recently-appointed Energy Secretary, gave a speech which sought to articulate what would become the common sense of that government’s energy policy, and at the time seemed like a bold departure.

It sought to fundamentally challenge received doctrines about the market and state in energy policy, and was the precursor of privatisation of electricity and gas generation and supply.

It was a remarkable speech, because it preceded almost all of the energy privatisations of the Thatcher era and yet foreshadowed them and set out their intellectual framework.

On security of supply, he challenged the prevailing orthodoxy.

It was not for government to “try to plan the future shape of energy production and consumption. It is not even primarily to try to balance UK demand and supply for energy.”

He did talk about the fact that the electricity market was a particular case because of the problem of storage, but his overriding assumption elsewhere was that balancing supply and demand was not the job of government, and could be left to the market.

He went further and said that the future mix of fuels was not a matter for government either:

“...It does not help us very much to try to guess the unguessable”, he said, “namely what UK energy consumption will be in twenty, let alone fifty, years time—and then aim to produce this amount judiciously divided up between the primary fuel sources.”

And finally, for our purposes, and this is no fault of the author of the speech, there is obviously no mention of carbon emissions, although renewables do sneak in.

Let us call this a ‘markets-only’ view of energy policy. I want to counterpose it to a view which I will describe as ‘strategic government and dynamic markets’.

We need dynamic markets to meet our energy needs.

A system of private firms competing with each other, with independent regulation, is now rightly a settled part of the landscape.

Why? For reason of efficiency and investment.

The benefits we get from dynamic, competitive companies in the energy market is of paramount importance.

They, far better than government can make effective decisions about the allocation of capital.

And the role of the private sector in providing £100 billion or more of investment in energy over the next decades is absolutely essential.
But dynamic markets on their own are not enough for a successful energy policy.

The changed assumptions compared to the 1980s pose challenges on sustainability, security and affordability which markets on their own cannot be guaranteed to solve.

These are all challenges where we cannot assume in advance that private incentives add up to the public good.

No individual company will fully respond to the public interest in tackling climate change without a price on carbon.

Each individual company has an interest in selling power to meet demand, but there is a greater public interest in ensuring security of supply.

And all individual companies will compete to provide energy at lower prices, but there is a role for the public interest in improving energy efficiency and protecting the most vulnerable.

In a world where carbon didn’t seem an issue, Britain had excess supply, and prices were low, it was easier for these market failures to be assumed away. Today, we don’t have that luxury.

That is why we need both dynamic markets and a strategic role for government:

Strategic policy that is stable, predictable and attractive to private investment;

Strategic policy that takes action where there are market failures and provides the right incentives for the public good.

This approach characterises, I believe, the trend in policy since the 1980s assumptions started to change.

What we have seen is an evolution of policy, so that private companies and regulated markets are at the heart of our policy-making and this is accompanied by a strategic role for government.

It can be seen in the policies of my Labour predecessors, reflected in successive Energy White Papers, and my approach will be to build on these changes.

And the reinstatement of the Department of Energy is a signal that we know government has to take responsibility in key areas, including putting a price on carbon, ensuring security of supply and working to defend the interests of the consumer.

Let me explain in more detail how these conclusions will shape our policy-making in the months to come.

Sustainability
It is most obvious when we look at the challenge of low-carbon and sustainability.

Next summer, we will be publishing our response to Lord Turner’s recommendations on carbon budgets and we will have to show how we can decarbonise electricity in the years to 2050, substantially so by the 2020s – in other words, how we can reach the zero option: near zero-carbon electricity by 2050.

As Lord Turner argues, the best prospects lie in the trinity of nuclear, renewables and clean fossil fuels.

And as the Stern report showed, failures in the market mean a precondition is to put a price on carbon, which we’re doing through the European cap-and-trade system.

But that’s not enough. We also need to do more and drive the technology that’s needed – which we are doing with the obligation on energy companies to buy an increasing proportion of their power from renewable sources, the Renewables Obligation, which will soon be weighted to give more credit to technologies that most need development.

But a concentration on renewables leaves out of the account both nuclear and clean fossil fuels.

Encouraging nuclear isn’t about subsidies, but neither can government sit on its hands. We need to license reactor designs and facilitate site selection. We need to make sure that companies put money aside from day one to pay for the eventual clean-up. And to encourage more than one company into the market, we need to do all we can to ensure that the UK is one of the best places in the world to invest in nuclear power.

Clean fossil fuels are a less sure prospect because of uncertainties around carbon capture and storage, the great prize of clean coal and gas.

What is clear is that we cannot say that in twenty years time we will be building unabated coal-fired power stations and that we will meet our carbon budgets. It’s not credible.

And the challenge is not simply domestic but international too.

When China is building two coal-fired power stations a week and 94 per cent of electricity in Poland comes from coal, it is essential to develop CCS not just for the UK but for the world as a whole.

Some might ask whether the effects of carbon capture and storage in the UK on the wider world is really a calculation for our energy policy or a responsibility for us.

My response is to say that it is, because the costs for us, in this country, of the world not meeting its climate change commitments, are so grave.

As Stern showed, the costs of not acting are greater than the costs of acting.
It is this global context to CCS which explains why we are so determined to ensure that we do not simply get a European Union agreement on energy and climate change before the end of the year, but that there is a proper EU commitment to investing in carbon capture and storage.

And we know that we must do more in the UK to drive the path towards low carbon, particularly CCS. So we will publish in the New Year proposals for how we can do that.

My conclusion is that sustainability requires a strategic role for government as well as dynamic markets because governments must intervene to introduce a carbon price and to overcome market failures which would otherwise mean that low-carbon technologies would not be adopted.

Security of supply

What about security of supply, the most important obligation of government?

As I said at the start, we must keep the lights on in a world where we are net importers of energy.

Furthermore, by 2020 a third of our power plants will be closed due to age or rising environmental standards.

We now also face the added challenge of the credit crunch, which will increase the cost of capital and poses particular challenges for the energy industry. This is something which is an important focus for our new department.

The actions taken to recapitalise the banks are an important part of making credit available to companies as a whole including the energy sector, but I recognise that no sector can be immune from the current difficulties we are facing.

Of course, National Grid is responsible for balancing supply and demand on the network in the short term, but in the end it is for government to shape the right medium-term framework so the market delivers.

Moreover, the second Lawsonian conclusion that there was no point in looking ahead and trying to guess the fuel mix seems too complacent as well.

As we increasingly become an importer of fuels, and as global competition increases, government must take a view about whether our security is supported by sufficient diversity.

So government must actively safeguard our security of supply by ensuring a range of sources of gas – hence our interest in the Southern Corridor linking Europe to the Caspian Sea and our interest in building gas supply from Gulf states, such as Qatar.

At the same time, we should promote a mix of fuels by driving the move into renewables, nuclear and clean coal.
That is why my predecessor published his White Paper on nuclear power, as a very important and in my view correct response to the security of supply and sustainability pressures we face.

And that is why we plan to use the opportunity of carbon budgets next year to set out our strategy on security of supply.

So we will bring together the different strands of work from renewables to nuclear to CCS to grid access to energy efficiency, after conversations with the industry, the regulator and independent experts.

And as part of that work to ensure we have diversity of supply we have asked Malcolm Wicks, the former energy minister with huge experience on these issues, to report to myself and the Prime Minister on the global context to security of supply issues. His conclusions will inform our policy on security.

So on security of supply grounds, we need the right role for government, responding to future trends in supply and demand and ensuring we have a diversity of energy sources for our country.

Affordability

That takes me finally to affordability.

Once again, the 1980s view was that fairness would be delivered by markets alone.

But the reality is that this may have been a successful strategy in a world of low prices, but doesn’t look so good in a world of higher prices and structural changes.

And the future outlook is destined to remain difficult.

Global demand will keep prices relatively high and the move to low-carbon will mean further cost pressures.

What does that mean for us? Our task is not to simply accept whatever outcome is produced, but to do all we can to ensure fairness for the consumer.

Being the Department of Energy and Climate Change means that we need an energy policy that is sustainable, but it also means we need a climate change policy that is fair: it is no part of my climate change strategy to drive the most vulnerable consumers into fuel poverty.

On energy efficiency, we see the limits of the 1980s view that individuals on their own would invest sufficiently.

We know about the significant market failures here: a combination of lack of information, inertia and lack of access to finance.
That is why we are determined to set bigger ambitions for policy and to do more to help people with home energy efficiency and insulation. And it is also why the government is driving the development of zero-carbon homes.

If efficiency is one part of the story, pricing is another.

We’ve recently seen big falls in wholesale gas and electricity prices, but I understand that because energy companies tend to buy in advance they won’t be passed on immediately. But they must be passed on as soon as possible.

And the recent Ofgem report found that millions of vulnerable customers who were on pre-payment meters, off the gas grid, or served by companies that used to be the local monopoly were losing out.

Some companies have already taken action to tackle these problems, and I welcome that.

There can be no excuse for the unfair treatment of the most vulnerable. If someone is forced to use a pre-payment meter, that’s no excuse to overcharge them.

If someone happens to live off the gas grid, that is no excuse to over-charge them.

If someone lives in an area where a company used to have a monopoly, that’s no excuse for overcharging them.

There can be no excuse for these practices, and unless all energy companies accept their responsibility for ending them, we will use our powers to do so.

Ofgem set a deadline of December the first and will report shortly on what they propose. We are determined to work with them to root out unfair practices hitting the most vulnerable.

We will also look at what more government can do to protect the most vulnerable, including whether we can improve social tariffs, and whether government should be better at targeting its efforts.

How we tackle fuel poverty and ensure fairness for families and businesses will therefore form the third part of our carbon budgets response next summer, alongside meeting the budgets and ensuring security of supply.

**Conclusion**

Let me conclude. My argument today is that we are in a changed world in energy, reflected in our new department.

Dynamic markets and private investment are at the heart of our energy policy.

But my argument today has been that these markets will work to best effect in the public interest if there is a strategic role for government alongside them.
There is no question that compared to the 1980s we are in a world of huge challenge on energy.

But I want to end by saying there are huge opportunities as well:

Just take your three energy futures projects: to use solar power to get energy from blue-green algae, to help whole towns reduce their energy needs and use carbon storage in our oil fields.

If we collaborate on these and other projects, we will have:

The opportunity of knowing we have taken the steps to preserve the planet for future generations

The chance to ensure that with new technology and using the skills of our best scientists and engineers, we secure low-carbon energy for the future

And finally, the chance to show we can be fair to businesses and households.

We are determined to work with energy companies, stakeholders and academics to understand and use the best ideas.

And it is on this basis that we will make policy in the new Department of energy and Climate Change.