

Comprehensive Spending Review 2010

ACE submission to the Department for Energy and Climate Change

1. Introduction

- 1.1. ACE welcomes the opportunity to contribute to the Department for Energy and Climate Change's submission as part of the Comprehensive Spending Review.
- 1.2. ACE represents the UK's consultancy and engineering industry. Its 650 member companies collectively employ more than 100,000 people and contribute approximately £10 billion to the UK economy annually.

2. Summary

- 2.1. ACE recommends that energy is placed at the heart of the Government's strategic vision for infrastructure. The interactions between energy policy and other public policy priorities should be recognised.
- 2.2. To enable the significant challenges to be met in a timely and efficient manner, the Government should focus on putting in place those conditions that facilitate energy development, including:
 - A stable financial environment that encourages investment;
 - A simplified and streamlined planning system; and
 - A regulatory regime that sends the right market signals.

3. The scale of the challenge

- 3.1. The UK faces a significant challenge regarding energy generation and distribution. The UK is committed to increasing its proportion of energy derived from renewable sources, and is supportive of a new generation of nuclear power and carbon capture and storage.
- 3.2. Much of the UK's energy generation infrastructure is also approaching the end of its operational life, with much of the nuclear fleet expected to

be decommissioned in the coming decades.

- 3.3. Energy availability has a direct impact on the UK's economic performance and social wellbeing. Poor energy infrastructure can be a disincentive to investment and job creation, and can result in consumers being charged more to maintain the network.
- 3.4. The Green Investment Bank Commission estimates that, by 2030, up to £1 trillion may be needed to replace, upgrade and decarbonise Britain's infrastructure. This equates to around £50 billion per year¹.
- 3.5. The volume of investment in energy alone required to meet the UK's objectives has been estimated at around £200 billion².
- 3.6. The scale, urgency and strategic nature of the challenges make energy a key plank of the Government's programme.

4. A strategic vision for energy

- 4.1. ACE recommends that the Government continues to take a strategic approach to the UK's energy generation and distribution capacity.
- 4.2. A strategic vision should set out the importance of energy infrastructure, how energy infrastructure supports other forms of infrastructure, and should set out clear connections with economic growth and environmental and societal improvement.
- 4.3. A strategic vision will help to give confidence to business and society that the UK's capacity needs will be met systematically and effectively.
- 4.4. The Government should also take care to ensure that other policy areas coordinate sufficiently with the energy agenda. In particular, areas such as transport and housing have direct impacts on energy demand,

¹ Green Investment Bank Commission, *Unlocking Investment to Deliver Britain's Low Carbon Future*, June 2010

² Ofgem, *Project Discovery*, October 2009

distribution and consumption.

- 4.5. ACE welcomed the creation of Infrastructure UK, and looks forward to helping this new body to define the vision for the UK's vital infrastructure networks.

5. Creating a stable funding environment

- 5.1. Much of the UK's energy infrastructure is funded through private sources. The Government has stated that new nuclear power should be deliverable without public subsidy. Even when public subsidy is involved, this generally only represents a small proportion of the total project costs.
- 5.2. Creating an environment that encourages private sector investment is therefore crucial.
- 5.3. ACE agrees that setting out a credible plan for stabilising public finances is essential, and the Comprehensive Spending Review will play an important role in this.
- 5.4. However, care must be taken to ensure that false economies are not made, and that the private sector is not unduly damaged by a change in approach to public spending.
- 5.5. ACE welcomes the creation of a Green Investment Bank, and believes that such an institution should be established and made operational as quickly as is feasible.
- 5.6. There may still be a role for limited public sector investment in energy, particularly if this helps to overcome barriers at specific points in energy programmes.

6. An efficient planning regime

- 6.1. Reform of the planning system is central to encouraging investment and best value delivery. Unnecessary delays and duplications in the planning system simply increases project costs and timescales, making energy projects less attractive to deliver and increasing costs for energy customers.
- 6.2. Uncertainties in the planning system can also generate tensions within communities and can generate mistrust. A transparent planning system that cuts down unnecessary burdens and ensures that all can have their say will help to increase public confidence.
- 6.3. A reformed planning system will therefore help to achieve structural efficiencies that will exceed one-off cost reductions well into the future. ACE welcomes the Government's commitment to the National Policy Statements and the Major Infrastructure Unit as part of this process.

7. A regulatory regime that sends the right market signals

- 7.1. The Government has indicated support for deployment of new nuclear generation, carbon capture and storage, and large-scale renewable generation.
- 7.2. However, to ensure that this is deliverable and attractive to private sector investment, the right regulatory signals must be sent.
- 7.3. Mechanisms such as the Renewables Obligation are useful in terms of improving the rate of investment for particular types of technology, but do not address the market conditions that are currently causing a lack of investment.
- 7.4. Projects need to be seen to be providing investors with reasonable returns given the substantial risks involved. Renewables are not reliable enough to provide base load power and so there will always be a need for nuclear, gas and possibly coal generation. However, these are

unlikely to be commercially viable if they are not generating power for a significant amount of their working lives.

- 7.5. Clear guidance and commitments are needed from the Government with regards to the updating of the grid and a direction set for energy generation. This may be in the form of generation mix targets so the market is aware that a commitment is in place to ensure that a certain degree of energy production is provided from a given source.
- 7.6. A floor price for carbon may also be helpful in providing a degree of price certainty to energy generating companies; this should give confidence to investors that returns on low carbon investments are likely to be more attractive.

8. Further information

- 8.1. To discuss any points raised in this document in more detail, please contact:

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