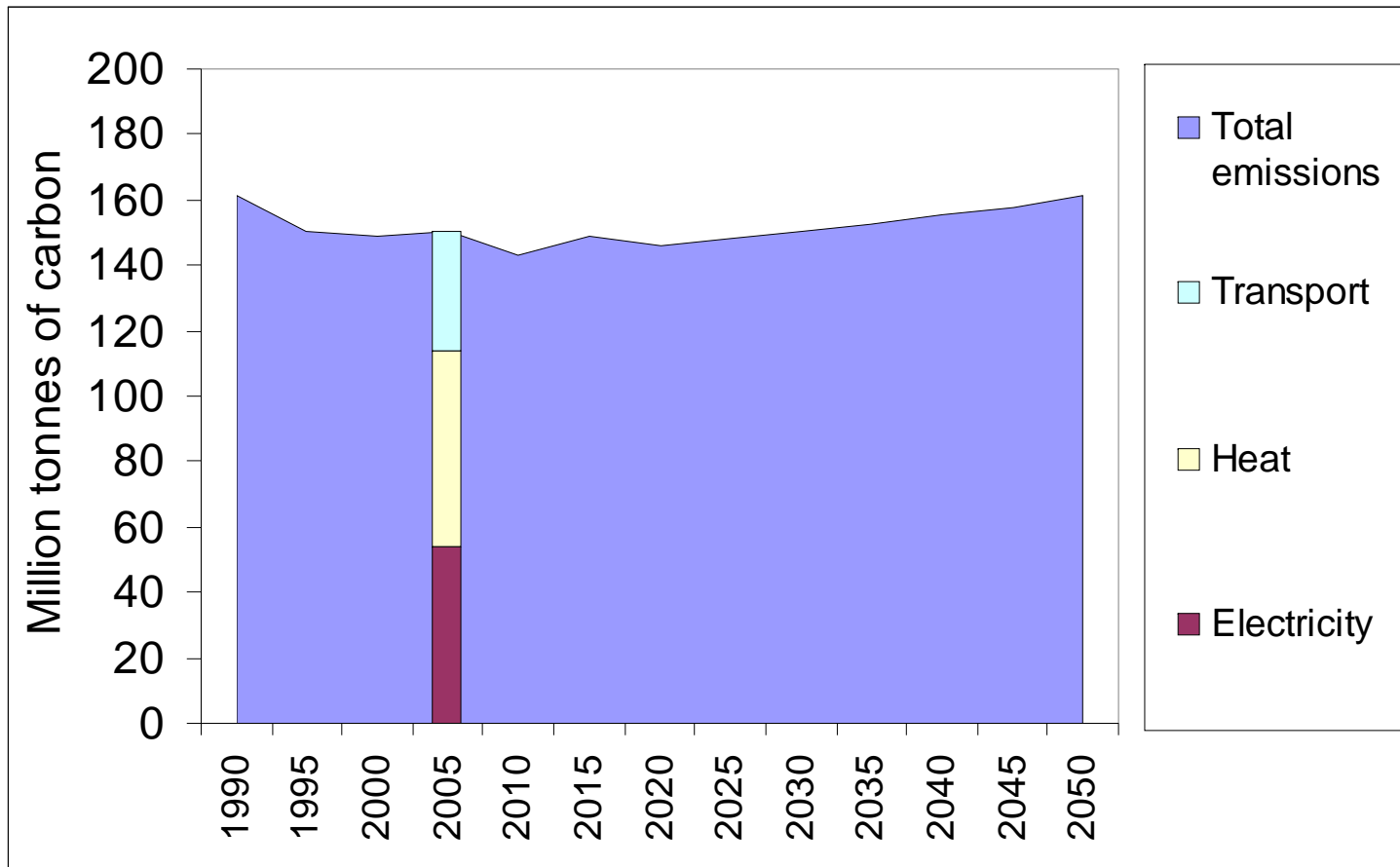


Key Long-Term Challenges

- Tackling carbon emissions
- Delivering secure clean energy at affordable prices, as energy import dependency grows

The carbon challenge



Climate Change and EU ETS

- Climate change – needs to be tackled internationally
- European Union Emissions Trading Scheme (EU ETS):
 - Creates carbon price - strong incentive for more energy efficiency and investments that help reduce carbon emissions
 - But need to improve the scheme's effectiveness

Reducing demand for transport, heat, electricity

- Raise standards for new homes, cars, products
- Consulting on options to drive carbon savings from large commercial sector (e.g. supermarkets)
- Address household sector:
 - Incentivise energy suppliers;
 - Better billing information for consumers;
- Government takes a lead

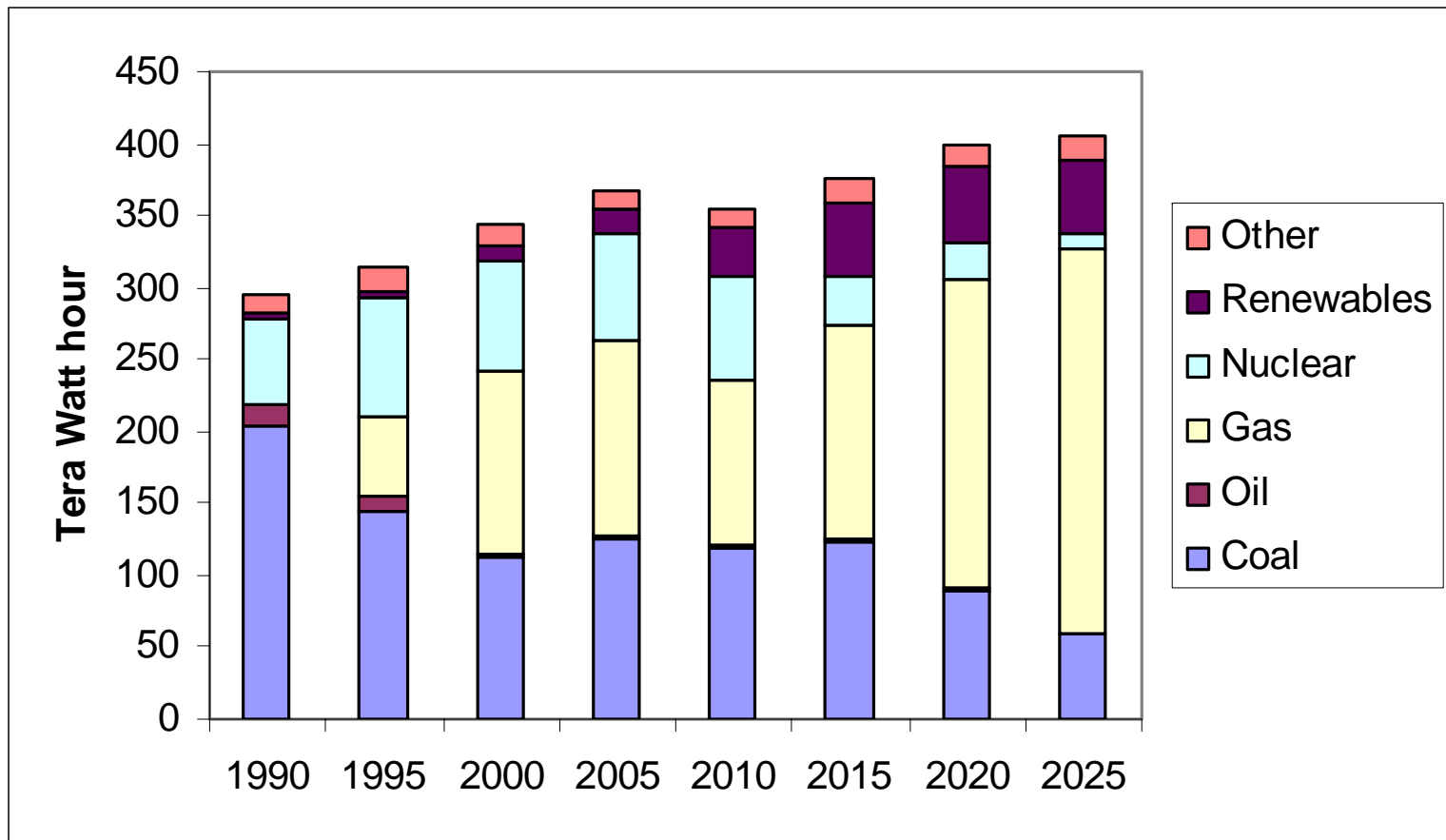
Tackling carbon on the Supply Side –Transport, heat and distributed generation

- UK will depend on fossil fuels for vast majority of our transport & heat in medium term (oil >90%, gas >70%)
 - Transport innovation strategy
 - Increase use of biofuels in road transport (RTFO)
- Removing barriers to/ incentivising microgeneration
 - Planning
 - Requiring energy suppliers to buy back surplus electricity
- Fundamental review with OfGem of the barriers and incentives to distributed electricity generation including Combined Heat and Power

Tackling carbon on the Supply Side – Electricity

- Need up to 25GW of new capacity over next 15-20 years – around third of today's existing capacity.
- **Opportunity:**
 - low carbon investments, banks carbon savings for 20-40 years;
- **Risk:**
 - for each new unabated fossil fuel plant, lock in higher carbon emissions for 20-40 years

A central scenario - less diverse electricity generation mix



Clarifying the framework to reduce uncertainty

- Set out Government's position on:
 - Carbon price and EU ETS
 - Nuclear new build
 - Renewables and the Renewables Obligation
- Improve energy market information
- Improve planning process for all large scale electricity projects

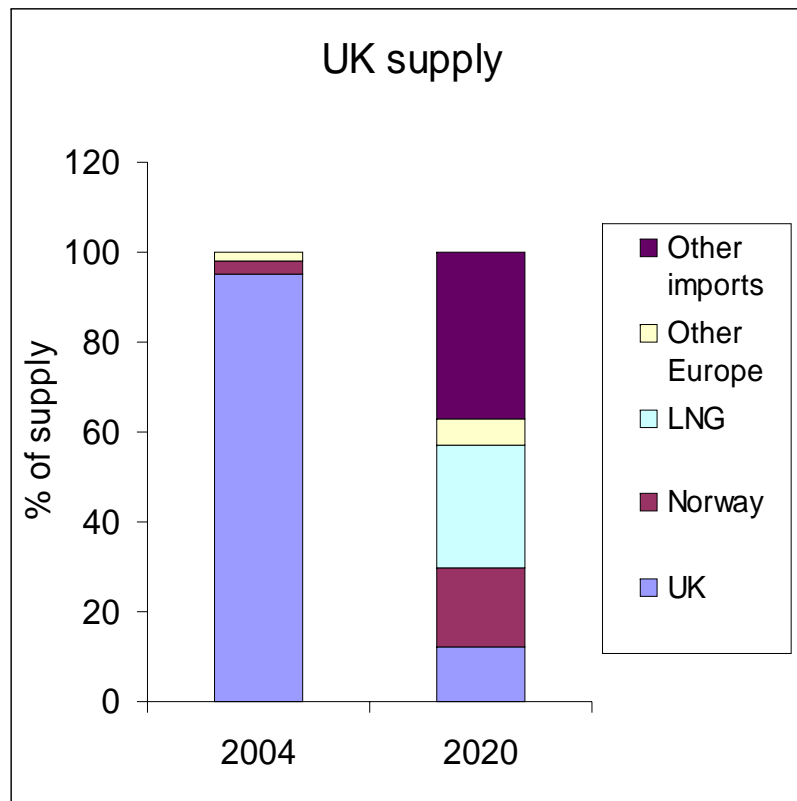
Removing barriers so nuclear can play a role – lowering carbon and diversifying electricity mix

- Clear Government statement on national need for nuclear power
- Pre-licensing
- Strategic site assessment
- But for private sector to initiate, fund, build and operate any new plants.
- Developers to make secure arrangements for decommissioning and (full share of) waste costs
- No special subsidies for nuclear

Renewables and cleaner coal

- **Renewables:**
 - Strengthen Renewables Obligation towards 20%
 - Consult on restructuring RO to encourage emerging technologies
 - New funding through Environmental Transformation Fund
- **Coal production and cleaner coal**
 - Coal Forum
 - Further examine cost effectiveness of carbon capture and storage demonstration – PBR statement

Risks from increased reliance on gas as domestic production declines



Risks:

- Political
- Insufficient investment
- Ineffective markets
- New infrastructure
- Long supply chains

Proposals: Security of supply

International action

- Continue to promote open and competitive markets
- Strengthen key supplier relationships

Action at home

- Improve North Sea investment framework
- Better energy market information
- Streamline planning process
- Consult on options for improving gas security of supply
- Encourage greater energy efficiency

Next Steps

- Consultations, including:
 - Energy saving:
 - Energy Efficiency Commitment 3 - consultation summer 06
 - Energy Performance Commitment (large non-energy intensives) - end Oct/early Nov
 - Gas: security of supply consultation - launched earlier this week
 - Nuclear policy framework consultation - completes end Oct
 - Renewables - launched 9 October
 - Planning/electricity – shortly consulting on draft regulations
- Coal Forum
- Distributed Generation: Foresight and HMG/OFGEM studies
- Energy White Paper next year

End presentation