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*From the Treasurer and Vice-President Sir David Wallace CBE FRS*

25 October 2004

Our ref: 30/04

Dear Mr Johnson

We are delighted to respond to the Committee's call for evidence for the inquiry into 'Energy Efficiency'. This response has been prepared in consultation with our Energy Policy Advisory Group (EPAG) and other experts in the field.

Our comments are primarily based on previous Royal Society studies. We would be pleased to provide copies of these and/or expand on any of the points outlined below.

- The main obstacle at present to the achievement of energy savings is that energy is too cheap to provide the motivation for maximising efficiency. Our economic instruments report (2002)<sup>1</sup> shows that placing primary emphasis on well-designed economic instruments can provide considerable motivation and incentive across the industrial and domestic sectors for energy efficiency savings.
- The current UK Climate Change Levy goes some way towards promoting energy efficiency measures across the economy; however as we outlined in our 2001 report<sup>2</sup> on the European Renewables Directive, it excludes major energy users such as households and transport. We recommend that the Government acknowledge and act on this issue in the forthcoming review of the UK Climate Change Programme.

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<sup>1</sup> Royal Society (2002a). *Economic instruments for the reduction of carbon dioxide emissions*. Document <http://www.royalsoc.ac.uk/document.asp?tip=1&id=1385>

<sup>2</sup> Royal Society (2000). *The role of the Renewables Directive in meeting Kyoto targets* <http://www.royalsoc.ac.uk/document.asp?tip=1&id=1444>

- Although market mechanisms should have a principal role in driving energy efficiency measures, implementing the correct regulation is also important. Part L of the Building Regulations has been an effective measure for reducing building energy consumption in the last two decades, but it has only a limited impact on the existing building stock. In the domestic sector, the introduction of Home Condition Reports in 2007 (requiring the seller of a house to provide potential buyers a report on energy efficiency and other conditions on the house) will highlight and stimulate energy efficiency measures and generate information on home energy ratings. However further financial incentives are required to drive people in this sector to make efficiency investments to the fabric of their property, the benefits of which may only be realised after long periods of time.

Yours sincerely