Pearson Edexcel GCE

Economics and Business

Advanced
Unit 4B: The Wider Economic Environment and Business

June 2015

Paper Reference
6EB04/01

Pre-release material
To be opened on receipt

Advice to Centre Staff and Candidates

- Candidates are expected to be familiar with the evidence provided here for the Unit 4B question paper before entering the examination room.
- A copy of this pre-release material will be included in the question paper, together with some new evidence, which you should study carefully before answering the questions.
- Candidates will not be allowed to take copies of this pre-release material into the examination.

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Evidence A

UK faces the prospect of gas rationing

The UK faces gas rationing for the first time as cold weather and disruptions to Norwegian gas supplies push the energy grid close to breaking point.

“Rationing would be inevitable, for businesses and domestic users and maybe for gas-powered electricity producers as well, so we might be looking at electricity rationing too,” said Ann Robinson, Director of Consumer Policy at price comparison site uSwitch.com. Although businesses would be affected first, households could also be hit.

The Government was forced to deny suggestions that gas supplies are about to run out. “Storage would never be the only source of gas, so it is misleading to talk about how many days’ supply we have,” said a spokesman for the Department of Energy and Climate Change.

“While the market can ease the shortage – by pushing up the price to attract extra supplies from overseas – there is a limit to what it can do,” said an energy consultant. “There is a real prospect of gas running out, especially given the colder weather forecast and disruptions due to maintenance in Norway”. The wholesale gas price temporarily jumped by 50% to a record 150p a therm, pending repairs to a key gas import pipeline.

(Source: adapted from *The Independent* 23 March 2013
Photo: http://energymixreport.com/wp-content/uploads/2013/07/gas-pipelines.jpg)

Evidence B

Cosy deal means energy companies avoid big payouts

Hard-up families, misled on prices by sales staff of six big energy suppliers, may miss out on millions of pounds in compensation after the UK Government struck a deal favouring energy companies.

The Coalition's Energy Bill gives Ofgem, the energy industry regulator, the power to order companies to compensate mis-sold consumers, but these powers will not apply to eight current investigations.

Shadow Energy Minister Tom Greatrex accused the UK Government of putting profits before fairness. "The Government is accommodating energy companies at the expense of consumers. As energy bills have risen by £300 since they took office, you would think the Government would be doing all it can to help those struggling to heat their homes. It's time Government stood up for consumers who have been ripped off rather than protecting Big Six profit margins."

Currently Ofgem has no power to force energy companies to pay compensation to people who have been misled. They can only issue nominal fines, such as £1.

Last year energy giant EDF was found to have misled consumers so Ofgem imposed a £1 fine, but the company voluntarily agreed to refund £4.5 million to consumers.

(Source: adapted from *The Daily Mirror*, 5 February 2013)

Evidence C

Npower profits up 25% just months after massive hike in prices

Npower announced a 25% surge in profits yesterday just months after imposing inflation-busting price hikes. Npower made £390 million from its generation and supply businesses last year, up from £313 million in 2011.

This followed an average 8.8% jump in gas prices and a 9.1% increase in electricity prices at the end of November last year, increasing a typical annual bill for a Npower customer by £108 to £1,352.

The announcement came days after rivals British Gas confirmed they had made £606 million last year, a rise of 11%.

Npower, owned by German giant RWE, admitted it had paid almost no corporation tax for three years, but explained that it was because it could write off profits against investments in building new power stations.

Labour MP John Robertson said: "It's time the energy companies stopped lying about increased prices. I'm calling for energy firms which announce excessive profits while increasing prices to be fined by Ofgem."

Paul Massara, Npower boss said: "We're proud to have invested more into the UK than any other energy company in recent years. It's this type of investment that creates highly skilled, well-paid engineering jobs across the country."

(Source: adapted from *The Daily Record* 06 March 2013. Photo: Matt Cardy/Getty Images)

Evidence D

Foreign companies' £100bn wind farm subsidies

Subsidies are being paid to owners of nine giant wind farms being built in the seas around the UK. The wind farms will attract subsidies totalling over £6 billion a year, according to The Renewable Energy Foundation (REF): that is £120 billion over the 20-year lifespan of an offshore turbine.

With 90% of the wind farms in foreign ownership, companies abroad would receive approximately £100 billion in subsidies, ultimately paid for by consumers. Indeed, energy companies will receive twice as much income from the subsidies than from the electricity produced. The wind farms of Centrica and SSE are UK owned, while the rest are mainly owned by companies from other EU countries.

REF's Director, said: "While there is a case for experimenting with offshore wind, development on this scale is economically reckless. Current policies give EU renewable energy targets higher priority than the economic health of the UK. The Government has opened the electricity consumer's veins into the sea, and big fish are moving in for the kill."

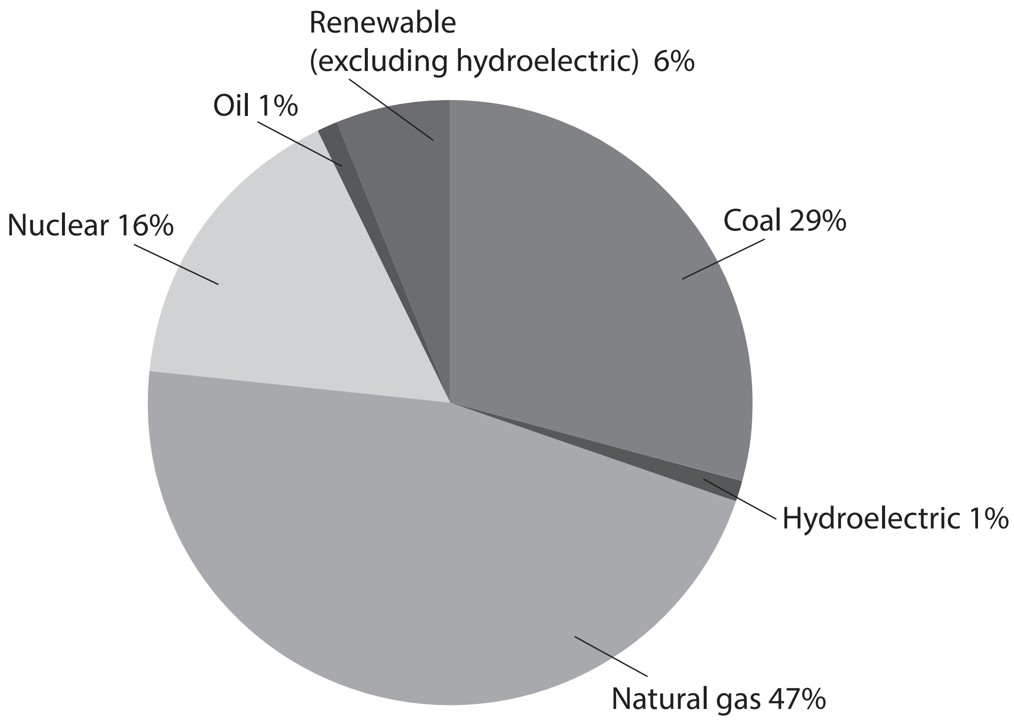
A Department of Energy and Climate Change spokesman said: "REF figures are based on speculation. We are working with industry to reduce the cost of subsidies by around a third by 2020."

It has been claimed REF disregards the economic benefits outweighing the costs. Companies invested more than £1.5 billion in UK offshore wind last year and 47,000 people will be employed in the sector by 2020.

(Source: adapted from *The Daily Telegraph* 03 Feb 2013. Photo: PA)

Evidence E

Energy Sources UK



(Source: World Bank 2012)

Evidence F

Severn Trent turns sewage into green energy

Severn Trent Water's Minworth sewage treatment plant

Severn Trent Water (STW), which runs the Minworth sewage treatment plant, won an award at the Climate Week Awards for its renewable energy projects – including using methane gas from sewage to generate power.

Sewage sludge powers 56 engines at 35 Severn Trent sites. STW boasted: "As well as sewage, we use maize grown on our Nottinghamshire estate. The site is highly contaminated and has been used for sewage recycling for 100 years, so it's unsuitable for food production. We grow maize, and then put it into a digester which composts it. Methane is produced and we can use the electricity generated on-site or sell it to the National Grid." STW currently generates 24% of its energy from renewables and by 2015 aims to boost that figure to 30%, using wind turbines.

(Source: adapted from *The Birmingham Mail* 6 March 2013)

Evidence G

European Household Energy Prices – November 2012 based on average consumption		
Country	**€ per kWh Electricity**	**€ per kWh Natural Gas**
Belgium	0.230	0.058
Bulgaria	0.084	0.046
Denmark	0.302	0.111
France	0.143	0.054
Germany	0.260	0.060
Hungary	0.162	0.060
Ireland	0.207	0.053
Italy	0.217	0.073
Netherlands	0.213	0.070
Poland	0.145	0.044
Portugal	0.186	0.060
Spain	0.195	0.054
United Kingdom	0.155	0.040

(Source: www.energy.eu)

Evidence H

More UK households owe money to energy companies

2,106 UK energy consumers were surveyed in 2013 by price comparison website uSwitch.com. The survey found that 20% owe money on household energy bills, with the average bill at £1,353 a year, almost £100 more than a year ago. Collectively this equates to 5.2 million households in debt – up by more than one million in a year, owing around £637m, or £159m more than last year.

Ann Robinson, Director of Consumer Policy, said: "The soaring number of households in debt to energy suppliers is a clear indication of the pressure people are coming under just to meet their basic bills. The fact that over five million are now in debt to suppliers tells us everything we need to know about the impact of sky-high energy prices."

Of those in debt, 41% owe more than they did 12 months ago, while just 9% owe less. 8% of those surveyed have agreed a repayment plan with their supplier, but 2% expect to move onto a prepayment meter.

The Department for Work and Pensions made £4m in cold weather payments to vulnerable people in March. Each week of freezing temperatures causes an automatic payment of £25 to eligible people.

(Source: adapted from *Credit Today* 9 April 2013)

Evidence I

Prepay meters can cost poorer households hundreds of pounds

Consumers on standard meters have a choice of cheaper tariffs, as well as a direct debit discount. But energy companies offer just one tariff to prepayment customers, which is usually much more expensive. Confused.com puts the difference as high as £300 a year.

If you run out of energy unexpectedly, your supply will be switched off unless you press the emergency credit button, which gives you time to pop out and top up the keycard.

"Excluding British Gas, which offers an online top-up, you have to make sure you are near a shop where you can top up," says Clare Francis of moneysupermarket.com. "You also need to have enough credit to carry you through holiday periods."

Although energy companies claim many people prefer a prepayment meter to help them budget, paying for energy this way is not always the customer's choice. If a new customer fails a credit check – a requirement for monthly or quarterly billing – suppliers insist on a prepayment meter.

Suppliers can also force existing customers on to prepayment meters if they have a significant debt on their account and have not agreed a repayment plan.

(Source: *The Guardian*, Saturday 20 April 2013. Photo: EM Welch/Rex Features)