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Fuel firms set for £11bn windfall in CO2 trading

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Energy companies are set to scoop even bigger windfall profits from emissions trading than originally predicted, according to new estimates from the regulator Ofgem. Hard-pressed consumers could end up bankrolling most of this windfall through higher fuel bills.

The energy industry stands to make £11bn over the next five years, up from Ofgem's original estimate of £9bn. This is because carbon prices have risen since the beginning of the year, according to consultancy EIC. The industry insists that it makes no net profit from the scheme and rejects Ofgem's figures.

The European trading scheme was introduced to reduce industry's carbon emissions. Companies are given free permits giving them the right to emit a fixed amount of carbon. They have to buy additional permits on the carbon markets to pollute more, or pay a penalty.

But Ofgem claims that companies have been passing on the notional 'opportunity cost' of these permits to consumers, even though they received most of them for free. This is because using the permits to generate electricity deprives companies of the opportunity of selling them on the open market.

At the end of the year, the government will require companies to buy some permits, rather than receive all of them for free, which will reduce their profits from the scheme. This month The Observer revealed that the government was considering whether to use some of the proceeds to tackle fuel poverty.

Vince Cable, the Liberal Democrats' Treasury spokesman, said: 'My concern is over the very large packet of money the energy companies have made from the trading scheme, and the money is more than we thought before. The industry has been attacking Ofgem's numbers, and it's important the regulator defends them.'

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