Energy Bill Briefing: 2030 Decarbonisation Target

Rationale for setting a 2030 power sector carbon target by 2014

1. *Why a low-carbon power sector is good for UK competitiveness & growth*

Stable energy prices for businesses & consumers

- The price of energy paid by UK businesses has increased 58% since January 2010. A July 2012 Aldersgate Group survey[i] of 153 major corporates revealed:
  - Energy price rises at this rate for just another two years would cause 8% to go bankrupt and 31% to significantly restructure.
  - 91% of corporate energy users anticipate that energy prices will rise over the next 2 years. 77% attribute this to expected increases in fossil fuel prices.
- John Cridland (CBI's Director General) has warned the Government that too much reliance on gas as a future source of energy would leave consumers and businesses dangerously exposed to further sharp price rises on global markets[ii]. This is backed up by analysis from the Committee on Climate Change, showing that bill increases would be higher under a dash for gas scenario.[iii]
- A growing number of businesses are now calling for a national energy system that insulates them from future volatile price shocks associated with fossil fuels: even if this requires a slightly higher upfront investment.

Nurturing a growing export industry

- Over a third of the UK's growth in 2011/12 came from green business. Without it, the trade deficit in 2014/15 would be around double government's projections.[iv]
- Compared to a future power system that is more heavily dependent on gas, large-scale investment in offshore wind – just one low carbon technology – would impact positively on UK GDP (increases by 0.8% by 2030) and employment (over 100,000 additional jobs by 2025, falling to 70,000 additional jobs by 2030).[v]

2. *Why a power sector carbon target is needed to stimulate energy investment*

- Seven major technology firms that collectively employ over 17,500 people in the UK wrote to the Government in October 2012 and made clear that the lack of energy policy certainty was causing them to put billions of pounds of investment on hold.[vi]
- The Carbon Budgets, combined with Government's recently announced Levy Control Framework and the forthcoming Contracts for Difference should – in theory – provide the clarity needed to stimulate private investment in low-carbon generation.
- But a number of developments are seriously undermining the flow of investment:
  - Stipulating there will be a review of the 4th carbon budget in 2014 (opening up the possibility of making it less stringent, but with no clear criteria for doing so)
  - Grandfathering an Emissions Performance Standard of 450g/kWh out to 2045 – opening the door to unabated gas powered generation at a level that is inconsistent with meeting carbon budgets
  - Publishing a Government gas strategy which includes a scenario that is entirely inconsistent with meeting the fourth carbon budget

- These mixed signals from Government bring the 2020 fiscal "cliff edge" (end of the Levy Control Framework period) into sharp relief and make it difficult for investors to shape a clear business case for energy investments that have a 20-30 year lifetime.
- A legally binding 2030 power sector target (in line with advice by the Committee on Climate Change – 50gCO_2/kWh)[vii], is critical for clarifying Government's commitment to decarbonising the power sector and bringing forward the £110bn needed to renew the UK's energy infrastructure.

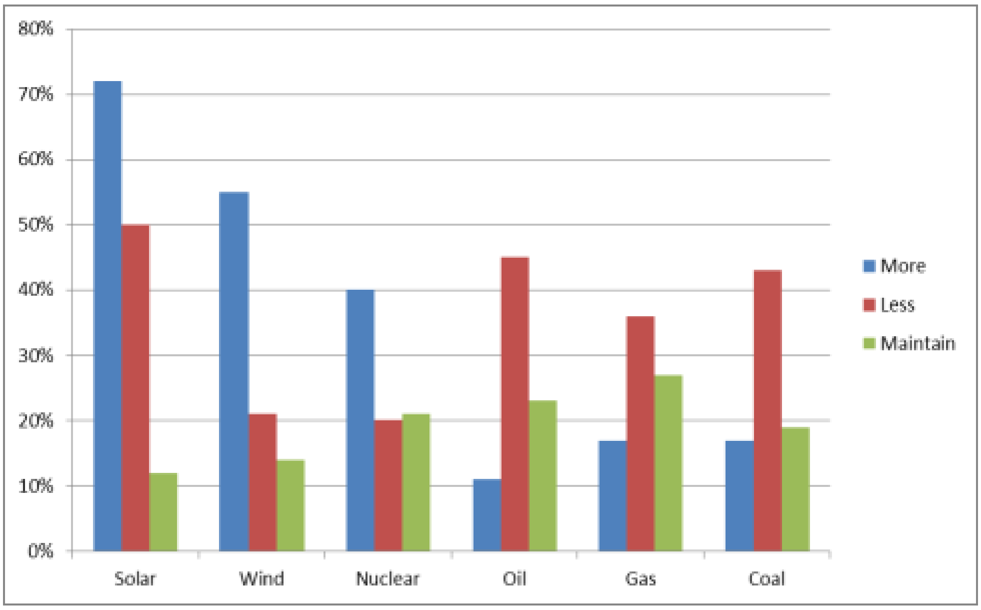
3. Why setting a power sector carbon target cannot wait until 2016

- Today's uncertainty about the UK's energy future is undermining private investment in vital infrastructure and wider economic growth.
- Prolonging this strategic uncertainty until 2016 and making it subject to the outcome of the next election risks: creating a 3 year hiatus in investment; causing the UK to lose competitiveness in low-carbon energy supply chains; and keeping the economy locked into increasingly expensive high-carbon energy.

4. Public opinion

- Polling consistently shows that low carbon energy investment has far greater public support than high carbon. YouGov Poll, October 2012, 1734 respondents:

Thinking about the country's future energy provision, do you think the government should be looking to use more or less of the following?



[i] http://www.aldersgategroup.org.uk/asset/download/769/1207%20Energy%20Strategy%202012.pdf
[ii] http://www.guardian.co.uk/business/2012/oct/14/george-osborne-dash-for-gas
[iii] http://www.theccc.org.uk/news/latest-news/1224-low-carbon-policies-provide-insurance-against-risk-of-high-costs-of-unabated-gas-fired-generation-13-december-2012
[iv] http://www.cbi.org.uk/media/1552876/energy_climatechangerpt_web.pdf
[v] https://docs.google.com/file/d/0B1cEvov1OlyHNFdCSDE4eUU4MDg/edit
[vi] http://www.tuc.org.uk/tucfiles/410/Business_letter_to_Ed_Davey.pdf
[vii] http://www.theccc.org.uk/news/latest-news/1222-ccc-says-early-decarbonisation-of-the-power-sector-should-be-plan-a-and-the-dash-for-gas-plan-z