

# UK policy on carbon markets – UK Carbon Price Floor & EU ETS



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# The UK Government's Vision



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*“...let me tell you this: there is a fourth minister, in this department, who cares passionately about your agenda, and that is me, the Prime Minister. And I mean that from the bottom of my heart. We’ve got a big, big opportunity, here. I want us to be the **greenest government ever** – a very simple ambition and one that I’m absolutely committed to achieving.”*

*– David Cameron speaking at the  
Department of Energy and Climate  
Change, 14 May 2010*

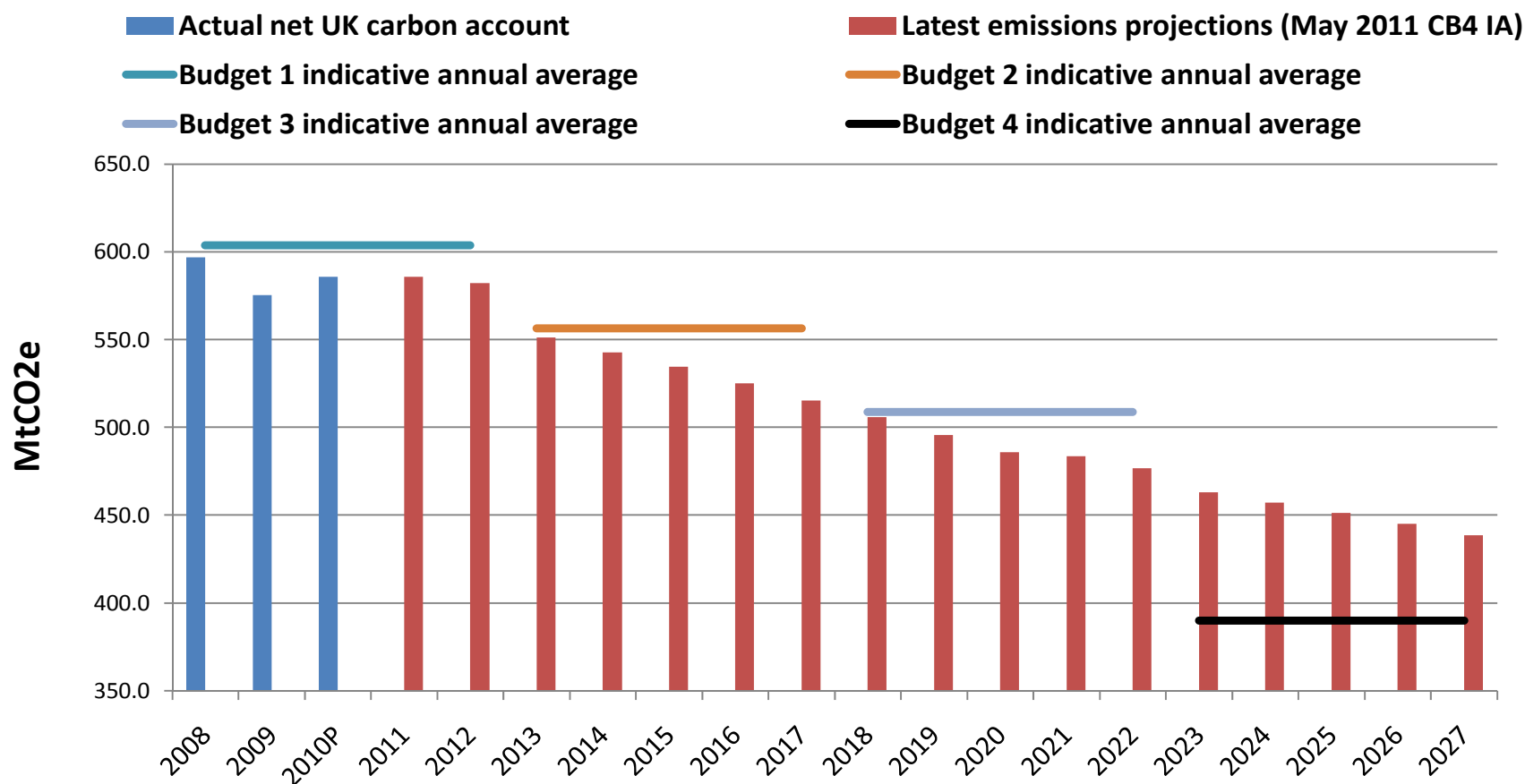
# UK Carbon Plan



- Published on 1 December
- Sets out how UK Government will deliver reductions to live within carbon budgets up to 2027 – delivering a 50% reduction on 1990 emissions – **as required by UK law**
- Sets out scenarios on how UK might deliver 80% by 2050 to help debate on future direction of policies – sets out range of scenarios
- [http://www.decc.gov.uk/en/content/cms/tackling/carbon\\_plan/carbon\\_plan.aspx](http://www.decc.gov.uk/en/content/cms/tackling/carbon_plan/carbon_plan.aspx)

# Position today – framed by Carbon Budgets

- Carbon budgets = cut of at least **34% in greenhouse gas emissions in 2020** (1990 levels) .
- 4th carbon budget (2023-2027) = 50% over the period relative to 1990 levels.
- **2050 goal = 80%**



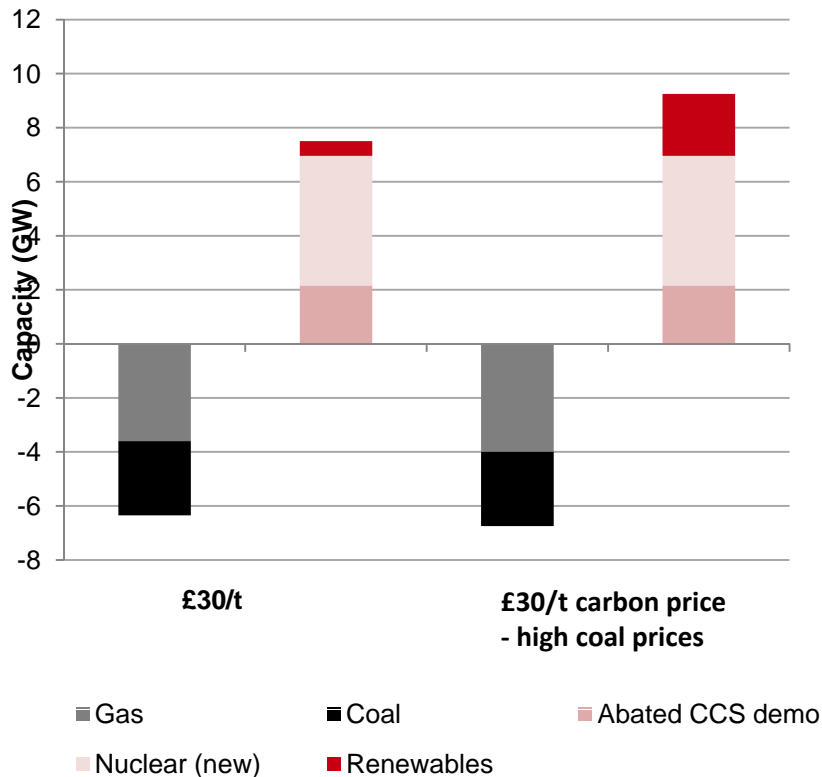
# Why a Carbon Price Floor



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- General Election campaign commitment by the Conservative Party and part of the Liberal Democrat/Conservative Coalition Agreement
  - Need to drive investment in low carbon UK energy generation and create carbon price certainty for investors
  - Coalition Government committed to light touch regulation and market based measures

# What is it designed to do?

Change in the capacity mix compared with the baseline in 2030



- Reduce investor uncertainty about carbon price.
- Put a fair price on carbon. Still significantly lower than carbon prices were in 2008.
- Provide a stronger incentive to invest in low-carbon generation now. As part of a wider package of reforms this will mean the UK has cheaper more secure supplies of electricity.

## Annual capex in GB electricity sector – range of estimates



To meet these objectives, the UK must encourage significant investment in low-carbon generation.

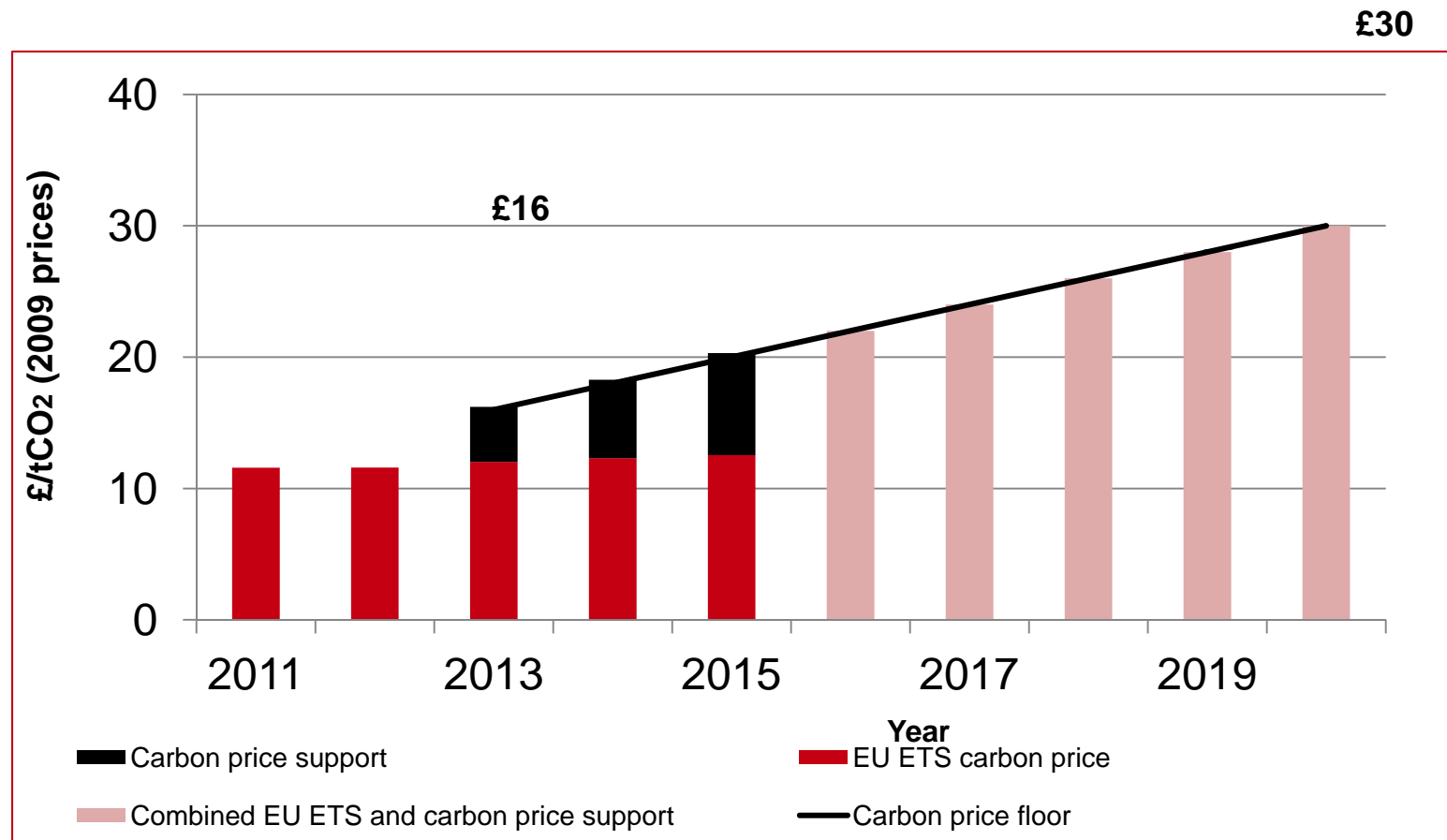
# How it works



- From 1 April 2013 supplies of fossil fuels used to generate electricity will become liable either to climate change levy (CCL) or fuel duty.
- Carbon price support rate will be applied to fossil fuels based on their carbon content.
- The rate will be determined by the average carbon content of each fossil fuel.
- The carbon price support rates for CCL and fuel duty to achieve the price floor reflect the differential between the future market price of carbon and the floor price.



# Budget 2011: the carbon price floor announced



# How the carbon price support rates are calculated



- Price floor for 2013 set in 2009 prices. RPI Inflation adjustment gives a 2013 price of £19.16/tCO<sub>2</sub>.
- Average forward carbon price for 2013 over 12 months before the Budget was £14.21/tCO<sub>2</sub>. (ICE-ECX exchange end of day settlement prices).
- **Difference of £4.94/tCO<sub>2</sub>**. This is used to calculate the tax rate for each type of fuel, based on DEFRA fuel emissions factors.
- Tax rates for 2013 set in Finance Act 2011 – indicative rates of £7.28/tCO<sub>2</sub> and £9.86/tCO<sub>2</sub> for 2014-15 and 2015-16.
- Tax rate for 2014 will be announced in Budget 2012 with indicative rates for the 15/16 and 16./17
- Future tax rates set annually for two years in advance to provide certainty over future price of carbon. Indicative rates are provided for the subsequent two years.

# Presentation of policy: impacts



**Allows swifter, cost-effective transition to low-carbon ambition, through a market-based solution.**

**More certainty increases investment in new low-carbon capacity (£30-40 billion by 2030).**

**Better deal for consumers and security of energy supply over the long term versus no action.**

# Thank you



## More information

HM Treasury website

[http://www.hm-treasury.gov.uk/consult\\_carbon\\_price\\_support.htm](http://www.hm-treasury.gov.uk/consult_carbon_price_support.htm)