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

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The UK Government's Vision

*"...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
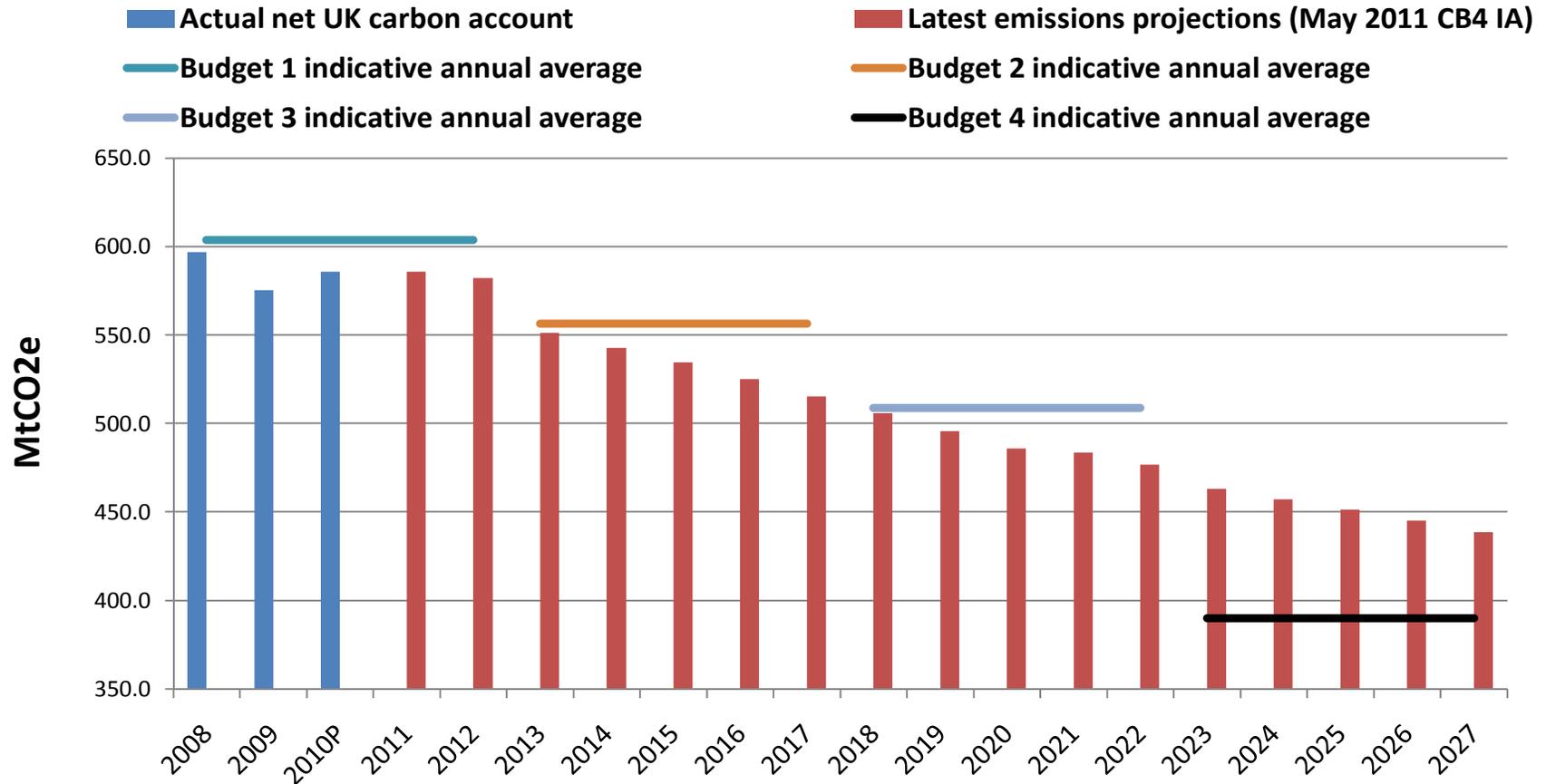
UK Carbon Plan

- 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

Position today – framed by Carbon Budgets

DEPARTMENT OF ENERGY & CLIMATE CHANGE

- 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.
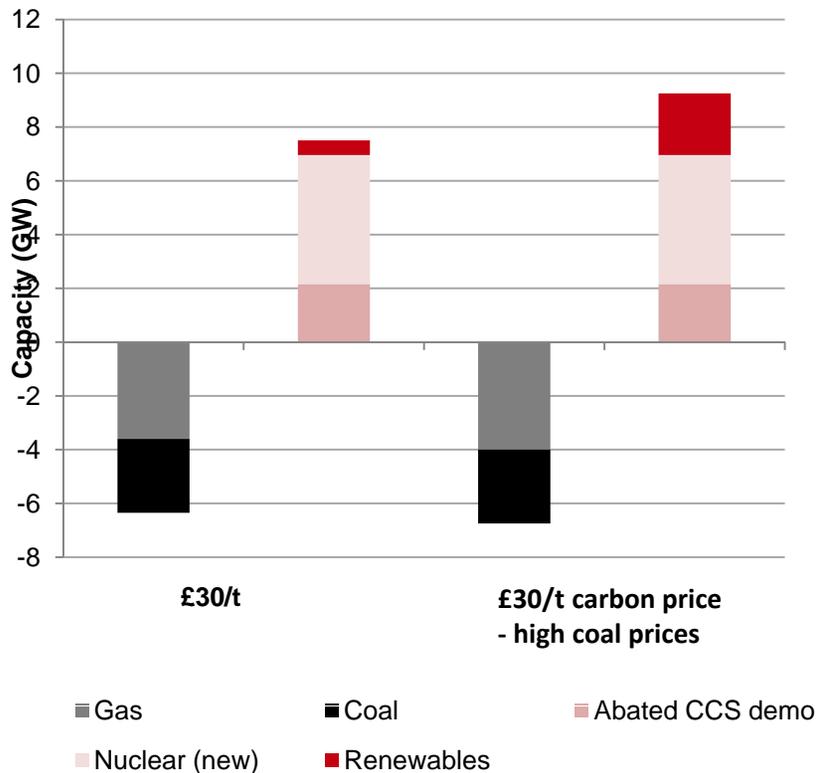- **2050 goal = 80%**

Why a Carbon Price Floor

- General Election campaign commitment by the Conservative Party and part of the Liberal Democrat/Conservatie 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

£ billion (2009 prices)

30
20
10
0

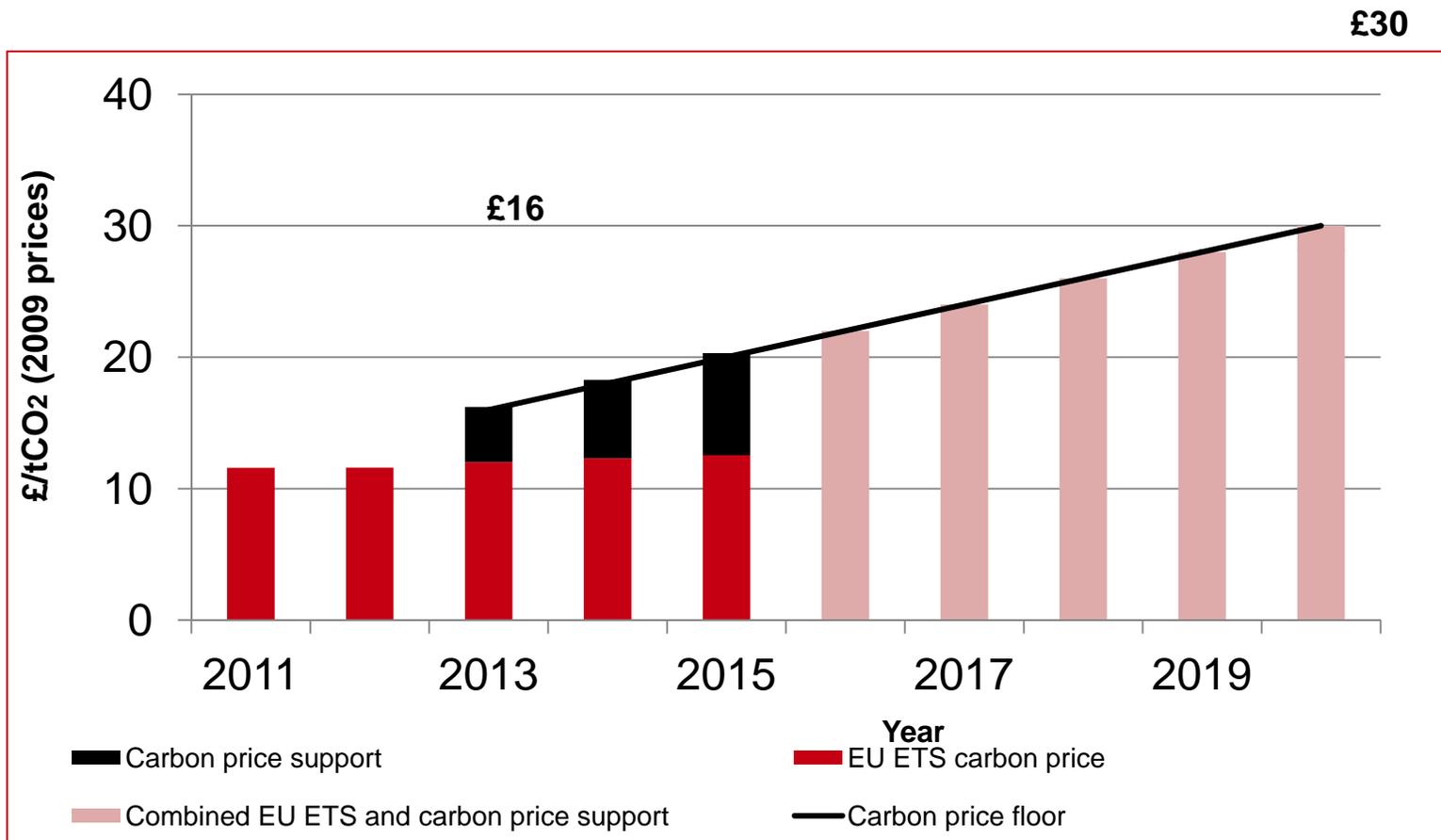1995 2000 2005 2010 2015 2020 2025 2030

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

How it works

- From 1 April 2013 <u>supplies</u> 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_2.

- Average forward carbon price for 2013 over 12 months before the Budget was £14.21/tCO_2. (ICE-ECX exchange end of day settlement prices).

- **Difference of £4.94/tCO_2.** 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 £7.28t/Co2 and £9.86/tCO2 for 2014-15 and 2015-16.

- Tax rate for 2014 will be announced in Budget 2012 with indicate 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