Minutes of CCC Meeting, 15/02/13

Present were John Deben, Sam Fankhauser, Brian Hoskins, John Krebs, Jim Skea, Paul Johnson, Julia King, David Kennedy

1. Electricity Market Reform update

The Committee has been closely involved in the Electricity Market Reform, first identifying the need for early power sector decarbonisation in the context of the 2050 target, then recommending the need to reform the market, the need for long term contracts in order to make low-carbon investments bankable, and the need for a carbon-intensity target to provide visibility for investors.

The Committee was briefed about latest developments in the Energy Bill (i.e. the enabling legislation for the Electricity Market Reform), which should now provide a good basis for making investment bankable, subject to resolution of some outstanding and detailed legal questions.

The Committee also considered the Government's December 2012 gas-generation strategy. This includes three scenarios for power sector development, spanning high levels of investment in low-carbon technologies through the 2020s to almost no investment.

The Committee's previous analysis shows that a failure to invest in low-carbon technologies through the 2020s and instead to invest in gas-fired generation is likely to increase future costs and risks.

Including such a scenario in the gas-generation strategy is unhelpful given the need to secure supply chain investment, and for development of new low-carbon investments.

The Committee agreed to send a letter to the Secretary of Stare highlighting concerns about the sector investment climate, and recommending that an amendment to the Bill which would result in setting of a 2030 carbon-intensity target should be considered to address these concerns.

The Committee also considered a request from the Shadow Secretary of State for Energy and Climate Change seeking its views on the Emissions Performance Standard. This is a potentially blunt instrument which could prevent unabated fossil fuel fired power generation, therefore reinforcing incentives for investment in low-carbon generation. However, the focus in improving the sector investment climate should be on setting a carbon-intensity target, with an Emissions Performance Standard as a possible back-stop.

2. Competitiveness implications of rising electricity prices for electro-intensive industries

The Committee considered analysis of carbon policies on electricity prices and profits of electro-intensive industries. The focus is on these industries because they are

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1st Floor,
7 Holbein Place,
London SW1W 8NR
Tel: 0207 591 6262 Fax: 0207 591 6180 www.theccc.org.uk

disproportionately impacts by such policies, and subject to competitiveness risks. The aim of the analysis is to understand the magnitude of potential impacts and of financial support required in order that competitiveness risks are mitigated. This is important in the context of the fourth carbon budget, where concerns were previously raised by the Government about competitiveness risks for electro-intensive industries.

The analysis includes estimates of electricity price impacts due to carbon policies in the UK and other countries. It translates electricity price impacts to profit impacts under alternative assumptions about ability to pass through costs. The analysis provides a range of financial support required in 2020 and 2030 to offset carbon policy impacts on electricity prices.

The Committee requested that a clear narrative for the analysis be provided to be published in the broader report on the UK's carbon footprint in April 2013.

3. *Carbon footprint report: policy levers to reduce the UK's carbon footprint*

The Committee has previously considered analysis of the UK's carbon footprint showing growth in recent decades such that the carbon footprint is now around 30% above territorial emissions due to carbon embodied in imports.

In this session the Committee considered levers for reducing the UK's carbon footprint

These include carbon footprinting and labelling of products, which the Committee felt would be of limited impact, except in a few cases where there is significant scope to reduce emissions through consumer choice. The Secretariat will aim to identify if there are any obvious products where this is the case.

The Committee also considered whether regulation could be useful in reducing the carbon footprint of products, and concluded that this may be the case for certain products such as air source heat pumps, where there is significant scope to reduce emissions associated with refrigerants.

The Committee agreed that there may be scope to reduce emissions in other countries and therefore the UK's carbon footprint through international carbon finance, although this impacts is likely to be small given the relatively small level of finance relative to required low-carbon investment.

The Committee considered border tariffs and agreed that while these should not be ruled out, these could be potentially costly if they were to result in trade wars, so any use of this instrument would have to be very carefully considered (e.g. costs could be reduced if blocks of countries were to agree to border tariff adjustments in the event that an ambitious global deal to reduce emissions is not achieved in a timely manner).

The Committee agreed that sector agreements could be useful in limiting competitiveness impacts for energy intensive industries and reducing the UK's carbon footprint, but questioned the mechanism by which these could be developed, and whether this would be under the auspices of the UN, or from industries themselves where these are sufficiently concentrated at the global level.

4. Scottish strategy to meet emissions targets

The Committee has been asked by the Scottish Government to consider whether current policies and proposals are sufficient to meet emissions targets, or whether additional abatement is likely to be required.

Analysis considered by the Committee suggested that emissions targets to 2020 will be very difficult to achieve unless the EU increases the ambition in its 2020 target, which would have the consequence of tightening the EU ETS cap, including at the Scottish level. Without such tightening, additional abatement would have to be found in order to achieve targets.

In the period beyond 2020, the analysis suggested that emissions targets are achievable if all policies and proposals were to be successfully implemented. The Committee noted significant challenges on both counts, and will reflect this in advice to the Scottish Government.

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