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Energy Bill: the case for a 2030 carbon intensity target

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Lord Oxburgh has tabled amendments to improve Part 1 of the Bill by making it a duty on the Secretary of State, clarifying the criteria to be taken into account, and bringing forward the target to 2014. WWF-UK urges peers to speak in favour of these amendments in Grand Committee on 2 July.

The 2030 carbon intensity target for the power sector

Part 1 gives the Secretary of State powers to set a decarbonisation target range for the power sector from 2016. This has failed to give comfort to investors because loose wording means there is no commitment to introduce a decarbonisation target – either now or in the future. At present Part 1 is problematic for five reasons:

1. it is only a power, not a duty to set a target;
2. the target, if set, would not have to be set in 2016 – this is just the earliest specified year;
3. the target, if set, would not have to be met by 2030 – this is just the earliest specified year;
4. there is no indicative range for the target, and there is no requirement to take into account guidance from the specialist advisory body, the Committee on Climate Change;
5. there is no clarity on how a target would interact with the wider EMR framework.

Lord Oxburgh's amendments aim to improve Part 1 by making the target a duty on the Secretary of State, clarifying the criteria to be taken into account, and bringing forward the target to 2014.

Background

The Committee on Climate Change (CCC) has repeatedly recommended early decarbonisation of electricity generation by 2030 as the most cost-effective path to meet the UK target to reduce greenhouse gas emissions by 80% on 1990 levels by 2050 under the Climate Change Act. This is not only technologically feasible but economically beneficial. In its latest report, the CCC found a near-zero carbon power sector could save UK consumers between £25 and £45bn compared to a high gas mix (which would also be incompatible with climate objectives). This rises to an estimated £100bn in the case of high gas and carbon prices.¹

The CCC has recommended that sector-specific targets are a valuable complement to the economy-wide carbon budgets, and has repeatedly recommended a 2030 target for the electricity sector. This 'decarbonisation target' has received very widespread support from many quarters, including the trade associations for nuclear, renewables and carbon-capture; the Energy and Climate Change Select Committee; major energy suppliers like SSE and EDF-Areva; supply chain companies and manufacturers such as Siemens, Gamesa, Alstom, Dong, and Mitsubishi; investors like RBS, Triodos, and the tacit support of the Green Investment Bank.

Attracting investment and maximizing economic benefits

The UK has the potential to reap huge economic benefits from this low carbon energy-related infrastructure investment, but greater political support and policy certainty are critical to creating an attractive investment context. In a highly competitive international market, the UK can ill afford to delay, and should be doing everything it can to attract some £200 billion in

¹ Committee on Climate Change, Next Steps on Electricity Market Reform, May 2013.

investment in energy infrastructure over the next two decades. However, policy instability and an investment hiatus mean the UK has slipped down the global rankings as companies hold off decisions until they have more clarity.² Already in 2012 General Electric, Doosan Power and Vestas shelved their plans for investment in the UK, which would have created thousands of new highly skilled jobs in parts of the country with low economic activity.

The UK's low carbon energy manufacturing supply chain holds the key to driving significant amounts of investment and GDP growth in the UK. According to the CBI, the UK's low carbon goods and services could have the UK's trade deficit by 2014/15, but warns too that lack of long-term policy certainty could result in the UK losing around £0.4bn in net exports by 2015.³

A recent report by Cambridge Econometrics found that if the UK were to invest steadily in offshore wind out to 2030 instead of relying on gas-fired generation, this would increase its annual GDP by £20bn by 2030, create 70,000 more net jobs, reduce UK gas imports by £8bn/year and produce power sector emissions that would be 3 times lower by 2030.⁴ Likewise, research by IPPR suggests that a 2030 decarbonisation target would not result in higher domestic electricity bills in 2030 and would play a key role in reducing their volatility.⁵

To harness these economic benefits, the Government must give longer-term certainty on UK energy policy now – not in 2016 – and an outlook beyond 2020.

The current package negotiated by the Coalition means that the UK is in a good position to meet its renewable energy target for 2020, but it offers very little policy certainty beyond 2020 and therefore risks creating a cliff edge for investment in new energy projects.

Investments in the low carbon energy supply chain, such as those currently being considered by Siemens in Hull and Gamesa in the Port of Leith, are not made on the basis of short term assumptions but require a clear market outlook well into the 2020s. Major infrastructure and capital investments work on longer investment cycles and need correspondingly longer, louder, legal signals. The less clarity there is on the minimum volume of orders that can be expected from project developers in the post-2020 period, the more investors will delay their investment in the renewable energy supply chain.

Conclusion

The Government has accepted that the target “would be useful and of value” and has only disputed its timing and process.⁶ WWF considers the delay in setting a target is damaging because it exacerbates the investment hiatus, increases investment risk, and damages the UK's chances of gaining economic benefits associated with the development of low-carbon infrastructure.

WWF urges peers to speak in favour of Lord Oxburgh's amendments in Committee on 2 July and vote for them at Report Stage in the Autumn.

WWF also recommends reading the following two short letters for more detail:

A letter to UK Government from Mitsubishi, Gamesa, Vestas, Alstom, Areva and Doosan (7 March 2013): http://www.businessgreen.com/digital_assets/6429/Industry_letter_-_2030_target_-_7_March_2013.pdf

The CCC's specific guidance to the Secretary of State on the decarbonisation target (25 February 2013): <http://www.theccc.org.uk/wp-content/uploads/2013/02/Ed-Davey-February13.pdf>

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² Ernst & Young, Renewable energy country attractiveness indices, February 2013.

³ CBI, The Colour of Growth: Maximising the potential of green business, July 2012.

⁴ Cambridge Econometrics, A Study into the Economics of Gas and Offshore Wind, commissioned by WWF-UK and Greenpeace, October 2012.

⁵ IPPR, Energy Pathways to 2030: An Overview of choices for the Government, February 2013

⁶ Energy Public Bill Committee, 5 February 2013; C.489.