



**HM Treasury**

**Consultation on Carbon Floor Price: support and certainty for low-carbon investment**

Response from BT

11<sup>th</sup> February 2011

# Consultation on Carbon Floor Price: support and certainty for low-carbon investment

## Introduction

1. This consultation is described as being about proposals to provide greater certainty and support to the carbon price. It is said to be aimed at helping to create more incentives for investment in low-carbon electricity generation. The consultation is aimed at companies and individuals involved in the generation and supply of electricity and/or the supply of fossil fuels used to generate electricity.
2. There is a parallel consultation on wider Electricity Market Reform, to which we will respond separately.
3. BT believes that in this consultation on the carbon price floor the Government has missed an opportunity to rethink incentives so as to provide consumers of carbon with the power and incentive to influence investments by suppliers using the usual market mechanism of exercising consumer choice through purchasing decisions.
4. In this response we confine ourselves to some basic principles rather than responding to the many detailed questions in the consultation, since those questions effectively pre-suppose a policy outcome which we think is flawed because it does not provide consumers with any real choice.

## Policy principles

5. For the UK to achieve its carbon reduction targets, as set out in the Climate Change Act 2008, a simple, effective policy framework must exist that encourages:
  - organisations to become more energy efficient;
  - organisations to develop their own low carbon self-generation schemes;
  - the market to supply organisations with the lowest carbon sources of energy; and
  - electricity generators to reduce the carbon intensity of energy generated.
6. BT believes that any policy changes should:-
  - simplify and consolidate tax and incentives to drive the low carbon economy;
  - ensure a long term commitment to the current FITs and ROCs schemes. Businesses cannot plan given the uncertainty arising from the many potential changes being discussed;
  - support the introduction of carbon reporting rules that are consistent across Europe and globally;
  - differentiate carbon emissions from different electricity sources of CO<sub>2</sub>, in order to incentivise generation of electricity from renewable sources; and
  - streamline the planning process at local level and encourage local authorities to work with local communities and promoters of developments to process applications faster.
7. Changes must be beneficial to both the Government and business alike and we propose a major simplification of climate change fiscal instruments such that:
  - revenues to the Exchequer are maintained;

- administrative overheads for both Government and business are significantly reduced;
- incentives to go for stretching energy efficiency targets are reintroduced; and
- renewable electricity is consistently and properly recognised.

### BT's proposal

8. We believe that:-

- the CRC and Climate Change Levy (CCL) should be merged, with the CRC allowance cost paid to the energy suppliers in the same way as the current CCL;
- the price of carbon in the combined scheme should be designed to ensure that there is no reduction in post-CSR revenue to the Exchequer;
- the proposed carbon floor price mechanism should be built into the new scheme; and
- the levy on electricity should be banded according to its carbon content. For example;

Electricity CO <sub>2</sub> Label		CO <sub>2</sub> / kWh	£/MWh
<b>A</b>	Renewable / zero carbon	0g	£4
<b>B</b>	Low carbon / CCS	<200g	£6
<b>C</b>	Gas CHP	<300g	£8
<b>D</b>	CCGT Gas	<400g	£9
<b>E</b>	UK Average / Gas	<600g	£10
<b>F</b>	Good Coal / Oil	<800g	£12
<b>G</b>	Coal	>800g	£14
<b>AVERAGE LEVY</b>			<b>£9</b>

9. This proposal is aligned to the carbon floor price in that it takes account of the carbon content of energy. By putting a levy on carbon at the demand or usage side of market, the Government would create greater leverage from the carbon floor mechanism. The Carbon floor as currently proposed will create a hidden cost that flows through to users, even though users have no choice as to the carbon content of their electricity supply - therefore missing the opportunity for buying decisions to be taken on the type of energy to purchase. These types of buying decisions will require board level sign-off and in most cases will create a long term commitment to purchase renewable energy, thus creating a demand side market driver that will support the Government's long term plans for low carbon energy generation.

10. BT believes that Government's current review of energy and carbon policy, alongside productive dialogue with business, represents an excellent opportunity to develop a simplified energy and carbon policy framework that will also enable the UK to meet its commitments to carbon reduction.

BT  
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