

Minutes of CCC Meeting - 08/05/09

Present were Adair Turner, Bob May, Jim Skea, Michael Grubb, Sam Fankhauser, David Kennedy

1. *Initial response to the Government's proposals for coal fired power generation*

The Committee welcomed the Government's proposal for a new financing mechanism to support up to four Carbon Capture and Storage (CCS) demonstration projects.

The Committee welcomed the proposed approach whereby any new conventional coal plant will have to retrofit CCS in the early 2020s once this is shown to be *technically* and *economically* viable.

The Committee highlighted the need to clearly define what is meant by economically viable, and that this should not be determined according to whether investments would be commercially viable at the prevailing carbon price.

The Committee noted that the Government will consult on whether a "safety net" is required in the event that CCS retrofit is not shown to be economically viable.

The view of the Committee is that such a safety net is a crucial pillar of the framework, and that a strong signal should be given to investors that the role for conventional coal fired plant beyond the early 2020s is very limited, notwithstanding any benefits of conventional coal hedging high gas prices / gas price volatility.

The Committee noted that the Secretariat will undertake further work on likely load factors of conventional coal plant through the 2020s in a carbon constrained world.

2. *Impact of the recession on carbon prices in EU ETS*

The Committee noted that the recession may have significantly changed the fundamentals of the carbon market over Phases II and III of EU ETS. This raises a concern for the Committee that the EU ETS will not drive the required investment in low carbon power generation. The ideal solution would be an EU carbon price underpin (e.g. through setting a reserve price in allowance auctions). In the absence of an EU underpin, an interim UK underpin (e.g. a carbon tax on a sliding scale with EU ETS price) should be seriously considered.

3. *Impact of the recession on availability of finance for renewable electricity projects*

The Committee considered the budget package aimed at supporting investment in

renewable electricity and:

- agreed that in principle this could be useful in supporting independent onshore projects and several large offshore projects seeking financial close over the next year.
- requested clarification on the details of EIB support for UK renewable electricity projects.
- suggested that the Secretariat should carry out a small number of interviews with the Big 6 energy companies and with independent project developers.
- noted a concern over whether there will sufficient financing available for offshore wind projects not covered by the double ROC multiple announced in the budget.
- agreed that further consideration should be given to the possibility of directed lending through state owned banks.

4. Trajectories for implementation of measures to improve energy efficiency

The Committee noted the ambitious energy efficiency targets proposed by the Government in the Heat and Energy Savings Consultation (e.g. to insulate all lofts and cavity walls by 2015).

Analysis undertaken by Element Energy suggests that supply will not be a constraint in meeting this level of ambition. Under current incentives / attitudes, however, Element Energy analysis suggests that it is unlikely that the Government will be able to deliver the ambitious targets that it is proposing.

The Committee agreed that a new policy framework with much stronger incentives – involving whole house / neighbourhood approaches - is required and agreed to discuss this in more detail at a future meeting.

5. Potential for transport emissions reductions through “scrappage” policy

Analysis presented by the Secretariat suggested that the Government’s proposed scrappage scheme could at best have a modest impact, temporarily reducing emissions on a UK inventory basis and reducing emissions less when accounting from a lifecycle perspective.

The Committee strongly agreed that in order to leverage environmental impact of a scrappage scheme, this should be linked to the purchase of more efficient cars (e.g. analysis presented by the Secretariat suggested that this could double the emissions reduction impact).

6. An enabling framework to support rollout of electric cars

The Committee discussed draft outputs from a study by AEA on the market for electric cars and concluded:

- There are a number of models which will be available on the market in the next several years.
- The up-front cost of these cars will be high relative to conventional cars.

- This provides a case for price support until costs come down and / or attitudes towards electric cars change.
- Electric cars are likely to be particularly attractive as second cars, with a potentially important role for Plug in Hybrid Electric Vehicles.

The Committee stressed the importance of battery charging arrangements and will discuss these at a future meeting.

7. Leading indicators for the transport sector

The Committee agreed a high level framework of leading indicators for the transport sector.

The Committee requested that there should be an indicator for battery innovation / electric car costs based on assumptions underpinning the Extended Ambition scenario.

The Committee proposed that the monitoring framework should include a commentary on low carbon technology innovation, both here and in other countries.

The Committee suggested that it would be difficult to set out in advance leading indicators for some key variables (e.g. size composition of new cars, vehicle occupancy, etc.), but that these should be monitored.

8. Summary of forward work programme for Scotland and Wales

The Committee acknowledged requests from the Welsh and Scottish devolved administrations under Section 38 of the Climate Change Act and agreed to:

Wales

- Provide data on abatement potential
- Assess the level of abatement potential relative to Wales' 3% annual emissions reduction target in sectors where there is devolved responsibility.
- Explain further the Committee's approach to emissions reduction through changed behaviour.
- Provide comments on the draft Welsh Climate Change Strategy.

Scotland

- Manage an assignment to produce Scottish emissions projections.
- Advise on the appropriate level of the Scottish traded sector cap.
- Advise on the appropriate methodology for inclusion of aviation and shipping emissions.
- Assess further based on work carried out by Scottish officials scope for reducing emissions in the non-traded sector.
- Advise in the use of CDM to meet the non-traded sector targets.