

Minutes of CCC Meeting, 05/06/09

Present were Adair Turner, Julia King, Jim Skea, Michael Grubb, John Krebs, Brian Hoskins, David Kennedy

1. *Power market arrangements to support generation decarbonisation*

The Committee were presented with answers to questions that they had previously posed (at the meeting on April 17th, 2009):

- The current arrangements induce policy risk due to carbon price uncertainty and targeting of high levels of intermittent renewables which would significantly increase electricity price volatility, strengthening incentives for investment in CCGT rather than (capital intense) low carbon generation.
- Under current arrangements it is likely that CCGT would set the electricity price for most of the time out to 2030.
- There are a range of options which could reduce the risk of investing in low carbon technologies (e.g. carbon price underpin, tendering for low carbon capacity, low carbon obligation, etc.).
- No other country has relied on liberalised electricity markets to deliver investment in low carbon generation.

The Committee concluded that there are significant risks to achieving decarbonisation of the power sector under current market arrangements. Given the importance of decarbonising power in the context of wider emissions reductions, the Committee agreed that a review of alternative arrangements should be undertaken.

2. *Overview of UK climate impacts based on UK CIP analysis*

The Committee were presented with an overview of analysis from the UK Climate Impacts Programme. This work aims to assess climate impacts for the UK from IPCC global scenarios.

The Committee noted that the analysis relates to do nothing scenarios that we do intend will ensue in practice. The Committee accepted the argument that UK CIP scenarios may therefore provide the basis for a contingency plan.

Use of UK CIP analysis in the context of the Climate Change Risk Assessment will be considered further by the Adaptation sub-Committee.

3. Options and scenarios for renewable heat to 2020

The Committee were updated on analysis contracted from NERA on options for investment in renewable heat generation. This analysis suggests that most of the potential is for investment in biomass heating in the commercial / industrial sectors, with some limited scope for investment in air source heat pumps and biogas.

The Committee requested that evidence on scope for air source heat pump innovation (e.g. on size, efficiency, cost) be presented.

The Committee asked that the possibility of locking in to biomass be considered, given the possibility that other options for investment in the 2020 may be more desirable.

4. Foundations for a new Supplier Obligation

The Committee considered policy options for delivering energy efficiency improvements in the residential sector.

The Committee agreed that current arrangements are not likely to be satisfactory going forward, and that a “whole house” and “neighbourhood” approach would be appropriate.

The preliminary view of the Committee was that this approach should be led by Government, possibly with central Government playing a high level strategic role, and local government in partnership with energy companies focusing on delivery.

The Committee requested the Secretariat to set out details of what this approach might look like in practice.

The Committee requested that an estimate of the annual investment costs required to deliver the whole house approach be provided.

5. Developing the power transmission network to support low carbon generation investment

The Committee were presented with an overview of issues around power transmission network access and investment to support increased levels of renewable generation.

The Committee noted debates on alternative access regimes and agreed that these largely relate to distribution considerations beyond the Committee's remit. The Committee agreed therefore that its focus will be on the timeframe for introducing a new regime rather than its detailed design, which should be such as to not present a barrier to renewable investment.

The Committee considered the emerging framework for investments to de-bottleneck and develop the transmission network. The key issue for the Committee is that these investments proceed in a timely manner to support investment in renewable generation. The Committee will not get involved in debates about the rate of return allowed by Ofgem on transmission investments, and whether or not these investments are made by National Grid or whether these are competitively tendered.

6. AOB

The Committee agreed to delegate the review and approval of the 2008-09 annual report and accounts to the Audit Committee (Julia King, Bob May, Sam Fankhauser, David Kennedy).