

UK Energy Policy

Last updated: 26 January 2012

UK energy policy is set by the Department of Energy and Climate Change (DECC). Current priorities for UK energy policy include cutting greenhouse gas (GHG) emissions from energy consumption and meeting energy demand ensuring the country has a secure and sustainable energy supply.

Climate Change Act 2008

The Climate Change Act was introduced in an attempt to improve carbon management and the transition to a low-carbon economy and to demonstrate the UK's commitment to reducing global GHG emissions.

Key provisions of the Act include the introduction of a legally binding commitment to reduce the UK's GHG emissions by 80% by 2050, and 34% by 2020, compared to 1990 levels. In line with these targets five year carbon budgets were introduced which cap carbon emissions at ever decreasing levels in order to gradually reduce emissions.

	Carbon Budget (MtCO ₂ e)	Per year (MtCO ₂ e)
2008-2012	3018	603.6
2013-2017	2782	556.4
2018-2022	2544	508.8
2023-2027	1950	390.0

Figures from DECC, Carbon Budgets:
http://www.decc.gov.uk/en/content/cms/emissions/carbon_budgets/carbon_budgets.aspx

The Act also created the Committee on Climate Change, an independent and expert body established with the intention of advising the government on climate change issues and appropriate levels for the carbon budgets.

Climate Change Levy

The Climate Change Levy (CCL) is a tax on the use of energy by the industrial and commercial sectors, excluding the domestic and transport sectors. It was introduced in 2001 with the aim of improving the energy efficiency of industry and to

reduce GHG emissions. All revenue made through the CCL is returned to affected industries through a 0.3% reduction in National Insurance contributions, which is supposed to offset the addition of the CCL to energy bills.

Electricity generated from new renewable sources and the fuel input for combined heat and power generation are exempt from the CCL, but nuclear energy is included. Different rates of tax are charged on different sources of energy, with electricity having the highest rate due to the significant amount of energy that is used in generating it, much of which is lost.

The impact of the CCL on the emissions of businesses is questionable and there have been repeated calls for it to be replaced with a fully fledged carbon tax. However this could encounter implementation difficulties such as political reluctance.

	Climate Change Levy (pence)	
	2011-12	2012-13
Electricity	0.485 per kWh	0.509 per kWh
Gas to be used in Great Britain	0.169 per kWh	0.177 per kWh
Gas to be used in Northern Ireland	0.059 per kWh	0.062 per kWh
Petroleum Gas	1.083 per kg	1.137 per kg
Other taxable energy, inc. coal	1.321 per kg	1.387 per kg

Figures from HMRC, Climate Change Levy:
http://customs.hmrc.gov.uk/channelsPortalWebApp/channelPortalWebApp.portal?_nfpb=true&_pageLabel=pageExcise_InfoGuides&propertyType=document&id=HMCE_CL_001174

Climate Change Agreements

In 2001, alongside the CCL, Climate Change Agreements (CCAs) were introduced to avoid energy intensive industries being excessively disadvantaged by the costs of the CCL. Energy intensive industries are those for which a significant proportion of their production costs consists of the energy they require to function, and as such they necessarily consume large quantities of energy in their production processes.

Under CCAs energy intensive industries are given the opportunity to receive up to a 65% (between 2001 and 2011 the maximum discount was 80%, and from 2013 it will revert to this level) discount on the CCL in exchange for agreeing to meet certain targets relating to energy efficiency or reducing GHG emissions.

There are two types of CCA: sector (umbrella) agreements, between DECC and the entire sector, and individual (underlying) agreements between DECC and individual operators. All CCAs set out targets, obligations of the agreeing parties and procedures for administering the agreements.

Between the base year and 2011, CCAs have saved a total of 28.5Mt of carbon dioxide per year, 10.5Mt more than the targeted level.

Figures from DECC, Climate Change Agreements:
http://www.decc.gov.uk/en/content/cms/emissions/ccas/cca_analysis/cca_analysis.aspx

Energy Act 2011

The Energy Act was introduced in October 2011 and aims to increase energy efficiency, secure low carbon energy supplies and improve fair competition in the energy markets.

The flagship element of the Act is the 'Green Deal', a new system of financing available for energy efficiency measures in homes and businesses. Those who improve the energy efficiency of their homes will be able to avoid an upfront cost by paying for the changes through their energy bills.

There are also obligations for private residential landlords to accept requests from their tenants for energy efficiency improving measures, and introduces a legal minimum of energy efficiency performance for rented properties, for which the landlords are responsible.

The effectiveness of the Act and its impact on the achievement of the carbon budgets is as yet unknown.

Carbon Price Floor

The Carbon Price Floor (CPF) was announced by the Government in the 2011 budget, to come into effect on 1 April 2013. The CPF sets a minimum price for carbon dioxide emissions and is designed to reduce these emissions further than will occur through the EU Emissions Trading Scheme (EU ETS), which the Government expects to be ineffective at encouraging investment.

The price floor is expected to reduce emissions from electricity generation by 263 MtCO₂e to 2030.

If the price of carbon is below the CPF, EU ETS participants in the UK will be required to pay an amount to the Government, increasing their costs compared to EU counterparts. It aims to encourage investment in renewable energy, including nuclear power.

Supplies of fossil fuels used for electricity generation will be charged at a relevant carbon price support rate for the type of fuel, which reflects the difference between the market price of carbon and the floor price determined by the government.

From 1 April 2013 the carbon price support rates will be equivalent to £4.94 per tCO₂, rising to £30 per tCO₂ by 2020.

The CPF is likely to cause increases in the cost of electricity and consumers' bills.

Figures from HMRC, Carbon Price Floor:
<http://www.hmrc.gov.uk/budget2011/tiin6111.pdf>