



The Royal Academy
of Engineering

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Martin Shaw
Environmental Taxes
HM Revenue and Customs
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Ralli Quays
3 Stanley Street
Salford, M60 9LA

11 February 2011

Dear Mr Shaw

Re: carbon price floor consultation

The Royal Academy of Engineering is supportive of the Government's efforts to reform the electricity market in the UK and recognises the importance of the proposals to introduce a carbon price support mechanism. After consulting with Fellows of the Academy with experience in the energy sector and our colleagues in the Institution of Engineering and Technology (IET), the Institution of Civil Engineers (ICE) and the Institution of Chemical Engineers (IChemE) it was decided that the level of economic detail raised in the consultation was outside our specific area of expertise. The Academy and the engineering institutions are, however, planning to respond in greater detail to DECC's Electricity Market Reform consultation. In the meantime, there are some general points of importance that we would like to make, to inform the overall consultation.

Increased confidence in a mechanism to support the price of carbon is essential to encourage investment in low-carbon generating technologies. It is clear that the EU Emissions Trading Scheme (ETS) is not providing a sufficiently robust carbon price signal and additional support is required. There are, however, several issues worth highlighting:

- The final mechanism must provide long-term confidence for investors in low-carbon technology. Previous Government support mechanisms or penalties have, on occasion, been subject to unexpected revisions. This increases the financial risks and has a detrimental effect on the Government's credibility with investors.
- The mechanism must be compatible with the complete raft of proposals to reform the electricity market.
- With the carbon support mechanism only being applied to the electricity market there is a danger that it could have unintended consequences in the heat and transport markets which are inextricably linked via their reliance on fossil fuels.



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- The UK unilaterally introducing a carbon price floor may have unwanted effects if the marginal price difference with the wider EU ETS price becomes significant. It could have a direct effect on electricity interconnections with Europe and could also have knock-on effects for UK industry due to relatively higher energy prices compared to EU competitors.

Clearly, the final details of how the scheme will function will be crucial. However, the scale of investment required in the UK electricity sector is so huge that any mechanism that increases confidence for investors and aids delivery of the required infrastructure is to be supported. This is particularly true for low-carbon technologies which are generally capital intensive and long-term.

The Academy, the IET, ICE and IChemE are therefore supportive of the Government's plan to introduce a carbon price floor and with its wider proposals to reform the UK's electricity market.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'B. Parkin', with a large, stylized initial 'B'.

Ms Beverley Parkin
Director of Policy and Public Affairs