



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Mr Peter Lilley MP
House of Commons
London
SW1A 0AA

27 September 2013

D. Peter,

IMPACT OF THE CARBON PRICE FLOOR ON EXISTING LOW-CARBON GENERATION

Your query about the impact of the carbon price floor on revenues for existing low-carbon generators has been passed onto the Treasury.

My officials have been working closely with officials from the Department for Energy and Climate Change who have recently completed analysis on this issue.

The analysis shows that:

- Existing nuclear facilities are estimated to receive total additional revenues of between £1.0bn and £2.6bn over the period 2013 to 2020 (in net present value terms).
- Existing renewable generators will receive total additional revenues of between £0.9bn and £2.6bn over the period 2013 to 2020 (in net present value terms).

This range reflects the degree of uncertainty around future EU carbon prices. Therefore these figures represent an upper and lower band and should be seen as indicative only.

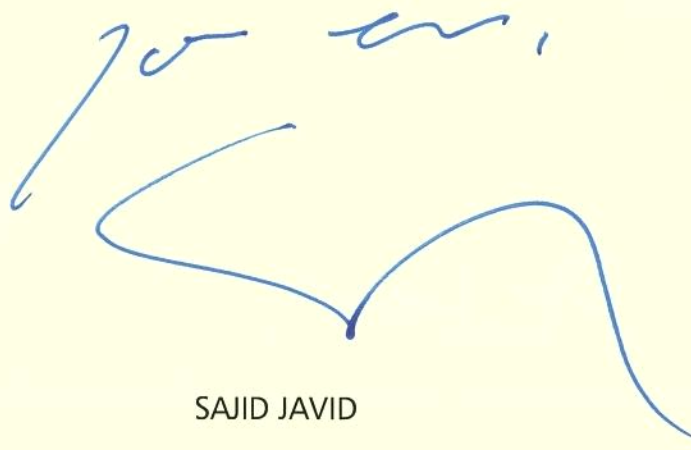
These figures are higher than those released in 2011 as a result of falling EU carbon prices. However this has been offset by a reduction in revenue to existing low-carbon from the EU Emissions Trading Scheme. Therefore overall UK low-carbon generators are no better off now than forecast in 2011.

If the EU ETS system was pricing carbon effectively, then the estimated revenues accruing to nuclear and renewable plant operators would be the same as they are under the CPF.

The CPF does not promote any specific technology, as it taxes all fossil fuels based on their carbon content and allows the market to decide on the most cost-effective mix of electricity generation, rather than Government.

The price floor helps to rebalance economic incentives in the power sector away from high-carbon generation. All types of low-carbon technologies – nuclear, renewable as well as efficient gas-fired electricity generation – will be incentivised by the price floor.

I am copying this letter to the Secretary of State for Energy and Climate Change and the Chair of the Energy and Climate Change Committee.

A handwritten signature in blue ink, appearing to read 'Sajid Javid', is written above the printed name. The signature is fluid and cursive, with a long horizontal stroke at the top and a large loop that descends and then curves back up.

SAJID JAVID