

Rt Hon Philip Hammond MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London SW1A 2HQ

Dear Chancellor,

We are writing to you as a coalition of power generators to urge you to maintain a strong Total Carbon Price (TCP) and resist any reduction in the Carbon Price Support (CPS) rates at the upcoming Budget. This is crucial whilst there is still uncertainty about the UK's future participation in the EU ETS as maintaining a no-change position in CPS would provide much-needed certainty to power generators over the coming period.

The UK's carbon price has been fundamental to delivering a 75% reduction in coal use since 2013<sup>1</sup> by providing an economic incentive for lower carbon and renewable generation to replace coal fired generation on Britain's power system.

In setting a strong carbon price, the UK has become a leader in global efforts to meet the Paris Agreement ambition through the Powering Past Coal coalition, and we have made great strides towards meeting our domestic carbon budgets. Going forward, a strong TCP will be the cornerstone of delivering the ambition set out in the Government's Clean Growth Strategy, while providing billions of pounds in revenue to HM Treasury.

At the Budget last year, the Government stated that the TCP was set at the right level and committed to targeting a similar TCP until unabated coal comes off Britain's power system. At the time, the TCP was around £25/tonne. While that level was sufficient at the time to ensure lower carbon generation ran ahead of coal, a shift in commodity markets has reversed this incentive. Today, at certain points in the day, it is more economic to run coal ahead of gas, which has resulted in a 15% increase in CO<sub>2</sub> emissions from the power sector – an extra 1,000 tonnes of CO<sub>2</sub> every hour.<sup>2</sup>

Any increase in emissions from the power sector puts pressure on harder to decarbonise sectors such as heat, transport and industry to reduce emissions faster as the headroom in our carbon budgets diminishes. As a result, costs to consumers, industry and government will ultimately rise.

Furthermore, it is still uncertain as to whether the UK will participate in the EU ETS beyond March 2019, or in phase IV. As part of the TCP is derived from the EU ETS, it would be premature to change CPS rates in the Budget given that the details of EU exit will not be known. If the UK does leave the EU ETS then CPS rates will need to be adjusted to maintain the TCP.

As responsible partners to Government, we share your ambition for an electricity system free from unabated coal fired electricity by 2025. So far, we have invested significantly in the technology and capacity needed to achieve this and we stand ready to do more. However, to achieve this, it is imperative that the Government resist any cut to the TCP, including through reducing the CPS rates, at the upcoming Budget.

We believe that a strengthening TCP remains the most cost-effective route to meet our international and domestic climate ambitions, as well as delivering a power system free from unabated coal while incentivising investment in lower carbon generation capacity to keep our energy system secure.

We are at your disposal to discuss the matter further.

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<sup>1</sup> <https://www.carbonbrief.org/analysis-uk-carbon-emissions-in-2017-fell-to-levels-last-seen-in-1890>

<sup>2</sup> <https://www.drax.com/energy-policy/electric-insights-coal-comeback-pushes-up-uk-carbon-emissions/>

Yours sincerely,



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CC: Claire Perry MP, Minister of State for Business, Energy and Industrial Strategy