The Future of Climate Policy

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http://www.eprg.group.cam.ac.uk
Policy advice

- Rudd states security is No 1 priority
  - ensure energy remains “backbone of our economy”, while we transform to a low carbon system
  - *not breaching LCF* is critical => scrap on-shore wind support
=> Usual perverse concern over debt not asset creation
- Current energy/climate policy still a mess – alphabet soup of charges (all deemed taxes by ONS) and subsidies
  - HMT does not advise, only implements
    - Longest serving HMT civil servant has been there 5 years
- NAO good at criticizing poor policy (FIDeR contracts)
- CCC avoids giving sensible policy advice to achieve goals
  ⇒ Could usefully suggest policies that work better elsewhere
- Redress balance between innovation and deployment
UK Electricity R&D intensity

- ROCs
- other power
- hydrogen and fuel cell
- nuclear fission and fusion
- Renewables
- fossil fuels
- Total ESI R&D (estimate)
Breakdown of 2012 support by type of intervention

Tiny share of R&D compared to production and demand support

Ecofys 2014
Improving policy

• Auctions and CfDs could have avoided LCF breach
• Long-term contracts lower WACC (CfDs by 3% real)
  => Nuclear power: procure, then auction operation
• public funding for RES *makes sense*
• levying RES costs on consumers *makes no sense*
• There are good economic and public finance principles to guide reform
  ⇒ raise energy VAT to 20%
  ⇒ Transfer all other eco charges to general taxation
EU Energy subsidies 2012 & reduced rate VAT

Figure S - 3  Interventions per Member State in 2012 (in million €2012)
Note: The EU-level intervention refers to interventions financed by the EU and not by individual Member States.
Reforming domestic energy taxes

Breakdown of consumer electricity bill 2015

Increase by £87

Reduce by £71