



**Department of Energy and Climate Change**

**Electricity Market Reform**

Consultation response from BT

10<sup>th</sup> March 2011

# Electricity Market Reform

## Summary

1. BT believes that in order for the UK to meet its carbon reduction targets, and deliver security of supply to the UK energy network, a simple, effective policy framework must exist that encourages:
  - ☐ organisations to become more energy efficient;
  - ☐ organisations to develop their own low carbon self-generation schemes;
  - ☐ the market to supply organisations with the lowest carbon sources of energy; and
  - ☐ electricity generators to reduce the carbon intensity of energy generated.
2. BT believes that any policy changes should:-
  - ☐ Simplify and consolidate tax and incentives to drive the low carbon economy. If the proposed Carbon Floor Price was implemented there would be four different costs of carbon in the UK (the Carbon Floor Price, Carbon Reduction Commitment, Climate Change Levy and the EU Emission Trading scheme). This level of complexity is not conducive to delivering carbon reductions. Often, energy management teams spend significant amounts of time complying with Government regulation, rather than focussing on reducing energy consumption in their business.
  - ☐ Ensure a long term commitment to the current FITs and ROCs schemes. Businesses cannot plan given the uncertainty arising from the many potential changes being discussed.
  - ☐ Ensure carbon reporting rules are consistent across all UK legislation, as well ensuring alignment with reporting practises in Europe and globally.
  - ☐ Differentiate carbon emissions reporting and taxation from different electricity sources of CO<sub>2</sub>, in order to incentivise generation of electricity from low carbon sources from the consumer side of the electricity market. BT strongly believes that the current framework, as well as the EMR proposals, effectively dismiss the impact that the consumer side of the energy market can play in transforming the UK electricity mix.
  - ☐ Streamline the planning process at local level and encourage local authorities to work with local communities and promoters of developments to process applications faster.
3. Changes must be beneficial to both the Government and business alike and we propose a major simplification of climate change fiscal instruments such that:
  - ☐ existing instruments are simplified or merged;
  - ☐ revenues to the Exchequer are maintained;
  - ☐ administrative overheads for both Government and business are significantly reduced;
  - ☐ incentives to go for stretching energy efficiency targets are reintroduced; and
  - ☐ renewable electricity is consistently and properly recognised across all policy instruments.

## BT's Proposal in detail

4. We believe the Government's carbon reduction goals could be supported if more companies made a commitment to source renewable and low carbon energy from

suppliers. Energy suppliers would thereby be encouraged to invest in greater capacity to fulfil this demand.

5. One way to help stimulate the creation of a clear market for renewable and low carbon energy would be to introduce an A-to-G colour-coded label on all electricity sold in the UK. Such a system has worked successfully in driving low carbon purchasing decisions in other markets such as white goods and vehicles.
6. An electricity label would provide consumers and companies with an easy way to identify the carbon content of the electricity they purchase, and would remove double counting between grid average energy and renewable energy. This would remove confusion surrounding green tariffs, and make the carbon emissions of different energy suppliers and products more transparent to consumers. It would also create an opportunity to combine the climate change levy and carbon reduction commitment into a more visible and easily understood A-to-G carbon levy, as is currently the case for A-to-G labelling on vehicles.
7. We believe that 'demand-pull' from consumers could play a key role in stimulating long-term investment to increase the supply of renewable energy in the UK. The Government could create this demand pull mechanism through implementing the following changes within the EMR:
  - ☐ The CRC and Climate Change Levy (CCL) are merged with the Carbon Floor Price, with the CRC allowance cost paid to the energy suppliers in the same way as the current CCL.
  - ☐ The price of carbon in the simplified scheme would be designed to ensure that there is no reduction in post-CSR revenue to the Exchequer.
  - ☐ The levy on electricity would be banded according to its carbon content. Tracking systems such as those used on the continent would be used to track the generation of electricity and its associated carbon content, ensuring a straightforward scheme that avoids the risk of double counting of CO<sub>2</sub> emissions.
8. Consumers would purchase electricity that is backed by a CO<sub>2</sub> label, giving the option to purchase from a low carbon source of electricity, and would report on CO<sub>2</sub> emissions using the emission factor on their CO<sub>2</sub> label. This would bring into play the consumer market pull for generators and suppliers to generate more low carbon electricity. For example;

Electricity CO <sub>2</sub> Label		CO <sub>2</sub> / kWh	£/MWh
<b>A</b>	Renewable / zero carbon	0g	£4
<b>B</b>	Low carbon / CCS	<200g	£6
<b>C</b>	Gas CHP	<300g	£8
<b>D</b>	CCGT Gas	<400g	£9
<b>E</b>	UK Average / Gas	<600g	£10
<b>F</b>	Good Coal / Oil	<800g	£12
<b>G</b>	Coal	>800g	£14
AVERAGE LEVY			£9

9. By putting a levy on carbon at the demand or usage side of market, the Government would create greater leverage from the Carbon Floor mechanism. The Carbon Floor

as currently proposed will create a hidden cost that flows through to users, even though users have no choice as to the carbon content of their electricity supply - therefore missing the opportunity for buying decisions to be taken on the type of energy to purchase. This type of buying decision will require board level sign-off and in most cases will create a long term commitment to purchase renewable energy, thus creating a demand side market driver that will support the Government's long term plans for low carbon energy generation.

10. Alignment and simplification of policy instruments in the UK will allow businesses to adopt a simplified approach to reporting publically on Carbon emissions and energy consumption. As a result of applying our proposals, mandatory carbon reporting could be adopted in a way that is easy to understand, and would reflect the true carbon content of electricity that an organisation generates or purchases. By mandating external company carbon reporting, BT believes that Government would maintain the board level engagement to reduce energy and carbon that is key to achieving continued progress against the UK's CO<sub>2</sub> reduction targets.
11. BT believes that Government's current review of energy and carbon policy, alongside productive dialogue with business, represents an excellent opportunity for Government to develop a simplified energy and carbon policy framework that will also enable the UK to meet its commitments to carbon reduction.
12. As always, BT would be happy to discuss its proposals with officials in more detail if that would be helpful.

*BT Group plc*

*10<sup>th</sup> March 2011*