

UK Energy Policy Far-Sighted or Misguided?

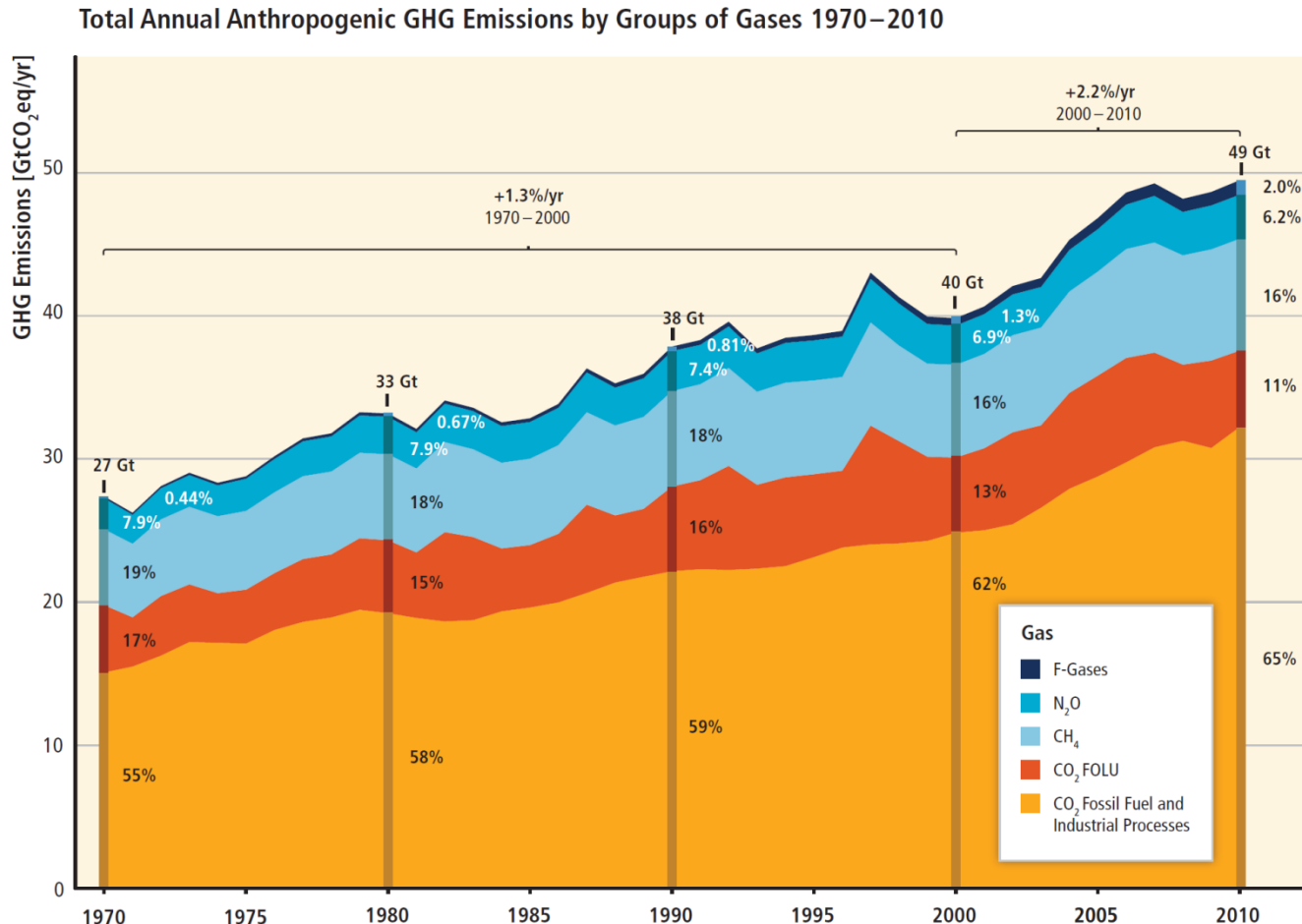
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Institute of Directors – 15th October, 2014

UK Energy Policy – Far-sighted or Misguided?

- Very broad subject – my focus today is on electricity generation policy.
- Issues such as new vehicle and space heating technologies are a separate discussion.
- Data used here is generally drawn from official sources: DECC; EIA, IPCC; IEA.
- UK policy is “wrapped” into EU law: -20%/2020; (-40%/2030).
- Kyoto has failed – essentially just EU, largely un-ratified and expires in 2020.
- Expectations are low for COP20 in Lima and Paris for 2015 “deadline”.
- Universally enforceable commitments on CO₂ are very unlikely

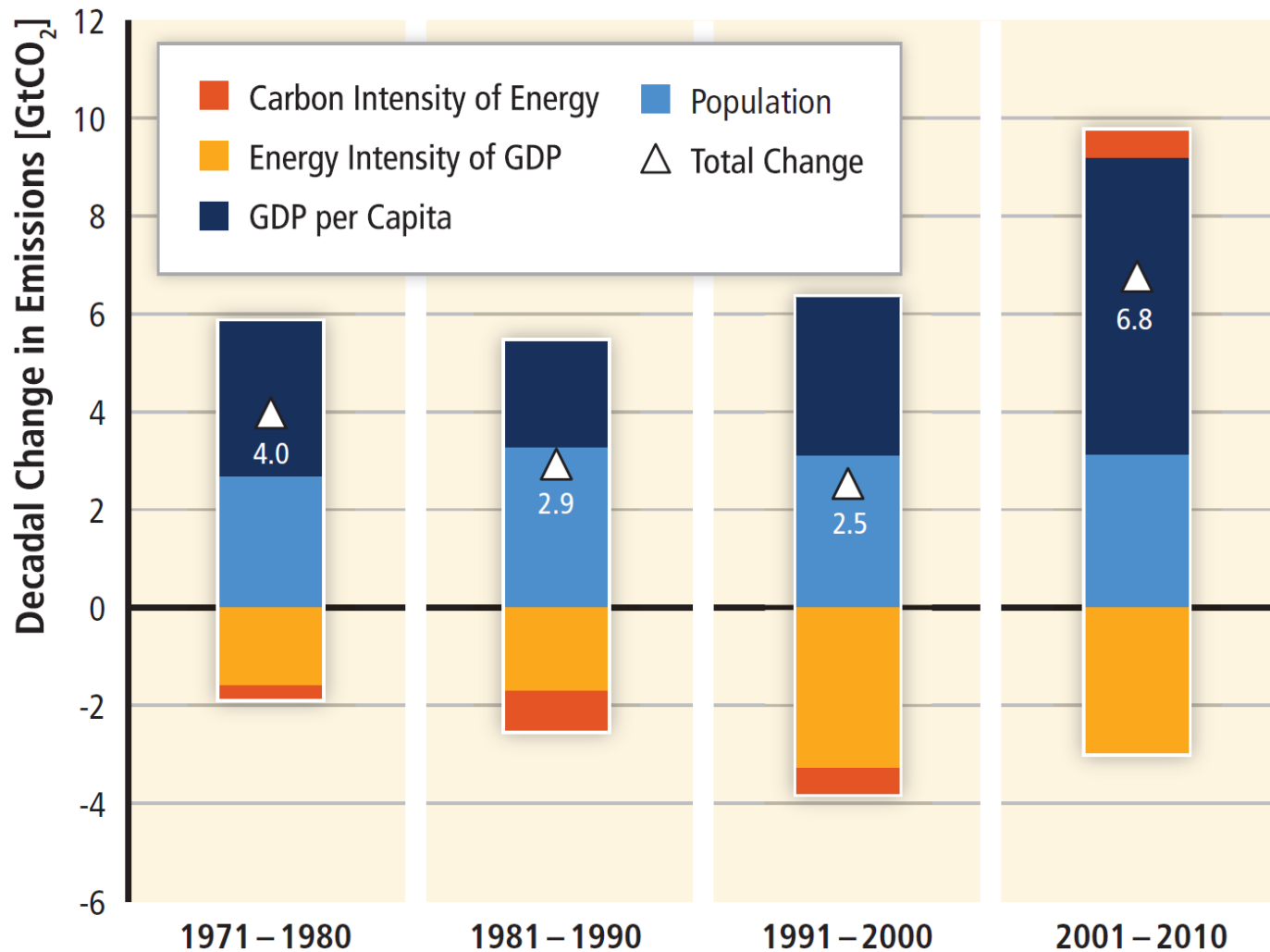
The Policy Starting Point – Greenhouse Gas Emissions



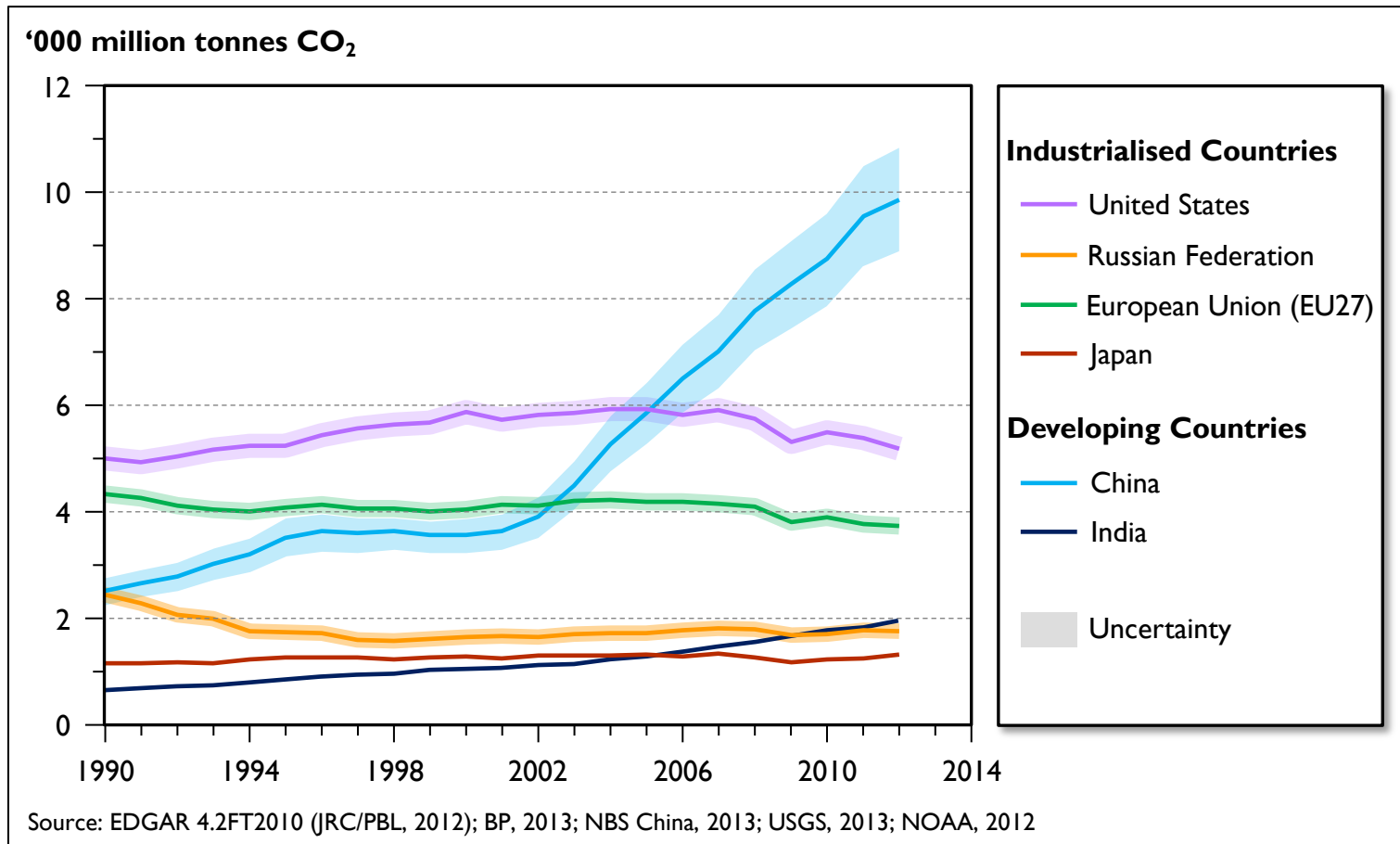
- 78% of increase in GHGs since 1970 from fossil fuels
- 54% of cumulative emissions since 1750 within the last 40 years

Developing World's GDP & Population Growth The Drivers

- Components of emissions trends since 1970:

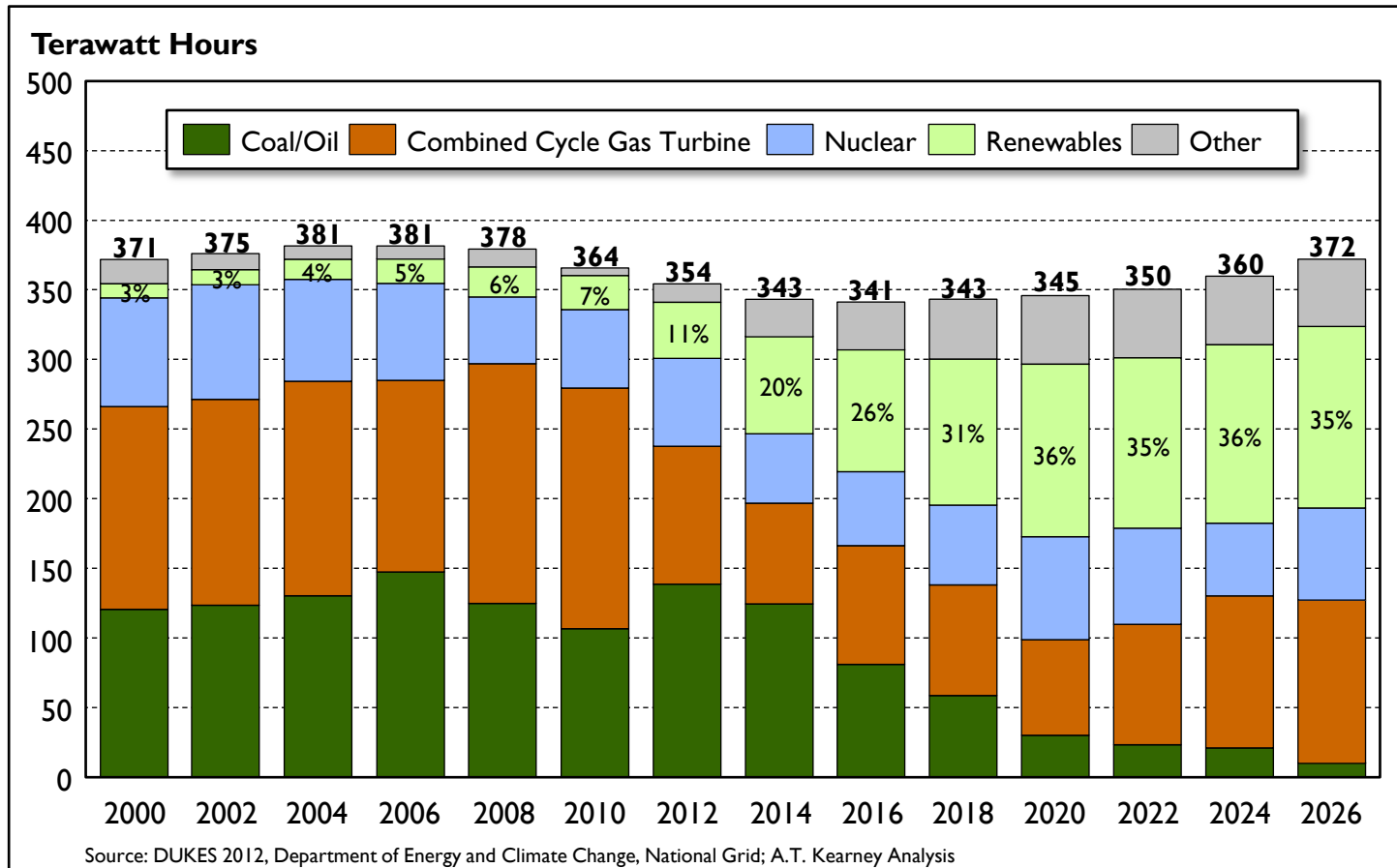


The Emissions Culprits



- In 1990 per capita Chinese emissions <25% EU equivalent – now equal
- Top 15 emitters = 74% global total – UK about to leave top 10
- ROW (180 countries) = 9.1 bln. tonnes = < China
- Few countries have meaningful carbon taxes – no level playing field

The UK Picture



- Using DECC costs and/or minimum guaranteed prices to fuel inputs gives a blended price of £104/ MWh in 2020
- Current spot price <£40/ MWh; probable blended input price c£60/MWh
- 75% price hike in 6 years = c12% compound **in real terms**

The Consequences

- Investment based on subsidies i.e. subject to political whim
- Industry to suffer comparative disadvantage vs. US and East Asia
- Unemployment
- Consumer (i.e. voter) backlash

The Alternative

- Dash for gas – shale development; North Sea tax breaks
- Slow coal phase-down – capitalise on weak import prices
- Suspend guaranteed price regime for renewables and nuclear
- Replace nuclear and renewables subsidies with tax-free status (15yrs)
- Accelerate research – hydrogen, clean coal etc.
- Establish statutory threshold for all “green” policies tied to global sign-up

Thank You

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