Rt Hon Danny Alexander MP
Chief Secretary to the Treasury

Rt Hon George Osborne MP
Chancellor of the Exchequer

Rt Hon Chris Huhne MP
Secretary of State for Energy

Rt Hon Dr Vince Cable MP
Secretary of State for Business, Innovation and Skills and President of the Board of Trade

Rt Hon Charles Hendry MP
Minister of State for Energy

11 Oct. 10

An Open Letter from
Prof. Paul Ekins, Prof. David Elliott, Dr Nick Eyre, Dr Tim Foxon, Prof. Jon Gibbins, Prof. Richard Green, Dr Robert Gross, Prof. Stuart Haszeldine, Prof. Matthew Leach, Prof. Catherine Mitchell, Dr Jim Watson

Don't let accounting rules damage effective low carbon policies

Dear Sirs

We are writing to voice our concerns about the uncertainty that appears to be emerging around key aspects of the Coalition's support for low carbon energy. Our expertise is in energy policy, with a particular focus on support for innovation and investment.

Newspaper reports suggest that DECC has settled its position in the Spending Review. There is also speculation that settlement may include cuts to policies such as the Micro-generation Feed in Tariffs and CCS Levy; policies that are not funded from taxation and can play no role in deficit reduction. It would be deeply regrettable if ONS accounting conventions damage policies introduced with all party support just a few months ago. Effective support for technology innovation and deployment will be essential to the Government's goals for 2050. It is perfectly legitimate to expect energy suppliers and users to bear these costs.

Proper scrutiny of the impacts of policy on consumers is essential[1], but treating these provisions as public spending is misleading. It is inconsistent with the 'polluter pays' principle and out of step with Feed in Tariffs elsewhere in the EU. The social costs of carbon and positive externalities of innovation are also absent from the public accounts. A fully consistent approach would set these social benefits against the costs of policies. Whilst interventions in the energy market can affect consumer incomes, they also incentivise investment and encourage job creation. In any case impacts on consumers are mixed, since plans for a Green Deal to reduce household bills also depend on these revenue streams. In short this is a complex, incomplete and rather philosophical nominal balance sheet and we believe that any use in the CSR should be cautious and mindful of its limitations.

Removing policies less than a year from inception risks damaging investor confidence. Numerous countries now have support schemes for renewable energy; treating such schemes as if they are publicly funded increases perceptions of political risk. Since international investors seek schemes designed to minimise political risk this may drive investment away from Britain. Perceptions of political risk may extend beyond these policies

1 Protecting the vulnerable and maintaining UK competitiveness are legitimate concerns beyond the scope of this letter. Neither concern should provide justification for obfuscation between public funding and consumer/industry levies /regulatory requirements.

to encompass related measures, such as the Renewables Obligation. This would hinder innovation and delay the development of UK capacities in emerging technologies.

We are not arguing that UK energy policies cannot be improved or that spending on low carbon innovation should be immune from spending cuts. However, the time to seek improvement should be the published schedule for review. In our view, accounting rules should not undermine support for innovation and policy reform should not be rushed. The UK is in the midst of a wider process of energy market review/reform expected to have profound impacts on investment in low carbon technologies. It is damaging to investor confidence to start tinkering with individual policies in the meantime.

We would be more than happy to discuss or elaborate on any of the above and look forward to your responses.

Yours sincerely,

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