

Edward Davey MP  
Secretary of State  
Department for Energy and Climate Change  
3 Whitehall Place  
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27<sup>th</sup> March 2012

Dear Ed

This letter responds to the recent DECC announcement about the Emissions Performance Standard (EPS) for gas-fired power generation. The EPS would allow unabated gas-fired generation from new plant through to 2045.

The approach set out in the announcement could be compatible with power sector decarbonisation required to meet carbon budgets, but also carries the risk that there will be too much gas-fired generation instead of low carbon investment.

- Our scenarios for reducing power sector emissions from current levels of 500 gCO<sub>2</sub>/kWh to 50 gCO<sub>2</sub>/kWh in 2030 include investment in around 10 GW of unabated gas-fired power capacity over the next two decades, resulting in total gas-fired capacity of around 30 GW in 2030. This would play an important role generating at low annual load factors (e.g. less than 10% on average in 2030) to balance intermittent renewable generation.
- The Electricity Market Reform (EMR) should bring forward low-carbon investments through a combination of Contracts for Differences and the carbon price underpin, in which case gas-fired generation in 2030 would be limited to this balancing role.
- However, there is a risk that a greater role for gas-fired generation would be allowed under the announced EPS, and would ensue if there were limited investment in low-carbon generation. For example, if the 30 GW of gas-fired capacity were to generate as baseload plant in 2030, this would raise average emissions to 200 gCO<sub>2</sub>/kWh (i.e. beyond the limits implied by carbon budgets).

In order to mitigate this risk, it is important that a clear decarbonisation objective is set for the EMR, and that a process is put in place to ensure that this objective is achieved. This would help to resolve some of the uncertainties that currently undermine the investment climate for low-carbon power generation.

We continue to focus on power sector decarbonisation and will publish new analysis reinforcing the case for early decarbonisation in our forthcoming progress report to Parliament (June 2012).

Yours sincerely

A handwritten signature in black ink, reading "Adair Turner".

Lord Adair Turner  
Chairman, Committee on Climate Change