Dear Rt Hon Philip Hammond MP, Chancellor of the Exchequer,

CC. Rt Hon Claire Perry MP, Minister of State at the Department for Business, Energy and Industrial Strategy

In the October Budget, we urge you to maintain the Carbon Price Support (CPS) at least at the current level.

Despite price rises in the European Emissions Trading System - which have led to higher total carbon prices in the UK - the CPS is still required to keep the UK on track to power past coal.

Additionally, a stable UK carbon price will give business more certainty on low-carbon investment in the UK after Brexit, even in the event of a 'No Deal'.

Please see below for further detail:

- **Gas prices have increased - risking greater emissions from coal**.
  The CPS has been very effective at driving coal off the UK grid by improving the profitability of gas-fired vs. coal-fired electricity generation.[1] Given recent gas price rises, a higher total carbon price is now required to maintain this status quo. Sandbag estimates that a total carbon price in excess of £45/tonne is needed to prevent a resurgence of coal in 2019, falling to £40 in 2020 and £35 in 2021. The current UK total carbon price is ~£35/t (£18 UK CPS + £17 EU ETS).[2]
- **The EU ETS carbon price could yet fall**.
  Forecast rises in the ETS price are far from guaranteed. With other countries – even Germany – proposing coal phase-outs, emissions could fall faster than expected, leading to lower EU ETS prices and a resurgence of coal burn.
- **The IPCC SR15 report states that a carbon price of at least £100/tonne by 2030 will be required to keep warming below 1.5°C.**[3]
  If the Government is serious about its commitment to the Paris Agreement, now is not the time to consider lowering carbon prices, indeed it suggests they should be increased.
- **Avoiding an expensive capacity cliff edge in 2025.**
  Under the current CPS the UK looks set for a smooth path towards coal phase-out in 2025 - with only 2GW of coal capacity contributing to security of supply by 2021/2022.[4] A lower CPS could lead to an increased reliance on coal for subsequent years (through more aggressive Capacity Market bids). This would crowd out investment in cleaner technologies and leave a large capacity cliff edge in 2025[5] - which would be difficult and expensive to fill.
- **The UK's higher carbon price is a model for other countries considering more rapid action on coal**. The Netherlands has introduced a similar tax to support its legislated coal phase-out and Germany is contemplating a carbon floor price or a carbon tax for similar reasons.

We urge you to keep the Carbon Price Support at least at the current level in the October budget.

Signed

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[1] Why does the Carbon Price Support matter? (Sandbag, 2016)
[2] 'No Deal' Brexit will trigger a UK coal resurgence (Sandbag, 2018)
[3] IPCC SR15 (2-79)
[4] Coal To Clean (Sandbag, 2018)
[5] Unabated coal units will be unable to bid into the four- and one-year ahead Capacity Market auctions for 2025/26 delivery and beyond.

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