



## Global Compact Network UK

### Climate Action Q&A Surgery: Internal Carbon Pricing – Key Takeaways

On 30 March 2022, the UN Global Compact Network UK hosted a '*Climate Action Q&A Surgery: Internal Carbon Pricing*' session that featured guest speakers: Charlotte Challis, Principal Carbon Consultant, [Anthesis Group](#); and Steven Thompson, UK Sustainability Manager, [National Grid](#).

#### Key Takeaways:

- Internal carbon pricing (ICP) is a key tool that all companies should be considering to understand the true cost of their investment and operational decisions and how this affects their sustainability strategy and commitments.
- The main driver for implementing ICP derives from increasing expectations from customers and investors that companies have embedded carbon reductions in their operations and are demonstrably taking action to facilitate that change in an efficient and consistent way.
  - National Grid uses a combined ICP approach alongside other mechanisms, such as policy, to drive change within the organisation. Because ICP on its own is not always enough to push a reduction in emissions, it is important to use a variety of tools to achieve net zero.
- There are two main mechanisms for ICP: carbon fees or shadow pricing, the difference being whether money is actually taken from a part of the business once implemented. A carbon fee applies a levy to different activities (i.e., business travel), whereas a shadow price is only advisory and used to demonstrate the cost of carbon in decision-making.
  - The third is implicit pricing, which is a useful metric that should be understood regardless of which mechanism a company uses. It illustrates the cost of carbon to the organisation (e.g., £/tonne of carbon), which can then be applied to projects, offsets, tax risk, removals, etc.
  - These prices should not affect customers, as that indicates external carbon pricing.
- There is a lot of detail and nuance that goes into correctly setting up an ICP model. Because these mechanisms are flexible and can be used in many different parts of the business, it is critical to first understand the organisation's drivers and needs, issues around implementation and data, and how the ICP will be tested and updated, etc.
- National Grid's ICP strategy is influenced by the UK Government's social cost of carbon, which has been updated to £240/tonne of carbon, as outlined in the [UK Green Book](#).
  - Agreeing on an initial ICP to use can be a difficult task, but it can be helpful to use Government and other national regulatory prices and projections as a guide.

- Depending on where the business operates, a global or regional price can be used.
- Although interest in ICP is often led by senior management, there may sometimes be pushback. To generate internal buy-in, there are several components to consider:
  - Process and tools: how ICP can be incorporated into existing processes and avoid creating new ones, and what tools are required to facilitate its integration.
  - Training: employees understand the reasoning behind and process for using ICP.
  - Accountability: identify who is responsible for ICP and advocating for it in decision-making, investment conversations, etc.
  - Benefits: communicate the key benefits and challenges, including the simplicity, flexibility, and efficiency of ICP and how it can build business resiliency in a carbon-constrained world.
- Many common pitfalls can be avoided by viewing ICP as a change exercise (considering human behaviour) rather than a purely technical exercise.

Resources:

- [Anthesis Group: A Guide to Internal Carbon Pricing](#)
- [Carbon Pricing Leadership Coalition](#)
- [CDP's Carbon Pricing Corridors](#)
- [EU Emissions Trading System \(EU ETS\)](#)
- [Institute for Fiscal Studies \(IFS\): Tax policies to help achieve net zero carbon emissions](#)
- [National Grid: Responsible Business Charter](#)
- [UK Government: The Green Book \(2022\)](#)
- [World Bank: Carbon Pricing Dashboard](#)