



## Newsletter – August 2009

### UK's Low Carbon Plan:

## Changing to a Low Carbon Economy

The UK Low Carbon Transition Plan and related documents provide a welcome boost to the clean energy sector. It is helpful to see the different strands of the policy and strategy brought together in this way.

What still remains to be seen is how this policy may fair in the uncertainty of the current economic climate. Funding for project and capital finance is scarce and therefore innovative funding solutions are required.

### Low Carbon Transition Plan

This White Paper on energy and climate sets out how the Government plans to reach its renewable energy targets, including the target to achieve emissions cuts of 34 per cent on 1990 levels by 2020, in line with the requirement to cut carbon emissions by 80 per cent by 2050 as contained in the Climate Change Act 2008.

The Government predicts that by 2020:

- Around 40 per cent of electricity will be from low carbon sources, from renewables, nuclear and clean coal
- More than 1.2 million people will be employed in green jobs
- The UK will importing half of the amount of gas that it otherwise would
- 7 million homes will be involved in energy saving schemes, and more than 1.5 million households will be supported to produce their own clean energy
- The average new car will emit 40 per cent less carbon than at the present time.

Key points and steps from the White Paper are as follows:

- For the UK to obtain 40 per cent of its electricity from low carbon sources by 2020 with policies to produce around 30 per cent of electricity from renewables by 2020 by increasing the requirement on electricity suppliers to sell renewable electricity. The Government is also going to launch the Office of Renewable Energy Deployment within DECC to make this change happen and speed up growth of renewable energy in the UK.
- Helping make the UK a centre of green industry by supporting the development and use of clean technologies, including up to £120 million investment in offshore wind and an additional £60 million to cement the UK's position as a global leader in marine energy.
- The Government will fund up to four demonstration carbon capture and storage ('CCS') plant from current coal power stations.
- All major UK Government departments have been allocated their own carbon budget and must produce their own plan.
- Ofgem should help tackle climate change and ensure security of supply.
- To make homes greener by channelling approximately £3.2 billion to help households become more energy efficient by increasing the current programme by 20% and extending it to the end of 2012.
- To roll out 'smart meters' in every home in the UK by 2020.
- Piloting 'pay as you save' ways to help people make their house greener and introducing clean

energy cash back schemes, so that people and businesses will be paid if they use low carbon sources to generate heat or electricity.

- Opening a national competition for 15 cities, towns and villages to be at the forefront of pioneering green innovation.
- Piloting a community based approach to delivering green homes in low income areas.
- Increasing the level of 'Warm Front' grants so most eligible applicants can receive their energy saving measures without having to contribute payment themselves.
- Transforming transport by cutting average carbon dioxide emissions from new cars across the EU by 40 per cent.
- Producing a formal framework to tackle emissions from farming.
- Producing a longer term roadmap for the transition to a low carbon UK between 2020 to 2050, which will be published next spring with a paper outlining a vision for a smart grid.
- The Government does however estimate that such climate change policies detailed above and in the various July 2009 papers outlined below will have the effect of adding an average of an additional 8 per cent to all household bills.

## Low Carbon Industrial Strategy

This paper aims to ensure that UK businesses and workers are equipped to maximise the economic opportunities and minimise the costs of the move to a low carbon economy

It sets out a series of activities that the Government will take to support the industries identified as being critical to help tackle climate change.

Some key points from this paper are:

- It includes the most up-to-date breakdown of the £405 million low carbon money as announced in the Budget 2009, including: £120 million for offshore wind; £60 million for wave and tidal energy; £15 million for civil nuclear energy; £10 million for low carbon vehicles; £6 million for renewable construction; £14.5 million for renewable chemicals and £4 million for low carbon manufacturing. £175 million is currently left unallocated.
- An innovation investment fund will be set up and the Government promised that it would contribute £150 million of initial capital. The fund will invest in growing, technology-based businesses with high growth potential, including in the low carbon area, that require equity finance. The aim is to leverage additional private sector investment with the hope of building this into a fund of up to £1 billion over the next 10 years.
- A further £50 million of funding for the Technology Strategy Board to increase its capacity to support innovation in areas such as low carbon vehicles and buildings which have high potential to drive future growth.
- Funding for the CCS demonstration competition will be £90 million.
- Up to £6m to start development of a 'smart grid', including a policy road map next year.
- The Government is to establish Low Carbon Economic Areas, the first of which is the south-west region of England to focus on marine energy. Other areas will focus on offshore wind, nuclear, CCS, marine and low carbon technology vehicles.
- The establishment of the new Office for Renewable Energy Deployment and new Office for Low Emission Vehicles was announced.
- The Government will spend £6m building 60 demonstration low carbon homes.
- 'Infrastructure UK' is to be established as a new body to consider longer term strategy for infrastructure investment.
- £375m will be allocated to energy efficiency measures, including an additional £100m to be dispensed in interest free loans to SMEs through the Carbon Trust.

## Renewable Energy Strategy

This paper is aimed at describing how the Government intends to meet its target under the Renewable Energy Directive

15 per cent of the UK's energy consumption by 2020 is to be by way of renewable energy sources, and it

follows the consultation that took place last year.

This paper sets out how the Government intends to increase its financial support to the renewable energy industry as well as speed up planning procedures for renewable energy projects, for example, by the Infrastructure Planning Commission which is to be set up under Planning Act 2008. This will facilitate projects in England and Wales from 50MW onshore and 100MW offshore

A few key points are:

- By 2020, the split between the amounts of renewable energy produced between the sectors is anticipated to be: 12 per cent from heat; 30 per cent electricity and 10 per cent from transport.
- Put in place the mechanisms to provide financial support for renewable electricity and heat worth around £30 billion between now and 2020.
- A new Office for Renewable Energy Deployment will be set up. It will be part of DECC and work with central government, and local and regional authorities.
- The strategy is estimated to create £100 billion in investment opportunities and half a million jobs. Further details on the European Investment Bank money that was announced in the UK's 2009 Budget are due to be released soon.

## Consultation on Renewable Electricity Financial Incentives

This consultation seeks views on two mechanisms to provide financial incentives for the generation of low-carbon and renewable electricity; the Renewables Obligation ('RO') and feed-in tariffs ('FITs') for small scale electricity.

### RO Proposals

The RO is currently the main financial support scheme for renewable electricity in the UK.

In order to ensure that the RO stimulates deployment of new renewable generation to the extent needed to meet the UK's 2020 target for renewable energy, the Government plans to make certain changes to the RO by means of the next Renewables Obligation Order ('ROO') which will come into effect on 1 April 2010. In summary, these are:

- Extension of the life-time of the RO to at least 2037
- Introduction of a 20 year limit on support under the RO (projects commissioned before 26<sup>th</sup> June 2008 will receive ROCs to 2027) Removal of the 20 Renewable Obligation Certificate ('ROC')/100MWh limit in the RO
- Retention of the existing fixed targets until 2015/16, with a headroom only mechanism after that date
- An increase in the level of headroom from 8 per cent to 10 per cent
- Opening up the RO to include renewable generation outside the UK that meets specific criteria to help meet the UK's EU target in the most cost effective way, and consulting on whether to introduce, at a later date, a mechanism to reduce or remove the risk of fluctuations in the wholesale price of power (and possibly the ROC price).

### FIT Proposals

These are:

- 2 per cent of electricity supply expected to come from renewables under the FIT
- Schemes installed from the 15<sup>th</sup> July 2009 will qualify for FIT/RHI payments
- The proposal of a flat tariff structure (as opposed to a tiered tariff)
- Energy efficiency will not be a pre-requisite for payment of FITs
- A fixed payment for every kWh generated and a guaranteed minimum export price
- Eligibility rules will be the same as under the RO (with the exception of schemes less than 50kW)
- All generators of less than 50kW will have to come under the FIT. Generators between 50kW and 5MW will have a one-off choice of whether to choose the FIT or RO, and

- The tariff levels are set on the basis of a 5 to 7 per cent rate of return.

There is also a section within the consultation that covers aspects that overlap between these two incentives and other policies relating to small-scale renewable electricity. As with the changes to the RO, these proposals are contingent on obtaining State Aid approval from the European Commission and parliamentary approval. The deadline for responses to this Government consultation is 15<sup>th</sup> October 2009.

For further information please contact EcoCentroGen on 0203 178 8159 or [info@ecocentrogen.com](mailto:info@ecocentrogen.com)