



STOP PRESS - FIRST PART OF CLIMATE CHANGE PACKAGE AGREED

On 9 December 2008 EU Member States finally reached agreement on the EU Renewable Energy Directive, originally proposed on 23 January 2008. Some compromises were inevitable and perhaps the most notable is the ability for Member States to co-operate in order to meet their individual targets.

The Directive, part of the Climate Change Package, imposes legally binding targets for energy from renewable sources, with an overall 20% share of renewables in the energy mix in the EU by 2020. The UK's share will be 15% and this equates to approximately 35% of electricity to be sourced from renewable sources. This is an ambitious and extremely challenging target considering that the UK's current share is only in the region of 1.8%. Not only are there questions about the capacity of the renewables industry but the incentive

mechanisms are still to be finally worked through. In addition, a recent House of Lords Select Committee Report highlighted again the less favourable economics of renewable energy compared with conventional generation and voiced concerns that the Government's drive to meet the renewables target would leave the UK with significant intermittent generation therefore threatening the security of supply objective. The Report also urges the Government to look to other measures, in particular renewable heat and nuclear and coal fired (with carbon capture and storage) generation.

Adoption of the Directive, by the EU Parliament, which is expected shortly, coupled with the coming into force of the Energy Act 2008, paves the way for the reforms of the UK's Renewables Obligation ("RO"), including the banding of the

obligation, the introduction of feed in tariffs for microgeneration and the introduction of a renewable heat incentive. The fine detail is still to be ironed out but the adoption of the Directive means that the industry can move forward now with some certainty around the EU framework.

The Directive also sets the target of 10% of transport fuel to be sourced from renewable sources by 2020 and the UK Government's consultation on the reforms to the Renewable Transport Fuel Obligation ("RTFO") is currently ongoing, closing on 17 December.

In the first quarter of the new year we can look forward to the publication of the Renewable Energy Strategy, and the reforms of the RO and the RTFO coming into effect.

The rest of the Climate Change Package is still under discussion, with the reform of the EU ETS, and particularly the proposals to make non-energy intensive industries purchase allowances from 2013, proving to be the most difficult aspect on which to reach agreement.

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