



ENERGY BULLETIN



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HAVE YOUR SAY - RENEWABLE ENERGY

The Renewable Energy Strategy Consultation closes on 26 September 2008 - don't miss your chance to make your views known.

On 26 June 2008 BERR published the 283 page Renewable Energy Strategy consultation (the "Consultation"), seeking views on the measures that should be adopted in the Renewable Energy Strategy ("RES"). The RES will be published in early 2009 and will outline the steps needed to enable the UK to meet its share of the EU 20% by 2020 renewable energy target. It will also address security of supply issues.

The UK's obligation is likely to be to achieve 15% of the UK's energy consumption from renewables, compared to our current 1.5%, by 2020. Energy consumption for these purposes comprises electricity generation, heat production and transport. The Government is looking to the private sector to deliver on this challenging commitment. Given the low potential for renewables within the heat and transport sectors, a 15% commitment means that 30-35% of UK electricity will have to be derived from renewable sources.

The RES will supplement measures already progressing, including the Transmission Access Review, the Climate Change Bill, the Energy Bill, the Marine Bill, the Planning Bill and the proposals on carbon capture and

storage. Alongside the RES will run the nuclear programme and continued investment in low carbon conventional power stations, any new ones having to be at least "carbon capture ready".

To encourage the take up of renewables, a number of incentive mechanisms are already in place. These include the NFFO (now abolished but with existing arrangements continuing in force until their expiry) and the regime for exemption from the Climate Change Levy. The main mechanism, however, is the Renewables Obligation, which requires electricity suppliers to source an increasing percentage of supplies from renewable sources and acts as a stimulus for the purchase of renewable obligation certificates from renewable generators.

As mentioned, the Consultation focuses on the three primary uses of energy - heat, electricity and transport. The Government is not saying how much of the 15% should come from each of these uses, but is looking to the markets to determine that. With such a reliance on the private sector, it is crucial that Government gets its incentive mechanisms right to enable the private sector to adequately assess the risks and rewards.

Can we be confident that the legislative and regulatory framework is sufficiently stable for the private sector to invest? Already, the

10% by 2020 biofuels target looks likely to be watered down, and agreement of sustainability criteria is proving challenging.

Not only will the introduction of renewable energy sources help to save the planet from the effects of global warming, it will also be a massive boost for the currently flagging UK economy. It is estimated that up to 160,000 jobs could be created in the renewable industries and that total investment of £100bn will be required.

The Key Provisions:

Saving Energy

The obvious starting point for reducing carbon emissions from energy usage is to reduce energy demand and to make more efficient use of energy. Since the renewable target is a percentage of the energy we use, reducing consumption will make it easier to achieve the target.

Measures introduced already to reduce demand include the EU Emission Trading Scheme, the Climate Change Levy, the Carbon Emissions Reduction Target and the zero carbon buildings initiative. Furthermore, in 2010, the Carbon Reduction Commitment will come into force, and in 2011 it is proposed that a "Suppliers Obligation" (an incentive mechanism to develop 'energy services' markets) will be imposed.

Energy efficiency is the subject of a separate Bulletin in this series, please click [here](#).

Centralised Electricity

As mentioned, it is expected that electricity will be the major contributor to meeting the UK's 15% target, with as much as a third of UK electricity expected to come from renewable sources by 2020 - a tall order when currently only around 5% is generated from renewable sources.

Wind power is expected to be the key growth area, both offshore and onshore. Biomass, hydro and tidal, including possibly a Severn barrage, are also expected to make a major contribution.

The Consultation sets out the key barriers to the development of renewable generation, including planning and grid access issues. Planning difficulties are being addressed through the Planning Bill and the Marine Bill, with numerous other initiatives also underway. Grid access is being addressed through BERR and Ofgem's work on the enduring access regime, as reported in the Transmission Access Review Final Report, please click [here](#). In addition, the draft EU Renewable Energy Directive obliges Member States to ensure that network owners give priority access to renewables projects, a measure which the UK is resisting, arguing that other measures being put in place make such an obligation unnecessary.

The proposals on centralised energy will be the subject of a separate Bulletin in this series.

Heat

Heat currently accounts for 49% of the UK's

energy demand and 47% of our carbon emissions. The Consultation is seeking views on the potential measures to increase renewable heat generation in the UK and to facilitate the market for renewable heating technologies and fuel. At the present time renewable heat in the UK accounts for only 0.6% of demand. In particular, the Government is considering a "Renewable Heat Incentive", designed to provide a direct financial support to those installing renewable heat schemes (similar to a feed-in tariff). A "Renewable Heat Obligation", imposing an obligation on fuel suppliers to source a proportion of their supplies from renewables, is also under consideration.

Renewable heat is the subject of a separate Bulletin in this series, please click [here](#).

Distributed Energy ("DE")

DE is heat and power which is produced locally to where it is consumed. This includes site specific generation where a plant supplies, for example, a university campus or a housing or industrial estate, and microgeneration such as small scale wind turbines, solar and heat pumps.

DE is seen as a major potential contributor to the renewable energy target if utilised for community schemes, although the contribution at the current time is very low.

Not only could DE lead to a degree of energy independence within a community, home, university campus or business park, it could also bring the potential to generate income by supplying excess electricity into the grid and through the revenue generated by renewable obligation certificates.

However, further measures will be needed to make DE an attractive and cost effective alternative. At the householder level this

could include further changes to permitted development rights under the planning regime, and grants aimed particularly at the fuel poor.

DE is also a simple way to get across the message about energy efficiency and renewable energy. A wind turbine, solar panels or biomass heaters in schools will drive home the climate change message in a very direct way.

As with all new technologies, the financial incentives for DE, and microgeneration generally, are crucial to increased take up. In relation to renewable heat, two options are being considered; a Renewable Heat Incentive and a Renewable Heat Obligation, as mentioned above.

In relation to microgenerated electricity, the Renewables Obligation is the key incentive mechanism. However, this has not led to a significant take up of microgeneration and, in particular, is not a major consideration for householders. Recognising this, the Government, in its consultation on the reform of the Renewables Obligation, has proposed to double the level of the Renewables Obligation for microgeneration from April 2009. However, it seems likely that, to encourage more households and smaller community projects to invest in microgeneration, further financial support mechanisms will be needed, and thought is being given to what these may be. In the planning arena, the Planning Policy Statement on climate change expects planning authorities to set targets for decentralised renewable or low-carbon energy in new developments.

DE will be the subject of a separate Bulletin in this series.

Transport

It is clear that the transport sector is key in any policy framework for a sustainable policy on renewable energy.

Currently, the main source of renewable energy for transport is biofuels. However, the EU target of achieving 10% of transport fuel from renewable sources by 2020 is beset by difficulties, particularly agreement of sustainability criteria. Although the European Parliament has not yet admitted defeat, there seems to be a growing consensus amongst MEPs and others that the 10% target should be substantially reduced or dropped.

Transport will be the subject of a separate Bulletin in this series.

Bioenergy

Bioenergy is energy produced from the direct or indirect combustion of biomass material such as energy crops, wood and waste, and biogas. According to BERR's analysis, the least cost delivery of the 2020 renewable energy goals might require approximately 30% of the UK's renewable energy to come from bioenergy across the heat and electricity sectors.

The Consultation looks at biomass for electricity and heat, and summaries current policies to develop more reliable sources of biomass and to increase sustainable supply. Consideration is also given to the use of waste in a more effective manner, and how to facilitate the production and use of biogas. Since the Consultation was published, Joan Ruddock, the Waste Minister, has described anaerobic digestion as "extremely attractive" following a visit to a plant in Ludlow, Shropshire which converts food waste to

heat and electricity.

Further development of biomass technologies will be encouraged by the banding of the Renewables Obligation.

Bioenergy will be the subject of a separate Bulletin in this series.

Innovation

Unless innovation is encouraged, then the renewables targets are unlikely to be met. The Consultation seeks views on how continued research into, and development of, new technologies can be further encouraged. Principal amongst the measures being utilised is the Renewables Obligation, and it is hoped that the new banding arrangements will reward innovation and investment and bring to market as yet unproven technologies.

However, innovation in this new area creates challenges for business. Owners of new technologies are likely to be subject to UK and EU competition law as, being new, there are unlikely to be comparable competitors and so automatically they may be in a dominant position. The administrative burdens this imposes, together with the restrictions on licensing, make such technologies more difficult to exploit than would otherwise be the case. In the US this has been recognised, and SMEs with unique disruptive technologies are not subject to the restrictions imposed by equivalent US competition law.

Business Benefits

The move from high carbon fossil fuels to low carbon and renewable energy creates huge opportunities for business, and the Government is committed to maximising

these opportunities for UK industry. As mentioned at the beginning of this Bulletin, an estimated 160,000 jobs will be created in the UK in the renewable sector, and total investment of around £100 billion will be required to meet our targets.

Delivery

These days, Government sees itself very much as a facilitator and procurer rather than a deliverer. Consistent with this approach, the Government is of the view that its role is to set the policy framework, put in place the incentive mechanisms and lead by example but that it is the market that must provide the necessary investment. This is why the Consultation, and the RES which will be based on the responses to it, is so important'. The "market" must therefore make its views known. Ultimately, if the policies are misguided or the incentives turn out to be incorrectly calibrated or applied, it is not only consumers but the economy as a whole which stands to lose out on the cost savings and business opportunities presented by these ambitious renewables targets.

This Bulletin aims to update you on legal issues of concern or interest. It is not a substitute for taking specialist advice in individual cases.

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The major challenges, but probably also the major rewards, lie in the following areas:

1. Renewable heat and biomass, where the UK is starting from a very low base.
2. Wind power, because of the sheer scale of the investment needed to hit the targets. Wind generation capacity needs to increase by a factor of 10 over what it is today within the next 12 years.
3. Energy efficiency and reduced energy use, particularly at the domestic level where cheap electricity and gas has for many years made us immune as individuals to the cost of our consumption.
4. Encouraging innovation and making it easy and beneficial to export expertise.

So, what could scupper our good intentions?

1. Lack of funds and/or financial incentives for commercial investment and R&D, which is why the reform of the Renewables Obligation and, in the area of renewable heat, the introduction of new incentives, are crucial.
2. Planning - being tackled through the provisions of the Planning Bill, the Marine Bill and the recent Memorandum of Understanding signed by BERR, BWEA, the CAA, and the MOD (amongst others).
3. Grid access - being addressed through the follow on work to the Transmission Access Review, please click [here](#) to view the bulletin
4. In relation to microgeneration, a lack of information and advice for consumers.
5. In relation to transport, consumer appetite for electric, hydrogen and dual fuel vehicles and agreement of biofuels sustainability criteria.
6. Lack of knowledge of, and access to, the various funding schemes and grant programmes.
7. In relation to wind energy, particularly offshore, supply chain issues ranging from shortages of turbines to shortages of barges

Measures and initiatives linked to renewable energy:

- Energy Bill - which, amongst other measures, will introduce a regulatory framework for carbon capture and storage projects, strengthen the Renewables Obligation, and introduce measures to implement a new regulatory framework for offshore electricity transmission networks
- Climate Change Bill - which, amongst other measures, will set legally binding targets for the reduction of UK carbon emissions
- Marine Bill - which will introduce, amongst other measures, a simpler licensing regime for offshore windfarms
- Transmission Access Review
- Renewable Obligation - which requires electricity suppliers to source a specified and increasing proportion of their electricity from renewable sources or pay a buy-out price
- Review of the Renewables Obligation - announced in the 2007 Energy White Paper and now being consulted upon (this will be the subject of a future Bulletin)
- Renewable Transport Fuel Obligation - which mandates the increased use of biofuels in the transport sector
- Offshore wind - a third round of offshore site licensing announced in June 2008
- Study into Seven barrage
- Draft EU Renewable Energy Directive

Future consultations:

- Enhanced energy efficiency policies - Autumn 2008