

The Committee on Climate Change calls for radical action to get the UK back on course to meet its emissions reductions targets. Paul Brennan looks at its recommendations

The low carbon price under the ETS has undermined the case for investment

In its first progress report *Meeting Carbon Budgets – The Need for a Step Change*, the Committee on Climate Change raises serious doubts as to the adequacy of the current framework for meeting the UK's carbon dioxide reduction targets. It calls for a rapid acceleration in consents and funding, because progress in reducing emissions has been "far slower than now required to meet budget commitments". The report calls for a "step change" in the pace of reduction, considering in turn each tool or area that will contribute to the low carbon ambition.

On emissions trading, the committee notes that the fall in the price of allowances under the European Union Emissions Trading System (ETS) – now trading at around half their peak price of €30 a tonne – has undermined the case for investment in low carbon technology. This exacerbates the problem caused by uncertainty about the position after 2020. In the absence of EU action to increase and stabilise the carbon price, it advocates unilateral action by the UK, suggesting a tax that adjusts in response to ETS price fluctuations to deliver a floor price for UK carbon (an approach recently advocated by the Conservative Party).

The report suggests that current market arrangements for electricity will not deliver the required level of decarbonisation. It calls for a comprehensive review of market structures in the near term. Among its suggestions for stimulating investment in low carbon generation are: extending the Climate Change Levy exemption to all new low-carbon generation; low carbon feed-in tariffs; tenders for new low carbon generation; a second competition for carbon capture and storage plant; a maximum emissions intensity for generation at a company or site level; and direct market intervention through the creation of a low-carbon obligation aimed at suppliers and generators.

These suggestions have met with a cautious response from generators. Association of Electricity Producers chief executive David Porter says: "The committee recognises that, even with the industry's commitment to a low carbon future, the drivers for investment are not as clear as they need to be and obstacles loom large. The ideas it has floated are controversial but, somehow, we have to find solutions that give companies the confidence to make cost-effective investments."

The Renewables Obligation is criticised for providing less certain returns than other possible forms of intervention. The government is already



consulting on one of the modifications advocated by the committee – a mechanism to stabilise the price of Renewables Obligation Certificates (Rocs) by linking their price to fluctuations in electricity prices.

In the meantime, it is pressing forward with proposals that entrench the obligation: extending it by another ten years to 2037, introducing temporary banding measures and potentially extending participation to renewable energy projects from elsewhere in Europe. The committee suggests that a loan guarantee scheme for renewable energy projects could offset some of the risks inherent in the current regime. Other suggestions – greater use of feed-in tariffs and a system of tendering for new low carbon generation – appear to be incompatible with further expansion of the obligation.

On heat, it is notable that the government opted for a Renewable Heat Incentive rather

than a mechanism modelled on the Renewables Obligation. The incentive will take the form of an obligation on fossil fuel suppliers to make fixed payments for renewable heat production, with the costs "socialised" across all fossil fuel consumers. Although the committee welcomes the Renewable Heat Incentive, it notes that the cost of achieving the government's renewable heat target could be "very expensive at the margin". The consultation detailing the design of the incentive has yet to be released.

The committee welcomes the new Infrastructure Planning Commission for major energy infrastructure developments, but notes the risk of delays and changes in the implementation process. It expects to see rapid implementation of the new structure, with the nuclear National Policy Statement finalised next year and the first approval for a new nuclear power station made in 2011. It also calls for radical improvement in

the performance planning regime for smaller generation (below 50MW onshore and 100MW offshore), stating that the average time for processing planning applications for windfarms of all types should be reduced to 12 months – a radical, perhaps inconceivable, improvement on current timescales.

As for customers, the report suggests that if the Carbon Emissions Reduction Target continues in its current form until 2022, energy efficiency improvements will realise less than half the emissions reductions they potentially could. The government's proposed alternative also comes in for criticism. Research commissioned by the committee suggests that even where net savings can be demonstrated, there is likely to be a significant decline in uptake as individual charging is substituted for grant funding.

All in all, the report advocates a degree of decisiveness on energy policy that has been sadly lacking from the government for the past several years. But this in itself creates something of a dilemma for industry and politicians. The prospect of further change to existing arrangements could make it difficult to finance projects currently under development. On the other hand, change, probably involving at the very least a floor price for carbon, and clarity on how new fossil fuel plants required to balance the intermittency of wind will be treated, is required to stimulate the investment required to achieve security of supply over the coming decades, let alone transition to a low carbon economy.

Undoubtedly change is in the air, and it is in the price-regulated monopoly sector that it may first make itself felt. Ofgem has just proposed a mechanism to allow an investment of up to £1 billion in electricity transmission infrastructure for renewables over the next two years, with the remaining 80 per cent of the anticipated investment required being dealt with under the normal five-yearly price control reviews.

Distribution companies, too, are looking to get in on the act, with EDF Energy chief Vincent de Rivaz reportedly ready to refer the price control review of EDF's electricity distribution business to the Competition Commission if the forthcoming price review does not allow it sufficient profits to warrant investment. "We cannot have smart grids on an underfunded network," he warns. ● Paul Brennan is head of energy and environment at Morgan Cole Solicitors.

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Timetable for nuclear development	
National policy statement and strategic siting assessment	2010
Regulations for a funded decommissioning programme	2010
Generic design assessment	2011
First planning approval	2011

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Timetable for electricity market policy	
Implementation of transmission access review	2010
Agreement on incentives for investment in transmission system reinforcement	2010
Tendering process for first connections under an enduring regulatory regime for offshore transmission	2010
Review of current market arrangements	2009-12
Planning approvals for grid reinforcement	Various (2011-14)