



Renewing our efforts to go green – consultation on the UK Renewable Energy Strategy now open

The “green revolution” has entered a new phase. The recent publication of the Government’s renewables strategy sets out its ambitious plans for £100 billion of investment in renewable energy in the run-up to 2020. Press interest, not surprisingly, has focused on the impact these proposals will have on household energy bills. The impact on bills for industrial consumers was given less prominence, but the Government predicts annual rises in electricity bills for business of up to 15% and of up to 49% for gas bills.

On the up-side, the Government expects the expansion in green energy to create around 160,000 jobs by 2020 and annual revenues from off-shore wind power alone to be up to £900 million.

The Renewable Energy Strategy consultation document, at over 280 pages, attempts to show how the UK could achieve the proposed EU target of obtaining 15% of the UK’s energy from renewables by 2020. The EU target is not yet agreed, but it is unlikely that the UK will negotiate a lower figure, despite the fact that the proportion of renewables in the UK’s energy mix for 2006 was only about 1.5%.

In this alert we briefly summarise the main proposals and the next stages in the process of finalising the strategy.

The new strategy

Key to understanding the challenge the new 15% renewables target represents, is to appreciate that it relates to total energy consumption. To date, domestic renewables targets have been restricted to electricity consumption. Now these targets will include energy consumption from heat and transport.

Currently, only 1% of heat and energy used in transport or to produce heat in the UK is generated from renewables. The Government plans to increase this so that 14% and 10% respectively of heat and transport energy are to renewable by 2020. The balance would be provided by renewable electricity.

Electricity generation

The key growth area for renewables is to be wind power – both on-shore and off-shore. 14GW of new on-shore and the same amount of new off-shore wind power is required to achieve the 15% target.

Deployment of wind power on this scale might have been possible sooner had the Government been more receptive to the concerns business has been expressing for some time.



In addition to concerns around obtaining financing, the industry has identified three main barriers to the expansion of wind power.

First, and most important, is the length of time it can take to get planning permission and the unpredictability of the decision-making process. Second, is the difficulty in securing grid connection; and third, is difficulties with the supply chain.

In response to these concerns, the Government is proposing some significant planning policy changes and is mooting the introduction of some sort of bidding process by which local communities will accept wind power in their localities in return for “community benefits”.

To address grid connection issue, the Government has also published a Transmission Access Review (“TAR”) setting out its proposals for changing the rules governing access to the grid.

That still leaves difficulties with the supply chain. As the strategy points out, there are significant opportunities for UK businesses to fill gaps in the supply chain, in particular, in the manufacture of bearings, gearboxes, cables, blades and castings as well as the installation and maintenance of turbines.

However, without these supply chain improvements, delivering the 15% target is likely to be optimistic.

The consultation also seeks views on whether the existing financial incentives set out in the Renewables Obligation (currently being amended pursuant to the Energy Bill) will be sufficient to trigger a step-change in the deployment of wind power or whether alternatives need to be adopted. The most likely alternative would be feed-in tariffs under which the generator is given a guaranteed sum per unit of green electricity.

Keeping the lights on

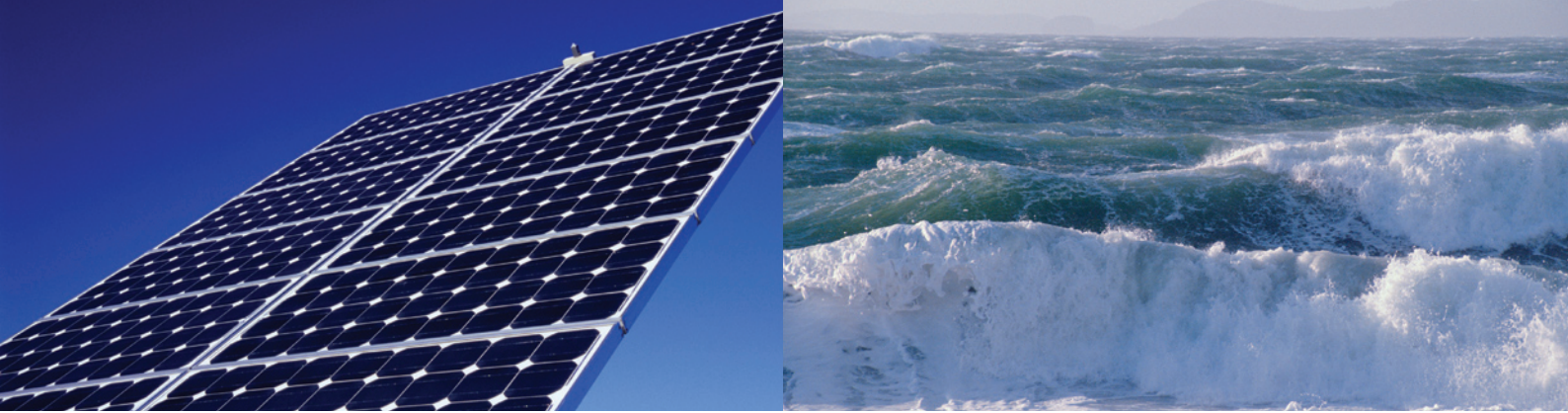
The Government acknowledges that in addition to new renewables growth, there will still need to be significant investment in new fossil fuel generation. This is due in part to the closure of a number of conventional power plants over the next few years but also to the intermittency and variability of wind and some other renewable technologies, which require back-up generation.

Investment in significant fossil fuel (principally gas) with its proven technologies and without the problems associated with intermittency, could prove an attractive option for investors.

Heat

Heat accounts for the largest single proportion of the UK’s final energy demand at about 49%. However, renewables account for less than 1% in this sector.

The main technologies for increasing renewable heat are expected to be biomass-based (such as heat from biomass waste), microgeneration (e.g. solar and ground source heat) and biomass-fuelled Combined Heat and Power (“CHP”) plant.



The main proposals to kick-start the deployment of renewable heat are:

- the introduction of a Renewable Heat Obligation (based on the Renewables Obligation) or a feed-in tariff; and
- regulatory incentives to install renewable heat in new buildings, e.g. through changes to the Building Regulations or via the planning system.

Transport

Currently, the main source of renewable energy in the transport sector is biofuels. As has been widely reported, there are concerns about the availability of biofuels and their impact on food production.

The Government wants to diversify renewables in this sector by encouraging electric and, in due course, hydrogen-powered vehicles.

The current tool for incentivising renewables in the transport sector is the Renewable Transport Fuel Obligation (“RTFO”), under which suppliers of fuel are required to ensure that their fuel contains 2.5% biofuels, rising to 5% in 2010.

The Government sees the RTFO as the best way to encourage more renewables and greater diversity in this sector and are suggesting adapting the RTFO to include other renewables. They are also suggesting extending the use of biofuels to rail and shipping.

Conclusion

There is no doubt that the new Government’s plans for renewables, which are significantly more aggressive even than those published as recently as 2007, are very optimistic. In the Royal Academy of Engineering’s view, the plan is “not achievable”.

However, the fact is that with sky-high energy prices here to stay and the planet warming up, the world will have to embrace renewables: the opportunities for business are there for the taking.

The consultation closes in September and the strategy is due to be finalised in Spring 2009. It promises to be an interesting time.

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