

# Review

## Environmental, Safety and Health Group



### UK GOVERNMENT ANNOUNCES THE WORLD'S FIRST RENEWABLE HEAT INCENTIVE, AND ITS FIVE YEAR CARBON PLAN

Last week, the UK government announced more details of a number of important low-carbon initiatives, probably the most anticipated of these being the renewable heat incentive (RHI) from the Department of Energy and Climate Change (DECC). Also published was the government's draft Carbon Plan which sets out the low carbon measures it intends to implement over the next five years. Other developments included the Department for Transport issuing its consultation on the implementation of the EU renewable energy and fuel quality directives.

#### Renewable Heat Incentive

On 10 March 2011, DECC published much awaited details of the RHI. After confirming in the October 2010 spending review that it would implement a modified version of the RHI proposed by the previous labour government, DECC has now announced what form that modified RHI will take. In simple terms, the RHI is a financial support mechanism to encourage a greater uptake of renewable heat systems such as solar thermal, ground source and biomass.

The RHI will be introduced in two phases:

- **Phase one** - long-term tariff support is expected to start for non-domestic sectors in Summer 2011. This will be a quarterly payment, over 20 years, of an amount based on pence per kWh of heat generated by the installation. The tariff rate will vary depending upon the technology employed. For example solar thermal attracts the highest rate of 8.5 pence per kWh, but some biomass plants will only receive 1.9 pence. Also in phase one, there will be a 'renewable heat premium payment' for qualifying domestic installations, with support of around £15 million towards the upfront costs of investing in renewable heat systems. Further details of this premium payment are due to be announced in May 2011.
- **Phase two** – from October 2012, the long term tariff support will be extended to the domestic sector (including those who have benefitted from a renewable heat premium payment). This is timed to coincide with the start of the Green Deal, which will enable private firms to offer energy efficiency improvements to homes, community spaces and businesses at no upfront cost, and recoup payments through charges in instalments on customers' energy bills.

DECC has published a detailed policy document on the RHI and some draft regulations, which it anticipates will be approved by parliament in Summer 2011 to enable the RHI to come into effect shortly afterwards. This is not a formal consultation exercise, but DECC have indicated that they welcome the submission of any comments on the text of the draft RHI regulations.

#### Carbon Plan

The October 2010 spending review also included an announcement that the government would publish a Carbon Plan in 2011 explaining how its policies would contribute to meeting the UK carbon budgets. These carbon budgets were established under the Climate Change Act 2008, and cover five year periods beginning with 2008 to 2012. The first three carbon budgets, taking us to 2022, were set out in the 2009 Carbon Budgets Order.

The government published its draft Carbon Plan on 8 March 2011. It sets out policies which will be continued and adopted and focuses on the three main areas where a shift in behavioural change will be needed: electricity generation; heating homes and other buildings; and transport. It also contains deadlines and targets for each government department to meet over the next five years.

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Key initiatives laid out in the draft Carbon Plan include:

- **Green Investment Bank** - The target is to have this operational by September 2012 and the government will provide £1 billion of funding for it. The first report on funds and investments made is due to be issued by May 2013. This represents a fairly substantial delay against the December 2011 target date for having the bank up and running which was announced in November 2010.
- **Mandatory carbon reporting for companies** - The government will announce in March 2011 whether it intends to introduce mandatory carbon reporting for companies. The Climate Change Act 2008 requires the government to make regulations by April 2012 requiring companies to report on greenhouse gas emissions (or to explain to parliament why they have not done so).
- **Carbon floor price** - HM Treasury is required to introduce legislation on a carbon floor price by April 2011, with the intention that it will come into effect in 2013. HM Treasury's consultation on this issue closed recently.
- **Carbon capture and storage (CCS)** – DECC is tasked with awarding the contract for the first UK CCS demonstration plant by the end of 2011, and to set up a process for identifying further CCS projects for public funding by May 2012.
- **Electric cars** - The Department for Transport is to publish a strategy by June 2011 for rolling out a recharging infrastructure for electric cars.
- **Public sector action** – The entire public sector is tasked with working towards delivering the low carbon economy and to take the lead in emission reductions. For example, DECC is to lead on reducing central government's emissions by 10% over a twelve month period ending in May 2011.
- **Feed in tariffs (FITs)** – The government has already announced (in February 2011) that it is bringing forward by a year the first review of FITs, with a target date of April 2012 for completion of this review, and it is also fast-tracking the review of large scale solar installations. The draft Carbon Plan still contains reference to the original FITs review completion date of April 2013, but this will be updated when the final version of the plan is issued.

This draft plan is now open for comments until 31 July 2011 and a final version will be published in the autumn (by which time it should also include the next carbon budget, for 2023 to 2027, due to be issued in June 2011). The Carbon Plan will then be updated annually, with quarterly updates on progress available on the 'No 10' website (the prime minister's office website).

Although the Carbon Plan does set out actions and deadlines, there is still much uncertainty about the fine detail of a number of the measures, such as the Green Deal. Business organisations including the CBI have called for greater policy certainty and clarity to enable businesses to have the confidence to invest in low carbon technologies for the long term.

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