



WWF *for a living planet*

WWF-UK

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WWF-UK Response to the Consultation on the Reform of the Renewables Obligation – August 2007

1) INTRODUCTION

WWF-UK regards climate change as one of the most serious threats facing the planet and human development, and one which demands urgent global action. To prevent average global temperatures from increasing by more than 2°C above pre-industrial levels – a threshold above which the risk of severe and irreversible tipping points in the climate becomes increasingly likely – the world's emissions of greenhouse gases will need to peak and start to fall within the next 10 years. This requires all developed countries, and particularly those with claims to global leadership on the issue like the UK, to take urgent action to reduce emissions and develop renewable and low-carbon energy sources.

WWF-UK is convinced that the 2003 Energy White Paper's focus on energy efficiency and renewable energy was the right approach to effectively addressing both climate change and concerns over security of supply. The 2003 Energy White Paper also rightly set a target for renewables to supply 20% of the UK's electricity by 2020. However, we remain very concerned that the Government is still failing to provide sufficient support for the rapid development of renewable energy technologies and the reduction of UK energy demand despite reviews of the RO, last year's energy review and this year's Energy White Paper.

WWF-UK believes that the binding renewable energy target agreed by all Member States, including the UK, in March sets an ambitious but realistic benchmark against which the adequacy of domestic policies must now be measured. We call on the Government to bring forward new and truly effective policies which will ensure delivery of the UK's fair share of the binding EU target for 20% of EU primary energy to come from renewable sources by 2020. Ambitious action on renewables will also be vital to deliver the emission reduction targets proposed under the Climate Change Bill.

In this context, WWF-UK is very disappointed to see in the recently leaked 'Options Paper' that DBERR appears to be trying to find ways to undermine progress towards the UK making a fair contribution towards this target. We are concerned to see that DBERR states in this paper that it expects that "the RO (WITH banding) will only achieve around 15% renewable electricity by 2020" as opposed to the 20% noted in this consultation on RO reform. We are perturbed that the consultation paper fails to make clear that that the 20% target is expected to be missed.

In 2005, only 1.5% of UK electricity was sourced from renewables and the 'Options Paper' states that on current policies (i.e. RO without banding) the UK will only achieve 5% energy from renewables by 2020. This is a serious admission which does not appear in the RO reform consultation paper. A recent report by

Cambridge Econometrics [¹] also found that the UK will miss its renewable electricity target for 2010 and 2015 by wide margins on current policies.

We note the contrast with Germany, for example, which uses feed-in tariffs, and has increased its share of renewables in the electricity mix from 5.4% in 1999 to more than 10% in 2005. More recent estimates have shown that 2006 witnessed a record growth, as 11.8% of electricity was produced from renewables that year – and the trend is continuing in 2007. This has helped Germany establish a small and medium-sized innovative industry, which now exports renewable energy technology worldwide.

Overall, WWF-UK is clear that the proposals put forward by the DBERR on the RO are flawed in that they fail to address the scale of change in renewables deployment needed to meet both new and long-standing Government commitments. We urge the Government to rethink its proposals and produce a set of renewable energy policies which are fit for purpose – particularly to ensure delivery of the UK's share of the new EU renewable energy target of 20% of primary energy from true renewable sources by 2020.

2) BANDING THE RENEWABLES OBLIGATION

WWF-UK remains unconvinced that DBERR's proposal to band the RO is the most effective policy option to deliver the required large increase in renewables by 2020.

Indeed, DBERR's leaked 'Options Paper' states that the RO (WITH banding) will only achieve around 15% renewable electricity by 2020. This worrying conclusion by was not mentioned in the consultation paper.

WWF-UK is also concerned by the argument in the 'Options Paper' that ambitious renewable energy targets could undermine the EU emissions trading scheme. This ignores the findings of the 2006 Stern Review on the economics of climate change – which concluded that although emission markets will be crucial to climate change policy *“carbon pricing alone will not be sufficient to reduce emissions on the scale and pace required.”*² The Stern Review adds: *“in addition to direct emissions pricing through taxes and trading and R&D support, there are strong arguments in favour of supporting deployment in some sectors when spill-overs, lock-in to existing technology, or capital market failures prevent the development of potentially low carbon alternatives.”*³

Energy efficiency and renewable energy are widely recognised as sectors where deep market failures exist and where other policies are required on top of emissions trading, and these market failures are one of reasons why the costs for increasing renewables in the UK appear to be higher. **Thus WWF-UK urges the Government to acknowledge and act to address the market failures by implementing such new 'other policies' to deliver the huge increases in energy efficiency and renewable energy needed in the UK, in addition to the EU ETS.**

Paragraphs 5.1 and 5.5 in this consultation paper further show the Government's lack of ambition for the level of renewable electricity in the UK required by 2020 and 2025. The consultation fails to give

¹ "UK Energy and the Environment, the latest of a series of twice-yearly reports, is available here: http://www.camecon.com/press_releases/uk_energy_environment.htm

² HM Treasury, "The Stern Review on the Economics of Climate Change", page 347. Available here: http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm

³ Stern Review, page 365

prominence to either the new EU Energy Package or draft Climate Change Bill – even though these clearly reshape the context for all sustainable energy policy decisions, including the RO. Instead these paragraphs merely state that the commitment to maintain RO levels above renewable generation up to a level of 20% is NOT a commitment to increase RO levels to 20% by 2020. **WWF-UK is disappointed with this lack of ambition from Government for renewables.**

We also note with interest the Carbon Trust's report (Policy Frameworks for Renewables, July 2006) which found that a feed-in tariff type of renewables support policy may be much more effective than the RO (current or banded) in terms of both cost and speed and scale of renewable capacity delivery. The report also found that the current RO policy framework would only deliver 10.1% of electricity from renewables by 2020. Indeed, the report found that the most cost-effective framework for bringing forward large-scale investment in renewables was found to be a "Renewable Development Premium", or a stepped feed-in tariff of the type which has proven extremely effective in Germany and elsewhere at bringing forward a rapid pace of renewables development.

WWF-UK is therefore concerned that the starting point for this review of the RO, like the previous two in 2006, is for a banded obligation mechanism which, according to the Carbon Trust's analysis, is less effective. WWF-UK remains unconvinced by the reasons given in the 2007 Energy White Paper for rejecting the feed-in tariff policy option. For example, the 2007 White Paper states that:

- *"5.3.18 The majority of the responses to the consultation supported the proposals set out in the Energy Review Report as the best way to improve the RO, **within the current funding regime**".*

- *"5.3.20 We have given these issues serious consideration **but do not believe that there is a strong case for radical change**. While a number of other EU member states have used mechanisms such as feed-in tariffs, it is hard to draw firm conclusions as to the effectiveness of these mechanisms from international comparisons, as other forms of support also vary".*

However, at the very least, clarity is needed in the meaning of both statements. The first doesn't say how many responses were also in favour of feed-in tariffs nor that the current funding regime is virtually absent. The second fails to recognise the experience on the success of feed-in tariffs in other EU member states, Germany and Spain.

WWF-UK believes that the Government should seriously consider the alternative feed-in tariff approach identified by the Carbon Trust. We are also concerned that the banding proposal is likely to further complicate an already complicated RO policy.

However, if the Government does stick with a banded version of the RO then **WWF-UK believes greater and prolonged levels of capital grant funding for the wave, solar and offshore wind emerging technologies will still be needed** to achieve the necessary high penetration of new and emerging renewables. In relation to this, WWF-UK is concerned by statements in the previous two RO reform consultation papers (which are not explained clearly in this consultation either way) that "the funds available from Government to support emerging technologies would be unpredictable, leading to considerable uncertainty for companies and investors about the level and duration of support available for both given technologies or projects".

We also note that other electricity generation technologies, such as coal, oil gas and nuclear power stations, have benefited from massive and sustained financial support from the UK Government for many

decades, and so we remain frustrated that the Government is still failing to invest equally itself in the true renewable energy technologies for the near- and medium-term, such as wave, offshore wind and solar.

WWF believes that a review of the RO should respect the following key principles:

- Ambitious rates for the installation of both established and emerging renewable technologies to meet our climate change and energy security obligations.
- The need to retain support for onshore wind which, despite now being relatively well-established, has not yet reached anything like its full potential. Any transition must be managed in a way which will enhance investor confidence, and any risk to future investment should be avoided.
- The need to revive progress in offshore wind development, which has stalled under the current framework. Indeed, the Government is in danger of squandering an opportunity to put the UK at the forefront of this emerging global industry.
- Other marine technologies need to be brought forward urgently in order to help them reach large-scale development and commercialisation.

3) SETTING BANDS (WHEN AND BY WHOM)

If after evaluating the merits of feed-in tariffs and banded RO the Government still decides to stick with the latter policy, WWF-UK urges Government to set the RO targets higher (and the bands accordingly) than those currently proposed so that electricity plays its full share to achievement of the binding EU renewable energy target for 2020, preferably with contingency/headroom built in.

If the banding of the RO is the policy option is chosen by Government, then WWF-UK agrees with the following proposals by DBERR;

- independent and expert advice should be given to Ministers to help agree the level of UK wide RO bands, and that the appropriate advisors could be the Committee on Climate Change as proposed in the draft Climate Change Bill.
- bands should be reviewed so that changes come into force at similar times as future phases of the EU ETS (on current expectations 2013 and 2018).
- bands should aim to deliver the maximum deployment for a given level of support of renewable generation over the 5-10 years and sustainable beyond that. The buy-out price for emerging technologies should be set at a sufficiently generous level to ensure that they actually come forward at scale.

4) RO LEVELS IN A BANDED RO

No comment. Please read the responses provided in Section 2 above for context.

5) CO-FIRING AND SUSTAINABILITY OF BIOMASS

WWF is very concerned that co-firing of coal with biomass – initially introduced to the RO as a transitional measure to support the growth of indigenous energy crops – has become an accepted part of renewables policy by the DBERR. This means that co-firing (with potentially unsustainable biomass) is now being used to help support old, inefficient coal power stations and already helps operators' compliance with their caps under the EU emissions trading scheme.

WWF-UK is concerned that continued inclusion of co-firing in the RO will undermine the much needed support for other renewables and damage investor confidence. Our concerns are fuelled by the weak proposals in this consultation on issues relating to the sustainability of biomass. WWF-UK does not think it is sufficient that biomass users participating in the RO are only 'asked' to present information to Ofgem on the type of residue used and its origin. We believe it is necessary that Government should require mandatory accreditation of biomass used (in co-firing or other applications) for life-cycle greenhouse gas benefits and other sustainability criteria if it is to be an eligible option under the RO. It should also ensure a high level of standards for accreditation that are consistent with those being developed under the road transport fuels obligation (RTFO).

Furthermore, WWF-UK does not agree that the RO should support the use and burning of wastes, other than sustainably sourced woody biomass and energy crops. This is because WWF-UK believes that renewables, and hence the RO, by correct definition are those technologies which generate electricity from infinite energy resources, such as wind, wave and solar (and the use of biomass only when it leads to a net reduction in CO₂ emissions and is sustainably sourced).