

Bird & Bird

Clean Growth Strategy and Energy Management



*On 12 October 2017, the government published its Clean Growth Strategy (the "**Strategy**") which sets out how it will invest over £2.5bn to deliver increased economic growth and decrease emissions. We have set out below some of the key points of the Strategy from an energy management perspective.*

Energy Efficiency

In the past, the government's efforts to cut emissions from buildings and industry have been sluggish. The Strategy provides a welcome step change as energy efficiency is a central pillar of it. There is a particular focus on improving energy efficiency in homes and within business and industry, both of which generate 13% and 25% of all UK emissions respectively.

In terms of business and industry, the government proposes to introduce a package of measures to improve energy efficiency in these sectors by at least 20% by 2030. The key proposals to support this include:

- the establishment of an "Industrial Energy Efficiency Scheme" to help large companies install interventions to reduce energy consumption;
- developing a set of joint industry-government decarbonisation and energy efficiency action plans for seven of the most intensive industrial sectors;
- £162 million to invest in innovation to 2021, in research, development and demonstration of energy, resource and process efficiency alongside better low carbon fuels;
- a commitment to regularly review the incentives available for energy efficiency; and
- exploring how to provide information and advice to encourage small and medium sized businesses to implement energy efficiency measures.

For the domestic sector, the Strategy promises to provide £3.6bn to upgrade the energy efficiency of over a million homes by extending support under the Energy Company Obligation to at least 2028. In addition to this there is an aim for as many homes as possible to reach an EPC band C or better by 2035. Within that, the target is for all “fuel poor” homes to achieve this standard by 2030. New EPC standards for social housing are also to be considered.

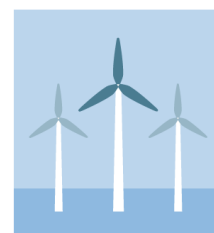
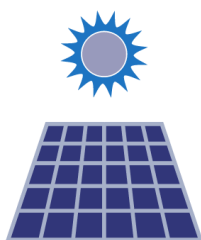
The focus on energy efficiency within the Strategy shows that the government is taking the challenge seriously. Energy that isn't used is the cheapest way to cut both emissions and energy bills. That said, while the Strategy is ambitious in its scope, it is light on the detail that is needed to achieve these lofty ambitions. For example, beyond committing to its establishment, there is no detail to suggest what the Industrial Energy Efficiency Scheme will look like. Equally, it does not set out how the targets for improving energy efficiency within homes are to be met. Energy efficiency has been historically difficult to achieve and firm plans will be needed in the future to deliver it.

Clean, Smart, Flexible Power

Another focus for the Strategy is facilitating the transition to a smarter and more flexible energy system that allows people to take greater control of their energy consumption and manage it in different ways. The government believes that this could generate up to £40bn of savings by 2050. In particular, the government wants battery storage and demand side response (DSR) technologies to be able to compete effectively within the energy market. The Strategy identifies a number of the current barriers that prevent wider uptake of DSR and the deployment of battery storage, and regularly refers to the "Smart Systems and Flexibility Plan" which aims to remove such barriers.

That said, while the Strategy emphasises the importance of developing a smarter, more flexible system, it does not offer much more than the current funding and policy initiatives that are already available for storage and DSR. This may appear unambitious. However, a lot of good work is already being undertaken to promote these areas within the scope of the Smart Systems and Flexibility Plan. Specific new commitments within the Strategy include:

- allocating £900m of public funds to be invested into smart technologies of which £265m is expected to be invested in research and development to reduce the cost of electricity storage, advanced DSR technologies and developing new ways of balancing the grid; and
- earmarking £20m for vehicle-to-grid technologies exploring how the rapidly expanding number of electric vehicles could be used to provide flexibility and system balancing, much like traditional DSR.



Low Carbon Heat and Transport

The Strategy recognises that significant action needs to be taken in the heat and transport sectors if the UK is to stand any chance of meeting its climate change commitments. This is an important acknowledgement given that decarbonising heat and transport has been overlooked in recent years by policy that has focussed on decarbonising (successfully) the electricity sector. Transport accounts for 24% of all UK emissions, with very little progress having been made since 1990. Heat for homes, business and industry accounts for nearly half of all energy use in the United Kingdom.

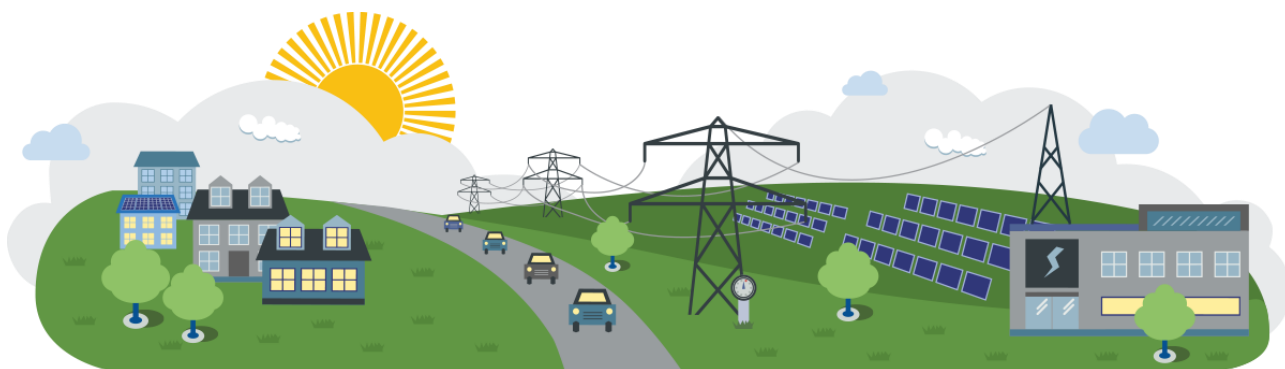
For transport, the focus of the Strategy is very much on the rollout of ultra-low emission vehicles (ULEVs) and the development of an electric charging network across the United Kingdom. The Strategy commits to spending £1bn supporting the uptake of ULEVs and developing one of the best electric vehicle charging networks in the world. In addition, the Strategy provides for: (i) the rollout of low emissions taxis by investing £50m into the Plug-in-Taxi programme; (ii) providing a further £100m for retrofitting and building low emission buses; and (iii) providing £4.8m through the Hydrogen for Transport Advancement Programme.

In terms of heat, there are commitments to build and extend heat networks across the country underpinned with public funding up to 2021 and a £10m innovation programme to develop new heating technologies in homes and commercial buildings. The Strategy also announces the allocation of £4.5bn to reform the Renewable Heat Incentive between 2016 and 2021 – although it does not say in what way. Beyond that, it is more conceptual in nature, simply stating that the groundwork for the decarbonisation of heat needs to be laid down in this Parliament to allow decisions in the early 2020's to be taken on the long-term future of heat. This could be through a number of options to be assessed, including electrification of heating using heat pumps, exploring the role of bioenergy in decarbonising heat or using hydrogen on the gas grid. Work is needed to further develop this policy.

The Strategy also places the development of carbon capture usage and storage technology firmly back on the radar of the government and the Strategy announces plans to invest £100m in the technology. This is welcome and a significant sum. However, it is only one tenth of the £1bn that was previously in the plan that was cancelled by the government in 2015.

Conclusion

The Strategy is an important political statement and, after years of mixed messages from the government, recognises that economic growth and tackling climate change go hand in hand. It is particularly pleasing that the government has sought to address two areas where policy gaps have existed for too long - energy efficiency and decarbonising heat and transport. Critics will point to the Strategy's lack of specific actions that are needed to implement its ambitious proposals. However, ambition is needed to promote action, and the Strategy was published at the same time as a number of consultations that will help to flesh out the specific details of some of the proposals. The plan has been formulated: now it is the time to implement it.



Contacts

Levent Gurdenli

Senior Associate, Commercial

Tel: +44 (0)207 415 6612

Levent.Gurdenli@twobirds.com



twobirds.com

Aarhus & Abu Dhabi & Beijing & Bratislava & Brussels & Budapest & Copenhagen & Dubai & Dusseldorf & Frankfurt & The Hague & Hamburg & Helsinki & Hong Kong & London & Luxembourg & Lyon & Madrid & Milan & Munich & Paris & Prague & Rome & Shanghai & Singapore & Stockholm & Sydney & Warsaw

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