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Energy Policy Overview

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Summary

The Department for Energy and Climate Change (DECC) set out its main priorities for this Parliament in its *Single departmental plan: 2015 to 2020,* updated in February 2016.

Its main objects are to:

1. Ensure the UK has a secure and resilient energy system
2. Keep energy bills as low as possible for households and businesses
3. Secure ambitious international action on climate change and reduce carbon emissions cost-effectively at home
4. Manage the UK's energy legacy safely and responsibly

The key mechanisms and drivers to deliver this are described in this briefing. They include policy on:

- Low carbon economy
- Electricity Market Reform (EMR)
- New Nuclear
- The oil and gas sector
- Retail markets and consumer affordability

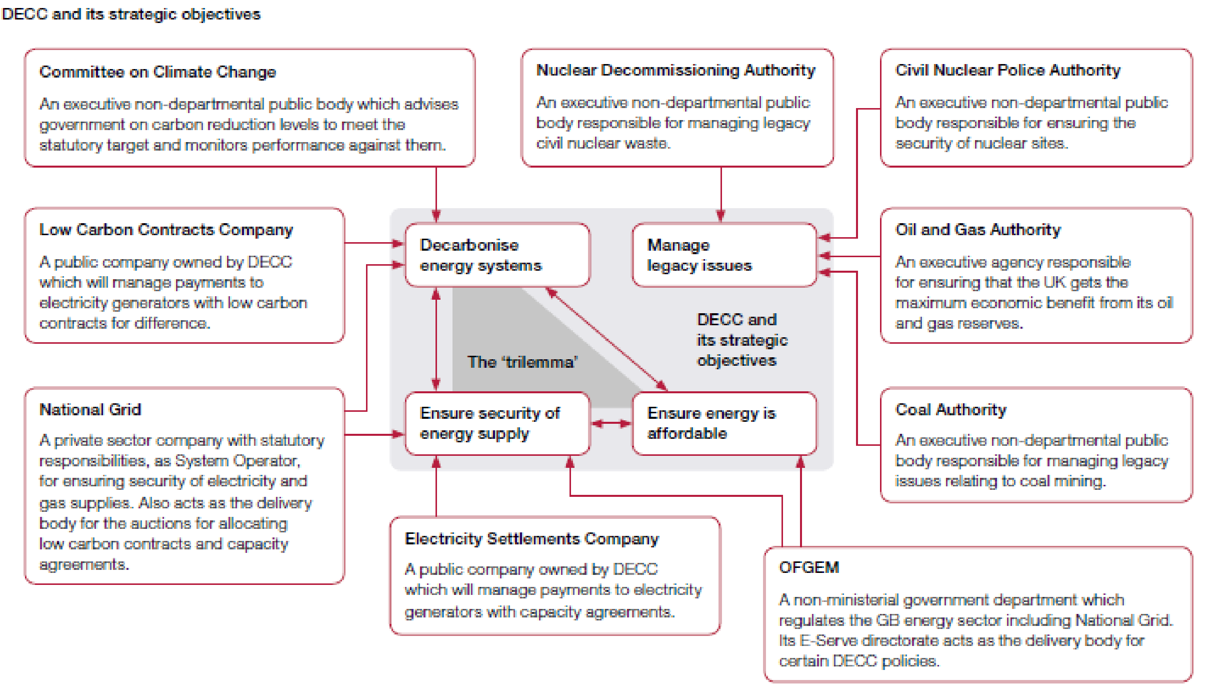
This briefing also covers progress on decarbonisation in the UK and this Government's key announcements on energy policy.

1. DECC departmental objectives

The Department for Energy and Climate Change (DECC) set out its main priorities for this Parliament in its *Single departmental plan: 2015 to 2020*, updated in February 2016. This sets out the Department's vision:

> Secure, affordable and clean energy supplies provide the backbone for the UK's economic success. The government will deliver an energy infrastructure fit for the 21st Century. This means energy which is both cheap and clean. We will meet these goals by nurturing competition and supporting innovation in new technologies. This will help keep bills as low as possible for families and businesses. We are also pushing for ambitious international action on climate change to safeguard our long-term economic and national security. [1]

The National Audit Office (NAO) published *A Short Guide to the Department of Energy & Climate Change* in July 2015 which provides a good overview of DECC and its strategic objectives, including the following chart:



Source: NAO, A Short Guide to the Department of Energy & Climate Change, July 2015

More recent and detailed information on expenditure, income and staffing can be found in the DECC *Annual Report 2014-15.*

The NAO evaluated DECC in November 2013 in its report *The performance of the Department of Energy & Climate Change 2012-13*

1 DECC *Single departmental plan: 2015 to 2020.*

1.1 Low carbon economy

There are several drivers to focus the UK on reducing carbon emissions.

The Labour Government introduced the *Climate Change Act 2008*. This established a statutory target for the UK to achieve at least an 80% reduction in greenhouse gases by 2050 against a 1990 baseline, by setting five yearly carbon budgets.

The UK Carbon Plan (2011) confirmed measures to meet the first three carbon budgets (2008–12, 2013–17, and 2018–22). The government agreed the 4th carbon budget (2023–27) in 2011 with a target of a reduction of emissions of 52% compared to 1990 levels and must set the 5th carbon budget (2028–32) by June 2016.[2]

The Committee on Climate Change (CCC, the statutory body set up to monitor and advice on progress towards the 2050 climate targets) has submitted its recommendation to the Government that the budget should be set at 57 % for the fifth budget.

The UK also has a legally binding renewable energy target of 15% by 2020, as part of the EU's overall target of 20% renewables by that date. The Government published a Renewable Energy Roadmap in 2011 setting out its view on how the target would be achieved.

In addition, the Paris Climate Change conference in December 2015 was successful in agreeing a successor to the Kyoto Protocol. Further details, including the UK's position can be found in the Library briefing on the Paris conference. The conference agreed to aim to keep the global average temperature increase to "well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels". The agreement also set an aim for emissions to peak "as soon as possible" and for emissions from human activity and absorption by carbon sinks to balance some time in the second half of the century.

The NAO summarises the current DECC policies aimed at achieving the UK's decarbonisation targets:[3]

How does DECC incentivise decarbonisation?

Electricity Market Reform (EMR)

- **Carbon Price Floor** (CPF) is a tax on fossil fuels used for generating electricity.
- **Contracts for Difference** (CfDs) fix the price low carbon generators receive for their output.
- The **Emissions Performance Standard** (EPS) sets an emissions limit for power plants, which new coal fired plants can only meet if they capture and store their carbon emissions.

Other policies

- The **Renewables Obligation** supports renewable generation technologies. It is being replaced by CfDs and will close to new applications in 2017.
- The **Renewable Heat Incentive** (RHI) supports renewable energy heating for domestic and non-domestic buildings.
- The **small-scale Feed-in Tariff scheme** supports renewable generation, such as solar panels and biomass.
- The **EU Emissions Trading Scheme** promotes decarbonisation.

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2 HM Government, *The Carbon Plan: Delivering our low carbon future*, December 2011

3 DECC *Single departmental plan: 2015 to 2020.*

Further details on several of these policies are provided below. In addition, the Government has made clear recently during the passage of the *Energy Bill* that it does not intend to implement an emission performance standard.[4] The Library briefing on the Carbon Floor Price includes further detail of this policy.[5] EU ETS policy is implemented at European level; further details are available in a paper from the European Commission.[6]

1.2 Electricity Market Reform

Electricity Market Reform (EMR) has been at the heart of current energy policy.

EMR was initiated by the Coalition Government in 2010 to drive the investment needed to replace this capacity with new, low carbon sources of energy.

The EMR was designed to:

- decarbonise electricity generation;
- keep the lights on; and
- minimise the cost of electricity to consumers.

It aims to improve the relative attractiveness of the UK for investors in the electricity market by creating a long-term, stable and predictable electricity market, providing greater revenue certainty. EMR was implemented in the *Energy Act 2013*.

The most significant changes to how the electricity market works as a result of EMR were the creation of the capacity market and the implementation of contracts for difference (CfD) for renewables, to replace the renewables obligation.

The Capacity Market

As part of the EMR, the aim of the Capacity Market is to ensure there is backup capacity available to the grid to meet any expected shortfall in electricity supply when demand is high.[7] The focus is on ensuring security of supply in the medium term. It provides a regular payment to reliable forms of electricity capacity, in return for the capacity being available when the system is tight. An auction to award capacity agreements is held four years ahead of the year in which the capacity may be required. A second auction is held one year ahead of delivery if added capacity is thought to be needed.

It was envisaged that the policy would encourage new cleaner forms of supply and innovative forms of electricity demand management, but this has not necessarily been the case to date. There have been two capacity market auctions in December 2014 and December 2015. Diesel generators and older coal generators where unexpectedly successful in both auctions, leading to criticism of how the policy has been implemented.[8]

4 See Commons Library briefing CBP 7531, *Energy Bill: Committee Stage Report*, 8 March 2016
5 SN 05927, 14 May 2014
6 European Commission, *The EU Emissions Trading System (EU ETS)*, October 2013
7 DECC, *Electricity Market Reform: Capacity Market 2015*, updated 7 January 2016
8 Terry Macalister, "£175m subsidy for back-up diesel power prompts calls for investigation", *Guardian* online, 11 December 2015

As a result, the Government announced a month-long consultation on proposed changes to the Capacity Market on 1 March 2016.[9]

Contracts for Difference

CfD were introduced by the 2010 Coalition Government to replace the Renewables Obligation as part of the EMR.

CfD are a system of reverse auction, intended to give investors the confidence and certainty they need to invest in low carbon electricity generation.

CfDs work by fixing the prices received by low carbon generation, reducing the risks they face, and ensuring that eligible technology receives a price for generated power that supports investment. CfDs also reduce costs by fixing the price consumers pay for low carbon electricity (known as the strike price). This requires generators to pay money back when electricity prices are higher than the strike price, and provides financial support when the electricity prices are lower.

The first CfD auction by the Government opened in October 2014 with the results announced in February 2015.[10] In total 27 projects were selected to share £315m worth of contracts. This included 748.55 MW of onshore wind with a strike price of between £79 and £83 MW/h, and 1162MW of offshore wind with a strike price of between £115 and £120 MW/h.[11]

The Government's original stated intention was that the second contracts for difference auction would take place in autumn 2015. However, in the energy policy reset announcement in November 2015 the Minister stated that the Government would make funding available for three auctions in this Parliament, with the intention of holding the first of these auctions by the end of 2016.[12] This has since been confirmed in the March 2016 budget (further information below).

Levy Control Framework

The Government has placed the obligation of financing a number of its energy and climate change policies onto energy companies, rather than funding the schemes directly through general taxation. Energy companies then recover the cost of these levy-funded schemes from consumers through bills.

The Levy Control Framework (LCF) was established by DECC and HM Treasury in 2011 to cap the cost of levy-funded schemes and ensure that DECC "achieves its fuel poverty, energy and climate change goals in a way that is consistent with economic recovery and minimising the impact on consumer bills".[13] It sets annual limits on the overall costs of all DECC's low carbon electricity levy-funded policies until 2020/21. There are currently three components to the LCF:

- Renewables Obligation (RO); This is due to close to new entrants by 2017

9 DECC, *Press release: Reforms to Capacity Market to improve energy security for families and businesses*, 1 March 2016

10 "Contract for Difference Auction - the reaction", *Business Green*, 26 February 2015

11 DECC, *CFD Auction Allocation Round One - a breakdown of the outcome by technology, year and clearing price*

12 DECC, *Press release: New direction for UK energy policy*, 18 November 2015

13 DECC, *Control framework for DECC levy-funded spending: questions and answers*, 8 December 2011

- Feed-in-tariffs scheme (FITs); and
- Contracts-for-Difference (CfDs).

In November 2013, the NAO produced a report on spending under the LCF and concluded that the Framework is a valuable tool supporting control of the costs to consumers from pursuing energy policy objectives.[14]

LCF Cap

The level of the cap on spending under the LCF in 2011-12 was £2 billion, and was projected to £7.6bn in 2020-21 (in 2011-12 prices), a level which DECC said will enable the UK to meet its low carbon and renewables ambitions. There was a 20% headroom on top of this cap. The Government originally estimated that "the [LCF] is likely to support enough renewable capacity to achieve at least 30% of electricity generation from renewable sources" by 2020-21.

However, the Government announced on 22 July 2015 that DECC's latest forecasts under the LCF had shown that forecast spend on renewable energy subsidy schemes would be higher than expected and needed to be brought under control:

> The Government has set a limit of £7.6bn in 2020-2021 (in 2011/12 prices), so the current forecast is £1.5bn above that limit. This is due to accelerated developments in technological efficiency, higher than expected uptake of demand-led schemes and changes in wholesale prices. This means that the forecast of future spend under the LCF is now estimated at around £11.4bn (in nominal prices) or £9.1bn (in 2011/12 prices) in 2020/21. The Government is determined to bring these costs under control to protect consumers and provide a basis for investment in clean electricity in future.[15]

The price of CfDs depends on the difference between an agreed fixed "strike" price and the market electricity wholesale price. When wholesale prices fall, as they have done, the cost for each CfD will rise (as this difference in prices increases). As a result the LCF spending projections increase and the cap will not fund as many projects.

1.3 New Nuclear

On 30 June 2015, the Minister of State, Andrea Leadsom, gave a speech during which she set out the plans for new nuclear build:

> There should be no doubt that this Government is absolutely committed to nuclear power. We see new nuclear power stations as a vital part of the infrastructure investment needed in our electricity sector to ensure our future energy supply. […] The UK's nine existing nuclear power plants generate around 20% of our electricity demand. But all bar one of these power stations are expected to shut by 2030. […]
>
> Government has prepared the way for new nuclear power stations through a package of reforms and regulatory measures that remove barriers to investment and give developers the

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14 NAO, *DECC: The levy control framework,* HC 815 Session 2013-14, 27 November 2013

15 DECC, *Levy Control Framework cost controls*, 22 July 2015

> confidence to take forward projects that will help deliver secure, low carbon and affordable energy. We have also made sure that operators of new nuclear power stations put in place robust plans and finance for managing their waste and decommissioning right from the outset.[16]

The Minister went on to outline "recent progress" for new nuclear build.

According to an article in *The Engineer* from 16 September 2015:

> Overall, current proposals call for at least 11 new nuclear reactors at five sites: Hinkley Point C and Sizewell C, both developed by EDF subsidiary NNB Genco; Wylfa Newydd and Oldbury by Horizon Nuclear Power; and Moorside by NuGen. These power stations are hoped to produce up to 16GW of nuclear power capacity. But with new power stations being built alongside the decommissioning of existing facilities, the sector is in desperate need of new engineering talent.[17]

Delays in Hinkley Point C have been reported repeatedly.[18] A funding investment by the China General Nuclear Corporation was announced by DECC in October 2015,[19] but since then there have been problems within EDF regarding the project and a final decision as to whether it will go ahead.[20] Hinkley C is still pending.[21]

1.4 Oil and Gas

Oil and gas production on the UK Continental Shelf (UKCS) have been declining. The present Government has legislated in the *Energy Bill* currently going through Parliament for a new regulatory body, the Oil and Gas Authority (OGA), to take on its various functions surrounding development of the North Sea oil and gas fields, including the management of decommissioning of fields and infrastructure. The Library briefing *The Energy Bill 2015-16: Background and changes in the Lords* has the details on the legislation and the background. Further information is also given in the Library briefing *UK offshore oil and gas industry*.

Fracking

The Queen's Speech in 2014 confirmed Government plans to streamline the underground access regime and make it easier for companies to drill for shale gas. The *Infrastructure Bill* has been amended to provide this. It also provides a number of new safeguards to protect against environmental damage.

Fracking for shale gas remains contentious.

[16] DECC, *Andrea Leadsom's Speech to the Nuclear Industry Association*, 30 June 2015
[17] Stuart Nathan, "Careers in the UK nuclear sector", *The Engineer* online, 16 September 2015
[18] https://uk.news.yahoo.com/edf-says-uk-nuclear-plant-184709513.html#qUZ6xoJ
[19] DECC, *Press release: Hinkley Point C to power six million UK homes*, 21 October 2015
[20] Terry Macalister and Julia Kollewe, "EDF board member calls for Hinkley Point C project to be postponed", *Guardian* online, 30 March 2016
[21] Terry Macalister, "EDF delays Hinkley Point C nuclear power plant", *Guardian* online, 22 April 2016

On 16 December 2015 regulations were approved by the House that provide some protection against fracking at depths shallower than 1200m in protected areas.[22] Further protections, through the licencing process, have been consulted on.[23]

On 17 December 2015, the OGA announced that licences for a total of 159 blocks were formally offered to successful applicants under the 14th Onshore Oil and Gas Licensing Round. All the licence blocks are mapped out on the OGA's interactive map.

The regulation of onshore petroleum licencing (including fracking) was devolved to the Scottish Government by the *Scotland Act 2016*. It is similarly expected to be devolved to the Welsh Assembly Government. [24]

More information is available in the Commons Library briefing *Shale gas and fracking*. (SN 06073, 15 January 2016)

1.5 Retail Markets and Consumer Affordability

The current Government's position (and that of the previous Coalition Government and Labour Government) is to promote competition in the wholesale and retail markets.

Since 2008, successive Governments and the energy regulator Ofgem have sought to reduce the barriers to effective competition in the gas and electricity markets, particularly for supplies to domestic consumers.

The following summarises the various interventions under the present and previous Governments since 2008:

1 April 2009: Ofgem, *Energy Supply Probe – proposed retail market remedies*

2 March 2011: Ofgem, *The Retail Market Review - Findings and initial proposals*

3 September 2013: Leader of the Opposition announced plans to freeze energy bills for 20 months if Labour won the next general election.

4 October 2013: Prime Minister calls for a 'competition test'.

5 November 2013: Ofgem consultation on assessment of competition in the energy market

6 March 2014: Ofgem and CMA, *State of the Market Assessment*

7 June 2014: Reference by Ofgem to Competition and Markets Authority (CMA) to investigate the supply and acquisition of energy in Great Britain

8 June 2015: Letter from Secretary of State for Energy and Climate Change to 'Big Six' calling for reduced prices

9 The interventions under the various Governments have culminated in the reference by Ofgem to the CMA to conduct an *Energy Market Investigation* in June 2014. In referring the matter to the CMA it was intended to be a once and for all investigation as to whether or not there are further barriers to effective competition,

[22] DECC, *Guidance on fracking: developing shale oil and gas in the UK*, updated 11 April 2016

[23] DECC, Surface DevelopmentRestrictions forHydraulic Fracturing: Consultation on Proposed Restrictions on Surface Development through the Petroleum Exploration and Development Licence, URN 15D/513, 4 November 2015

[24] SN 06073, 15 January 2016

> because the CMA has more extensive powers that can address any long-term structural barriers to competition.

The CMA is expected to publish its final report by the end of June 2016. It published its provisional findings and proposed remedies on 10 March 2016. The Commons Library briefing *Competition and Markets Authority "Energy market investigation"* summarises those remedies.[25]

The Commons Library briefing *Competition in the energy markets in Great Britain* provides more detail on the history of government and regulatory policy and the CMA's investigation in the period up to its March report.[26]

Help for consumers

Aside from promoting effective competition, successive Governments have sought to reduce energy use and help with reducing fuel poverty through policies promoting the use of more efficient appliances and installing energy efficiency measures. The Library briefing *Help with Energy Bills* summaries the policies available and contain links to more detail (in some cases including the history of these measures over successive Governments).[27]

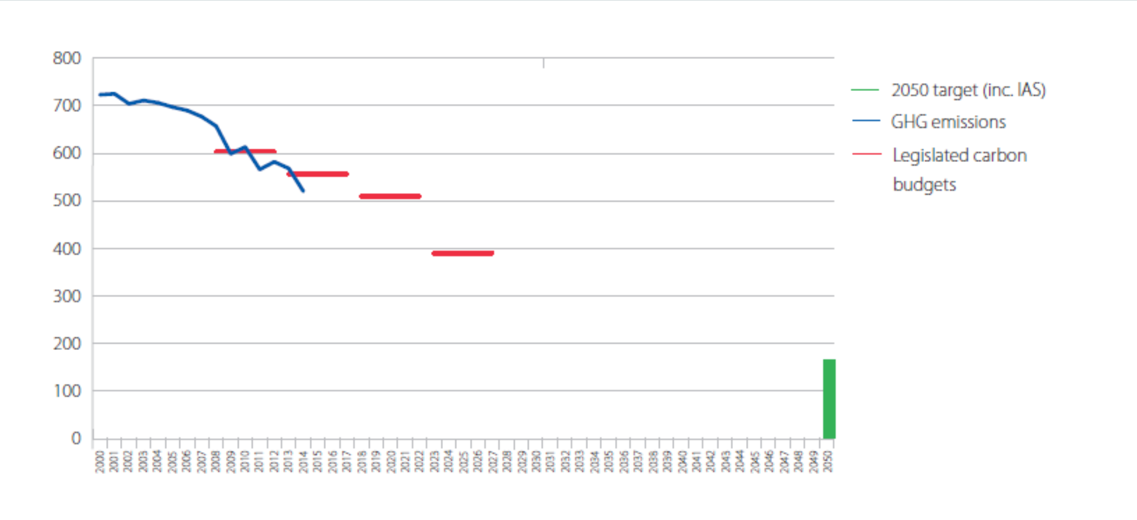
[25] CBP 07543, 15 April 2016
[26] CBP 07243,1 February 2016
[27] SN 06163, 1 February 2016

2. Decarbonisation progress

The CCC published its 2015 Progress Report to Parliament in June 2015.[28] Progress to date has been good, as set out by the CCC in the graph below, although the Committee did warn that achieving the successively stringent targets will become increasingly challenging and that there is limited evidence of progress in reducing emission outside the power sector.

> Provisional emissions statistics for 2014 indicate that UK domestic greenhouse gas emissions were 520 $MtCO_2e$ – an 8% decrease compared with 2013. Emissions are now 36% below 1990 levels. They are within the annual average level of the second carbon budget (2013-17), (Figure 1).

Figure 1: UK GHG emissions against legislated budgets and 2050 target ($MtCO_2e$)



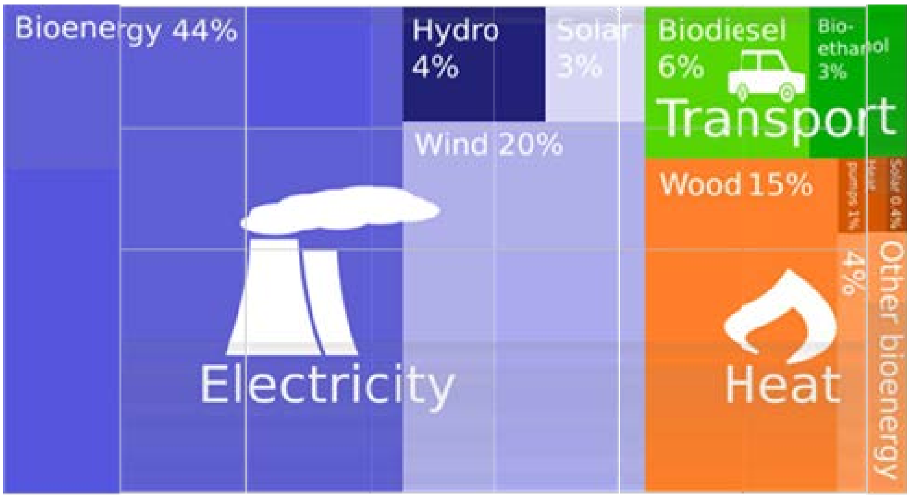
Source: DECC Provisional UK greenhouse gas emissions national statistics 2014, CCC calculations

The Digest of UK Energy Statistics (DUKES) is published by DECC annually, with some quarterly updates. The latest version was published in July 2015 and set out the progress on renewables:

> Electricity generated from renewable sources in the UK in 2014 increased by 21 per cent on a year earlier, and accounted for 19.1 per cent of total UK electricity generation, up from 14.8 per cent in 2013. Total renewables, as measured by the 2009 EU Renewables Directive, accounted for 7.0 per cent of energy consumption in 2014, up from 5.6 per cent in 2013.

It also included an infographic on the breakdown in renewable energy generation in 2014:

[28] CCC, *Reducing emissions and preparing for climate change: 2015 Progress Report to Parliament: Summary and recommendations*, June 2015



There are some concerns, as summarised by this [Full Fact analysis](), that the Government is going to struggle to meet its 2020 EU renewables target.[29] There have also been strong suggestions from the Government, as in evidence to the Energy and Climate Change Select Committee in January 2016, that there is an intention to increase focus on heat and transport to reduce emissions and address the potential shortfall.[30]

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29 , Is the UK making progress towards its 2020 renewables target?, *Full Fact,* 1 March 2016

30 See, for example, Jocelyn Timperley, "Amber Rudd hints at government's latest climate policy thinking", Business Green online, 13 January 2016

3. Policy changes since the 2015 general election

Following the May 2015 general election, various announcements were made throughout the summer with an impact on the low carbon economy.

On 18 June 2015, the Government announced its intention to close the Renewables Obligation for onshore wind one year early, in 2016. This would apply to all developments over 5MW in size.[31]

Following this on 8 July 2015, the Summer Budget included an announcement on the removal of the Climate Change Levy Exemption that applied to renewable electricity supplies.[32] The Treasury also announced in its Productivity Plan *Fixing the Foundations*,[33] in July 2015, that the introduction of the Zero Carbon Homes standard in 2016 would be cancelled; further details can be found in the Library briefing paper on Zero Carbon Homes.[34]

The Government announced on 22 July 2015 that DECC's latest forecasts under the Levy Control Framework had shown that forecast spend on renewable energy subsidy schemes would be higher than expected and needed to brought under control.[35]

At the same time, DECC announced a package of measures, to "control the cost of renewable energy", including controlling subsidies for biomass and solar PV under the Renewables Obligation and changing accreditation rules under the Feed-in Tariff. The Secretary of State for Energy and Climate Change, Amber Rudd, also set out why renewable energy subsidies were being reviewed:

> My priorities are clear. We need to keep bills as low as possible for hardworking families and businesses while reducing our emissions in the most cost-effective way.
>
> Our support has driven down the cost of renewable energy significantly. As costs continue to fall it becomes easier for parts of the renewables industry to survive without subsidies. We're taking action to protect consumers, whilst protecting existing investment.[36]

On 23 July 2015, DECC announced that funding for the Green Deal Finance Company would end, effectively removing the financial support for Green Deal measures.[37]

On 27 August 2015, the Government published its consultation on its Review of Feed-in Tariffs for projects smaller than 5MW, including

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31 DECC, *News story: Changes to onshore wind subsidies protect investment and get the best deal for bill payers*, 18 June 2015
32 HM Revenue & Customs, *Climate Change Levy: removal of exemption for electricity from renewable sources*, 8 July 2015
33 HM Treasury, *Fixing the foundations: Creating a more prosperous nation*, Cm 9098, 10 July 2015
34 SN 06678, 10 May 2016
35 DECC, *Written statement to Parliament: Levy Control Framework cost controls*, 22 July 2015 and NAO, *The Levy Control Framework*. There are currently three components to the LCF: Renewables Obligation; Feed-in-tariffs scheme (FITs); and Contracts-for-Difference (CfDs).
36 DECC, *Controlling the cost of renewable energy*, 22 July 2015
37 DECC, *Press release: Green Deal Finance Company funding to end*, 23 July 2015

onshore wind.[38] Included in the proposals was the option of removing payments for the generation tariff (which is the larger portion of the scheme) if there was a surge of applications before the proposed changes came into force in January 2016, and retaining the payment for energy exported only. The outcome of the Review was published on 18 December 2015.[39] The conclusion was there would be no significant change to structure of the scheme, but generation tariffs would be reduced. It will continue to include onshore wind. Further detail can be found in the Library briefing paper on Feed-in Tariffs.[40]

3.1 New Direction for UK Energy Policy Announcement

The Secretary of State set out her vision[41] in a speech in November 2015 for "an energy system that puts consumers first, delivers more competition, reduces the burden on bill-payers and ensures enough electricity generation to power the nation".[42] This included:

- Consultation on ending unabated coal-fired power stations by 2025
- New gas-fired power stations a priority
- Commitment to offshore wind support completes commitment to secure, low-carbon, affordable electricity supplies
- Move towards a smarter energy system

The announcement also stated the Government's intention to focus on innovation for clean and cheap technologies and on market led choices, to keep costs as low as possible.

3.2 Impact of policy announcements

The potential impact on investor confidence of these changes was reflected in the UK dropping out of the top 10 most attractive countries to invest in renewables (from 8th to 11th) according to the EY Renewable Energy Country Attractiveness Index. The report concluded that

> a wave of policies reducing or removing various forms of support for renewable energy projects has confused investors and consumers.[43]

The changes also led the Select Committee on Energy and Climate Change to launch an inquiry into Investor Confidence in the UK Energy Sector. This looked at "what steps Government must take to restore confidence in the UK's energy sector and improve DECC's policy making processes".

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38 DECC, *Consultation outcome: Consultation on a review of the Feed-in Tariff scheme*, updated 15 March 2016
39 DECC, *Press release: Changes to renewables subsidies*, 17 December 2015
40 SN 06200, 21 March 2016
41 DECC, *Press release: New direction for UK energy policy*, 18 November 2015
42 DECC, *Speech: Amber Rudd's speech on a new direction for UK energy policy*, 18 November 2015
43 EY, *UK country focus*, September 2015. Full report is EY, *Renewable energy country attractiveness index*, Issue 45, September 2015

The report was published in March 2016. It drew attention to a dip in many investors' confidence since 2015 and identified six underlying factors:

1. udden and numerous policy announcements have marred the UK's reputation for stable and predictable policy development.
2. A lack of transparency in the decision-making process has led investors to question the Government's rationale for policy changes and to wonder "what will be next?"
3. There has been insufficient consideration of investor impacts, exemplified by insufficient consultation and engagement ahead of policy decisions.
4. Policy inconsistency and contradictory approaches have sent mixed messages to the investment community about the direction of travel. Examples of this include:
    - claiming to want to decarbonise at lowest cost while simultaneously halting onshore wind;
    - giving local people a say in wind consents but not shale gas; and
    - emphasising the important role of gas while scrapping support for carbon capture and storage.
5. The lack of a long-term vision has made it more difficult for investment committees to make decisions about projects that are, by their nature, long-term endeavours.
6. A policy "cliff-edge" in 2020, does not provide sufficient visibility about the size of the future Levy Control Framework (LCF) budget or what will happen to the Carbon Price Floor. This is a problem when projects can take five years or longer to go from conception to completion. [44]

The changes have also led to the Government's commitment to reducing emissions and tackling climate change being called into question. However, Ministers have been consistently reiterated that this is not the case, stating that unchecked climate change is one of the greatest long-term economic risks this country faces.[45]

Shortfall in renewables target

On 10 November 2015, the Energy and Climate Change committee took evidence from the Secretary of State, regarding DECC's annual report and accounts.[46]

A letter from the Secretary of State to ministerial colleagues was leaked in November 2015, stating that the UK was likely to miss its legally binding obligation to achieve strict EU targets on renewable energy by an estimated 50TWh (terawatt hours), or 3.5% of its 15% obligation. In evidence to the Committee, the Secretary of State stated that the

44 Energy and Climate Change Committee, *Investor confidence in the UK energy sector*, 3 March 2016, HC 542 2015-16: Summary

45 DECC, *Secretary of State Amber Rudd's speech to the Aviva conference, 'Climate Change: The Financial Implications'*, 24 July 2015

46 See Oliver Tickell, "Leaked letter: Rudd admits 25% green energy undershoot, misled Parliament", *Ecologist* online, 9 November 2015

shortfall in meeting the renewable energy targets should be met by renewable heat, and by more biofuels in petrol and diesel:

> I am concerned about the work that is being done on transport and on heat to make the additional targets. That is why I have been writing to other Ministers in other departments, particularly in transport, to urge them to work across Government to make sure that we do make these targets.
>
> We have made our interim target—in fact, we have just exceeded it—but it is going to be challenging to make the rest of the target. I remain committed to making good progress towards that target and it is because I am so committed to that that I am encouraging other Secretaries of State to take action. This is, after all, a cross-Government target; it is not just for my Department. I am going to be working with Transport and internally I am going to be putting together policies on heat to try to address the shortfall that we currently have in order to achieve that 2020 target.

And

> It's my aim we should meet the 2020 target. I recognise we don't have the right policies, particularly in transport and heat, but we have four to five years and I remain committed to making the target.[47]

3.3 Autumn Statement 2015

The Autumn Statement, delivered on 25 November 2015, included a number of announcements relevant to energy policy:[48]

Shale Wealth Fund

The government would commit up to 10% of shale gas tax revenues to a new wealth fund which could deliver up to £1 billion of investment in local communities hosting shale gas developments, in the north of England and other shale-producing regions.

Energy innovation

Spending on energy innovation would be doubled and £250 million to be invested in nuclear research and development programme, including a competition to identify the best value small modular reactor design for the UK. This stated aim was to build one of the world's first small modular reactors in the UK in the 2020s. Detailed plans for the competition to be published in 2016.

Renewable Heat Incentive

The government announced an increase in funding for the RHI scheme to £1.15 billion by 2020-21, and review the scheme to deliver better value for money. A consultation was launched in March and closed in April 2016.[49]

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47 Energy and Climate Change Committee, *Oral evidence: DECC Annual Report and Accounts 2014-15*, HC 544, 10 November 2015

48 Spending Review and Autumn Statement 2015

49 DECC, *Closed consultation: The Renewable Heat Incentive: A reformed and refocused scheme*, 3 March 2016

By the end of the Parliament the government expects to have incentivised enough additional renewable heat to warm the equivalent of over 500,000 homes.

3.4 Emissions Reduction Plan

Speaking to the Aldersgate Group in January 2016, Amber Rudd committed to publish an Emission Reduction Plan before the end of the year.[50] DECC's submission in April 2016 to the Energy and Climate Change Select Committee's inquiry on 2020 renewable heat and transport targets provided some further detail:

> The 15% reduction in greenhouse emissions over the last Parliament was the largest under any Government to date, and we are on track to meet the first three Carbon Budgets into the 2020s.
>
> But it is clear that reducing emissions is becoming more challenging as we look ahead to the late 2020s. We know, for example, that there is more to do to meet the fourth Carbon Budget covering the period 2023 – 2027.
>
> Meeting this challenge will require emission reductions across the economy. However, our approach must be pragmatic, ensuring that our energy is always secure and consumer bills are kept low.
>
> We will engage stakeholders, including the investment community, as we develop our Emissions Reduction Plan. We have already begun to actively engage businesses, consumers and civil society.
>
> An economy wide problem requires a Government wide response and we are currently working across Government to determine the right approach to reducing emissions in the 2020s. The Plan will be informed by analysis to ensure we stay on track to meet the UK's target of reducing emissions by at least 80% in 2050 on 1990 levels. It will also examine how we keep costs low for families and businesses.
>
> The Emissions Reduction Plan will be developed in consultation with stakeholders, including the investment community. We have already begun to actively engage businesses, consumers and civil society.[51]

3.5 Budget 2016

The Budget 2016 included changes to the way businesses will be incentivised to reduce their energy use.

There was also support for the National Infrastructure Commission on Smart Power, which called for a focus on three areas: interconnectors, energy storage and demand flexibility.[52]

Further announcements relating to energy and climate policy were made in the March 2016 Budget.

50 *Maintaining Momentum Beyond Paris*, Aldersgate Group, 12 January 2016
51 Written evidence submitted by the Department for Energy and Climate Change (HAT0063)
52 National Infrastructure Commission, *Smart Power*, March 2016

There was also an announcement of CfD of up to £730m this Parliament, which will support up to 4GW of offshore wind and other renewables. For further analysis this *Carbon Brief* article is useful.[53]

[53] "Budget 2016: key climate and energy announcements", *Carbon Brief*, 16 March 2016

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