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Monthly Report on Policy Developments - Energy and Climate Change
February/March 2015

Purpose: This document provides a summary of recent key developments in policy and research relating to energy and climate change. It has been prepared by the ClimateXChange[1] Secretariat and is intended to keep Scottish Policymakers informed of issues relevant to the Scottish Government's Energy and Climate Change policy portfolio.

Climate Policy – International

1. Governments reach agreement on the negotiating text for 2015 Paris Climate Conference

The Geneva Climate Change Talks closed on February 13th, with the 194 governments involved reaching agreement on the negotiating text to be taken to the Paris Climate Conference (COP 21) in December this year. This text contains the views and concerns of all countries involved, which will be further negotiated throughout the year. The negotiating text covers the substantive content of the new agreement including mitigation, adaptation, finance, technology and capacity-building. Click here for more information.

2. European Commission releases vision for Paris 2015 climate deal

The European Commission has set out the EU's vision for the new global climate change agreement due to be adopted in Paris in December. The Communication is part of the EU's Energy Union package unveiled by the Commission on February 25th. The document states that:

- Governments should target greenhouse gas emission cuts of at least 60% on 2010 levels by 2050, with countries belonging to the G20 taking the lead;
- Europe should commit to 40% cuts on 1990 levels by 2020;
- All major economies, including India, Brazil and Saudi Arabia should adopt ambitious, economy-wide carbon reduction goals by 2025.

Energy and Climate Policy – UK

1. UK carbon emissions fell 9% in 2014

Analysis of DECC's latest *energy trends and prices* report shows that the UK's carbon emissions fell by 9% in 2014. Undertaken by *the Carbon Brief*, the analysis identifies this as the largest on-year reduction since 1880, driven mainly by ongoing reductions in overall energy demand and the power generation sector increasingly switching from coal to gas use. The latter is attributed to falling gas prices.

2. Energy and Climate Select Committee releases preliminary evaluation of the implementation of Electricity Market Reform

The Energy and Climate Change Committee has released a preliminary report on its inquiry into the

[1] ClimateXChange is Scotland's Centre of Expertise on Climate Change, supporting the Scottish Government's policy development on climate change mitigation, adaptation and the transition to a low carbon economy. The centre delivers objective, independent, integrated and authoritative evidence in response to clearly specified policy questions.

Government's progress towards implementing its EMR reforms. The report, released on 24th February 2015 finds that:

- The electricity Capacity Market - designed to meet peaks in demand could result in higher than necessary energy costs and emissions because its design has been skewed in favour of fossil fuel generating capacity, rather than innovative demand-side response technology
- DECC has not provided a level playing field for 'demand-side response' (DSR) providers in the Capacity Market and should consider increasing the contract length of DSR capacity agreement.
- National Grid has a potential conflict of interest in its role overseeing the Capacity Market as the main Delivery Body for the Government's Electricity Market Reforms (EMR). Given its existing role as the System Operator and owner of the transmission network.

3. Bank of England says climate action a risk to fossil fuel investments

The Bank of England has warned that insurers could suffer a 'huge hit' if their investments in fossil fuel companies are rendered worthless by action on climate change. The bank's governor, Mark Carney stated that the "vast majority of [fossil fuel] reserves are unburnable" if climate change is to be limited to 2 degrees. The bank will deliver a report to government on the financial risk posed by a "carbon bubble" later in 2015.

This follows the release of a study by the UK Energy Research Centre which identifies the extent and location of the world's 'unburnable' fossil fuel reserves. The study finds that third of oil reserves, half of gas reserves and over 80 per cent of current coal reserves globally should not be exploited before 2050 if global warming is to stay below the 2°C

Renewable Energy – UK

1. Industry responds to DECC's first CfD renewable energy auctions

DECC has completed auctioning of renewable energy contracts, offering £315m worth of contracts across five renewable technologies. These contracts are the first to be offered by DECC using the Contracts for Difference (CfD) mechanism. Two-thirds of the UK onshore wind projects successful in this auction round will be constructed in Scotland. Click here for more information.

RenewableUK has welcomed the 'highly competitive prices' achieved by the CfD process (see press release here). The **Renewable Energy Associat**ion has expressed 'longstanding concerns' regarding the process, but has welcomed the wide spread of technologies included in the contracts (see press release here). **Scottish Renewables** has welcomed the 'boost' given to Scotland's renewable energy industry by the award of contracts to Scottish developments (see press release here).

2. UK Government to investigate £175m wind subsidy 'loophole'

A report by think tank IPPR claims that more than 100 medium-to-large wind turbines across the country are generating less energy than they're capable of as installers claim superior subsidies offered to smaller turbines as part of the Feed-in-Tariff (FiT) initiative. The IPPR estimates that these 'derated' turbines have already cost British billpayers £175 million. This report follows claims by energy company RWE that UK planning precedents are preventing the construction of more efficient wind turbines. The UK Government is investigating the issue.

3. UK's renewable energy 'attractiveness' drops

The UK's ability to attract investment to fund renewable energy projects has fallen to its lowest level in 12 years. According to the consultancy firm EY, the UK is now the 8th most attractive country for renewable energy investment. The consultancy attributes a decrease in the UK's attractiveness to uncertainty created by the recent introduction of Contracts for Difference and the upcoming general election.

4. Wind power found to increase UK's energy security
Cambridge Econometrics has released the findings of its study, commissioned by Renewable UK, which assessed the impact of wind energy on UK energy dependence and resilience. The study finds that further investment in wind power would improve the UK's energy security and independence, potentially displacing £3.1bn worth of gas imports in 2020.

5. British public found to support wind power, despite over-estimating costs
Renewable UK has released the results of a survey which assessed the British public's understanding of wind farm costs. The study finds that on average, people estimate that payments for wind farm investments add £259 to the average dual fuel bill. This is well above the actual average payment of £18 per year. The research also suggests people underestimate public support for wind power, putting backing at around 40% on average, while the latest surveying by the government shows support is at 74% for offshore wind and 68% for onshore wind farms.

6. World's first tidal energy lagoon proposed for Cardiff
Green energy company Tidal Lagoon Power has begun the official planning process for a proposed 14-mile seawall, which would stretch from Cardiff to Newport and cost up to £6bn. The plan has been supported by the UK Government, with the company claiming that a fleet of six lagoons could together generate 8 per cent of the UK's needs for 120 years. Further information here.

Climate Impact and Adaptation

1. Scottish Cities Alliance release Scottish Seven Cities 'Mini Stern' reports
This project was commissioned to identify and assess the possible risks and economic opportunities posed by a changing climate in Scotland's cities and the drive towards a low carbon economy. The seven individual 'City Reports' have now been published and are accompanied by the full report *Low Carbon Resilient Cities: Investment Opportunities for 'Better' Growth*. Some adaptation experts have expressed concern that drought risk has been overstated in these reports.

2. World Resources Institute finds that the global flood toll could triple by 2030
The WRI has ranked 163 countries according to the flood risk faced by the population of each. The study has found that 21 million people worldwide could be affected by river floods on average each year. It also finds that about 76,000 people a year could be at risk of being affected by flooding in the UK if defences aren't improved. The yearly cost of damage to urban areas could reach more than £1bn.