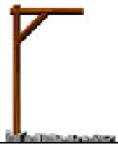
Clue: A major city



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EU's green targets may force UK to increase renewables fivefold

• Brussels to impose auction for emissions permits
• Minister launches Severn barrage feasibility study

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Mark Milner, industrial editor and David Gow in Brussels
The Guardian, Monday January 21 2008

Britain could be forced to quintuple the energy it takes from renewable sources to 15% by 2020 from 3% or less, under tough new green targets to be set out by the European commission on Wednesday.

The long-awaited and controversial energy package, which sets binding targets on greenhouse gas emissions, coincides with a second reading of the government's energy bill and new moves towards a decision on the Severn barrage project.

The commission's plans for the third phase of the EU's emissions trading scheme (ETS) to cut greenhouse gas emissions will force power generators, refiners and eventually other industries such as steel, cement and paper to bid for permits to emit carbon dioxide. Free permits have given big energy producers billions in windfall profits.

The revised ETS will impose an auction for emissions permits from 2013 when two-thirds of permits for some 11,000 plants covered by the scheme should be subject to bidding. These industries will have to cut emissions by 21% below 2005 levels. The European paper industry lobby, CEPI, said this would cost it €1bn (£748m) a year - or its annual net income.

The British government supports moves towards full auctioning of permits for the electricity generating industry but is understood to be concerned about its impact on sectors that are demanding a more gradual introduction of auctions and threatening to move out of Europe.

Strengthening the ETS by curbing permitted emission levels is seen as crucial to ensuring a long-term credible price for carbon. The CEPI said the draft plans would raise the price for carbon from €20 a tonne or so now to €40. That would increase the attraction of investing in zero or low-carbon power generation such as on- and offshore wind farms, nuclear, waves, tide and carbon capture and storage.

Jake Ulrich, managing director of Centrica Energy, said putting a high price on carbon emissions would create a scarcity value for permits. "Only then will there be an incentive to really go out and invest more in cleaner but more expensive generation plant, such as clean coal with carbon capture, offshore wind and nuclear. We need to see carbon prices rise sharply from their current €22 for such investments to become economic."

The commission's planned scheme for increasing the use of renewables from 8.5% of energy to 20% by 2020 is already under fire from countries such as Sweden and Britain. The draft directive would allow under-performing countries to "buy" towards their targets from others.

One measure that could help the UK government is the controversial plan to build a hydro-electric barrage across the Severn, which could generate 5% of UK electricity demand. This week the business and enterprise secretary, John Hutton, will publish the terms of reference for a feasibility study for the project.

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