

Renewable Heat Incentive: Consultation on the proposed RHI financial support scheme

Response from the Energy Intensive Users Group

General Comments

EIUG represents the UK's energy intensive industries – producers of steel, chemicals, paper, cement, glass, ceramics, aluminium and industrial gases, etc. These industries are for the most part internationally owned, compete in globally traded markets and depend on access to internationally competitive energy supplies to remain in business. We accept the case for decarbonising energy supplies where it is practical and economic to do so, and strongly support the principle that emissions reduction should be achieved at least cost.

We have profound concerns about the potential impact of the Renewable Heat Incentive (RHI) on the cost of industry's gas supplies and hence on the future competitiveness of gas-intensive manufacturing industries in the UK. That these concerns have not been adequately acknowledged let alone addressed at this comparatively late stage in the RHI funding consultation is highly regrettable. We believe that DECC should turn its attention to these concerns as a matter of priority in the remaining months prior to implementation.

DECC appears not to understand the limited extent to which certain industrial processes are able to switch to alternative renewable heat sources, on technical grounds, even if the problematic economic consequences of attempting to do so are ignored entirely. The RHI as currently constituted would simply render these processes uncompetitive and encourage investment in production outside the UK in countries that have no intention of imposing similar renewable subsidy costs on their heat-intensive industries. Energy can account for anything between 20-70% of production costs for certain intensive processes, so cost-raising interventions in the gas/heat markets represent a material threat to their viability. Mitigating measures are therefore required to minimise the negative economic impact of the RHI and the consequent risk of carbon leakage, analogous to those already in place for relevant sectors under the Climate Change Levy and the EU Emissions Trading Scheme (ETS).

EIUG has additional specific concerns relating to the definition of gas feedstock use in the chemicals sector, which should be exempted from the RHI, and the potential negative impact of the RHI on highly efficient gas-fired industrial combined heat and Power (CHP). DECC will be aware that there is a considerable reliance on gas-fired CHP in the paper and chemical industries and elsewhere in the intensive sectors – a situation that the government has rightly encouraged because of its contribution to lowering energy-related emissions. Our position is that feedstock users and operators of good quality industrial CHP should not be disadvantaged by the introduction of the RHI and should therefore be exempt from the direct or indirect costs it would otherwise impose on the efficient use of natural gas.

Significant uncertainties remain with respect to RHI funding. The government had led us to believe that this would be at least partially resolved by a statement in the recent Budget, but in the event this failed to materialise. DECC and Treasury should be aware that industry needs to budget ahead with reasonable confidence for next year and beyond and that the continuing uncertainty about RHI funding acts as a disincentive to investment within heat-intensive industries, and indeed in the new sources of renewable heat that DECC wishes to encourage more generally.

DECC should also be aware that the regulatory impact assessment (RIA) accompanying the consultation is manifestly inadequate as far as large energy-intensive industrial users are concerned, even allowing for the fact that certain aspects of funding remain uncertain at this stage. DECC has so far refused to provide a transparent indication in *absolute* (as well as

%) terms of the likely impact of the RHI on the unit cost of gas supplied to industrial users generally, and no information at all on the likely impact on large intensive users. We note however that DECC admits gas bills for average industrial users are likely to rise by up to 35% by 2020, so gas bills for large intensive users will presumably be subject to even a larger increase.

EIUG has long argued that the vulnerability of intensive users must be assessed in light of the *cumulative* impact of unilateral UK/EU climate measures on industrial energy costs by 2020 and beyond – i.e. the impact of the RHI given the additional burdens also imposed on industry by the CCL, Renewables Obligation, EU ETS (direct and indirect costs), Carbon Capture and Storage Levy, inflated transmission, distribution and system balancing costs to accommodate unreliable wind energy, etc. Our understanding of the government's own various estimates to date is that the combined impact of these measures by 2020 will be to increase the unit cost of energy supplied to large intensive industrial users by up to 40% for gas and 70% for electricity respectively. It is essential that DECC provides this information, which has been repeatedly requested, as a matter of urgency.

Finally, we note that the RIA reveals that the expected emissions savings from the RHI will come at an unnecessarily expensive cost to UK energy consumers even under the most optimistic of scenarios – many times the price of emissions reduction within the EU ETS, let alone through potentially even cheaper energy efficiency measures elsewhere. We note DECC's remarkably honest conclusion (RIA para. 57) that:

'the RHI as a whole fails to pass the cost effectiveness test'

It is regrettable therefore that DECC appears intent to plough ahead with this flawed measure in its current form. But we hope there is still time for common sense to prevail and that appropriate modifications can be made in light of consultation responses – particularly those from the consumers who are set to bear the considerable cost. We believe serious consideration should be given to funding the RHI through general taxation in order to mitigate the damaging economic impact on industrial gas/heat users, but regardless of whether this can be done, modifications *must* be made to ensure the burden is reduced for vulnerable intensive industrial users that are highly exposed to international competition.

Responses to certain individual consultation questions follow.

Q1: Are there any issues relevant to the design or operation of the RHI that are not addressed in this consultation document? If so, how should we deal with them?

There are a number of issues that remain unaddressed, including but not necessarily limited to funding (partially a matter for Treasury), the definition of feedstock use, treatment of intensive industrial heat users exposed to international competition and the disincentive for investment in gas-fired CHP. We believe there should be a further consultation to discuss these and other outstanding issues in more detail and that a more accurate, transparent and comprehensive impact assessment must be published once funding has been established.

We would also draw attention to the need for strong sustainability criteria for biomass to qualify for RHI support, which would strengthen the incentive's environmental credentials and ensure that otherwise responsible industries using biomass as feedstock with such criteria are not disadvantaged.

Q2: Do you see any barriers to such financing schemes coming forward? In particular, are there any limitations in leasing and finance legislation that you feel inappropriately restrict the development of RHI financing models?

Q3: Do you agree with our proposed RHI registration and payment approach? If not, can you suggest how this approach can be improved?

Q4: Do you agree with our approach of requiring products and installers for installations up to 45kW within RHI to be accredited under MCS or equivalent?

No comments on these questions.

Q5: Where MCS is extended beyond the current limit, do you agree that we should require the use of MCS certified installers and equipment for eligibility for the RHI?

We disagree with this proposal - there should be the freedom to tailor equipment specifically for the needs of large-scale installations on complex industrial sites.

Q6: Can you provide details of any UK or European standards that should count as equivalent to MCS? How should we recognise these standards for the RHI?

Q7: Do you agree with our proposed approach to eligibility of energy sources, technologies and sites?

Q8: Do you agree with our proposed approach on bioliquids? Are you aware of bioliquids other than FAME that could be used in converted domestic heating oil boilers? If so, should we make them eligible for RHI support, and how could we assess the renewable proportion of such fuels to ensure RHI is only paid for the renewable content of fuels?

Q9: Do you agree with the proposed emissions standards for biomass boilers below 20MW? If not, why, and do you have any evidence supporting different ones, in particular on how they safeguard air quality?

No comments on these questions.

Q10: Do you think the RHI should be structured to encourage energy efficiency through the tariff structure (in particular the use of deeming), or, additionally, require

householders to install minimum energy efficiency standards as a condition for benefiting from RHI support?

We agree that there may be merit in ensuring that householders meet minimum energy efficiency standards in order to benefit from RHI support. As a matter of principle, we welcome initiatives to ensure that the burden of climate measures falls on all parts the economy, not just the industrial sector.

Q11: Can you provide suggestions for how to ensure that developers do not build to lower energy efficiency standards as a result of the RHI in advance of 2013 and 2016 building regulations taking effect?

No comments.

Q12: Do you agree with our proposals on where we should meter and where we should deem to determine an installation's entitlement to RHI compensation?

We agree that it is appropriate in many instances for large-scale installations to meter renewable heat production in order to benefit from RHI support. We believe such metering should be stipulated to a certain degree of accuracy, not regulated, as with current Climate Change Agreements. However, since biomass fuel input can often be measured with often a greater degree of accuracy than metering, we believe the use of biomass in directly fired operations such as kilns and burners should also be able to attract the RHI even though the heat output is not directly metered.

Q13: Do you agree that a process based on SAP or SBEM for existing buildings or the Energy Performance Certificate for new buildings is the best way of implementing deeming? Do you have any suggestions on the details of how this assessment process should work?

No comments

Q14: Do you agree that at the large scale/in process heating, where we propose metering, the risk of metering resulting in a perverse incentive to overgenerate is low? How could we reduce it further within the constraints of using metering, to ensure only useful heat is compensated? Do you see any practical difficulties concerning use of heat meters (such as on availability, reliability or cost of heat meters) and, if so, how should we address them?

We agree that the risk of a 'perverse incentive to over generate' is low, not least because of the high input costs associated with generating energy in process heating.

Q15: What is the right incentive level required to bring forward renewable heat from large-scale biomass including in the form of CHP while minimising costs to consumers?

Q16: What is the right incentive level required to bring forward renewable heat from biogas combustion above 200 kW including in the form of CHP while minimising costs to consumers? Do you have any data or evidence supporting your view?

Q17: Do you have any data or evidence on the costs of air source heat pumps above 350 kW or solar thermal above 100 kW?

Q18: Do you agree with the proposed approach to setting the RHI tariffs, including tariff structure and rates of return? Do you agree with the resulting tariff levels and lifetimes? If not, what alternatives would you prefer, and on the basis of what evidence?

Q19: Do you agree with our proposed approach on mixed fuels? Do you agree with our proposal that, at larger sites, with the exception of EfW, RHI will require the use of a dedicated boiler for the renewable fuel? Where our approach is to follow the Renewables Obligation, do any aspects need to be adapted to account for the different situation of renewable heat?

Q20: Do you believe that we should provide an uplift for renewable district heating?

Q21: Do you believe that an uplift should be available to all eligible district heating networks, or that eligibility should be determined on a case-by-case basis depending on whether a network contributes to the objective of connecting hard-to-treat properties (and, if the latter, how should we determine this for each case)? Do you agree that situations of one or a small number of large external heat users should not be eligible for an uplift, and, if so, what should be the minimum eligibility requirement for an uplift (expressed for instance as a minimum number of external customers)?

No comments on these questions.

Q22: Do you agree that RHI tariffs should be fully fixed (other than to correct for inflation) for the duration of any project's entitlement to RHI support? Do you agree that we should include bio-energy tariffs, including the fuel part of those tariffs, in such a grandfathering commitment?

We agree that tariffs should be grandfathered to ensure certainty for investors

Q23: Do you agree with our proposal not to introduce degression from the outset of the scheme but consider the case at the first review?

Q24: Do you agree with our proposed approach on innovative and emerging technologies?

Q25: Do you have any views on how we should encourage technology cost reductions through the RHI, particularly on solar thermal heat?

No comments on these questions.

Q26: Do you agree with our proposed approach to reviews, and the timing and scope of the initial review?

Reviews periods should aim to avoid uncertainty in the level of support from the RHI over the required lead times for investments on industrial sites, which can run to three or four years from funding to final commissioning. Investors need clarity at the time of investment, not commissioning.

Q27: Can you provide examples of situations that could be taken into consideration in determining criteria for an emergency review?

Q28: Do you agree with our proposed approach to allow access to RHI support to new projects where installation completed after 15 July 2009, but not before? Do you have any evidence showing that in particular situations RHI support for installations existing before this date would be needed and justifiable?

Q29: Are there any parts of the proposals set out in this consultation that in your view would allow for unacceptable abuse of RHI support, or other unintended consequences? If so, how could we tighten the rules while keeping the scheme workable, and avoiding an overly high administrative burden?

Q30: Do you agree with our proposed overall approach to setting the level of the uplift? Can you provide evidence that would help us to determine the level of uplift? In particular:

- Can you describe typical district heating networks that would be appropriate as reference networks, and what are their network costs, heat loads, and customer numbers and characteristics?**
- What proportion of the heat load of such networks is typically supplied to hard-to-treat properties? What proportion of the total network of the reference installation(s) supply heat to hard to treat properties?**
- Should we choose one reference network and determine one uplift (in p/kWh) applicable to all sizes of networks, or should there be several based on a number of differently sized reference networks?**

No comments on these questions