

Renewable Heat Incentive Consultation on the proposed RHI financial support scheme

Comments from the Confederation of Paper Industries

INTRODUCTION

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?

Yes

Overall cost. We continue to express concern that the UK target is too ambitious and the cost for consumers excessive. Energy bills significantly higher than in other Countries will inevitably mean the long term loss of UK manufacturing jobs. Increases in conventional fuel bills in the region of 20-30% by 2020 are particularly troubling. The cost of the RHI should be spread as widely as possible. Certainly all sectors drawing support from the RHI should share in the overall cost and this includes the domestic sector. We argue that the RHI should be funded by general taxation, or if this is not accepted then by an extension to the coverage of the Climate Change Levy to include all purchasers of fuel. This would have the advantage of being simple to administer.

Sustainability standards for biomass. We strongly support proposals to impose appropriate sustainability standards on biomass. In particular we express concern that material could be diverted from recycling or paper making to be used for energy generation. The principles of the waste hierarchy should normally be respected, with energy use only permitted after more environmentally and economically beneficial uses are exhausted. The industry is already experiencing problems with an increased cost of raw materials for pulping caused by potentially unfairly subsidised use in energy production. Indeed during winter 09-10 there was a spike in pulping timber prices caused by Scandinavian demand for biomass for heat generation.

An RHI driven increase in fuel bills plus higher raw material costs will inevitably impact on the UK paper industry and likely result in job losses.

Support for CHP. It is of concern that the environmental benefits from CHP are not recognised by the scheme, other than those sites using renewable fuel. Indeed CHP fired by natural gas is disadvantaged by the RHI by potentially being subject to the levy raised to cover the cost of the RHI. We urge this issue is re-examined.

CHAPTER 1: ACCESSING THE RHI

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?

Yes

Comments: Access to capital for investment continues to be limited and expensive, with a number of different projects competing for any available finance.

The proposal to set the rate of return at 12% lead to considerable debate during our consultation with members, with a difference of opinion if 12% would be sufficient to affect the large scale investment decisions required to reach the targets. The automatic mechanism to review this rate in the light of actual investments is sensible.

Critical to investment confidence are guarantees that support will be offered for the period promised as this will be required to pay back commercial loans secured to cover the investment costs. In particular issues around grandfathering of biomass facilities need to be resolved.

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

No

Comments: A monthly payment approach for larger scale installations would be more appropriate. There should also be an option where the plant owner can nominate a third party to receive the payment if they wish.

CHAPTER 2: ELIGIBILITY AND STANDARDS

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: The requirement for smaller equipment to be fitted by MCS accredited installers may lead to a bottleneck and exclude competent installers who cannot afford the expense of registration. It may be appropriate for there to be an option for the equipment to be certified as scheme compliant and for the supplier to confirm the quality of the installation.

Q5: Where MCS product and installer certification is extended beyond this limit, do you agree that we should introduce the requirement of using certified installers and equipment for eligibility for the RHI?

Comments: It would be expected that for larger installations specifiers would have the expertise to ensure their own value for money. Additionally the requirement for actual heat metering in such cases means that the RHI would only pay for metered heat and so need have no concern over the actual combustion equipment.

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?

No comment.

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

No

Comments: Eligibility. It is important that there should be flexibility to ensure that all sources of biomass including those mixed with non renewable elements can be utilised. Within the paper sector, potential biomass based fuels such as paper sludge and industrial/municipal waste almost always have an element of non renewable waste. RHI credit should be given for the renewable fraction. In the case of installations in EU ETS, there is already a requirement for the non renewable element of these fuels to be measured and such a requirement could also be imposed on smaller installations. This information could be used alongside the metered heat measurements to calculate the credit to be drawn from RHI. Without such allowance a number of potentially large contributions to the scheme will be lost.

Co-firing of boilers. There must be an acceptance that many industrial boilers are co-fired – larger models used in the paper sector require the use of gas at start up and sometimes to maintain combustion. Additionally (as explained above) a number of predominantly biomass fuels contain an embedded element of non biomass fuel.

Conversion of equipment. Existing equipment currently fired by fossil fuels should be eligible for support if converted to use renewable fuel. RHI support would be required to support such proposals; if support were not required the conversion would have already occurred.

Date for eligibility. We would suggest a more appropriate date would be the publication date of the UK Renewable Energy Strategy (26 June 2008).

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?

No comment – this question concerns the replacement of domestic heating oil.

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?

We agree with concerns that achieving high environmental performance with smaller combustion plant is more difficult than achieving the same standards with larger plant. For this reason it may be more sensible for support to be targeted on larger sites.

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?

No comment – this question concerns domestic buildings.

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?

Comments: This requires proper regulation of buildings to ensure the appropriate standards are delivered. If these are too low, the building standards should be revised at an earlier date.

CHAPTER 3: TARIFFS

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?

No – please see answer to Q14.

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 comment.

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?

Safety issue. It is a requirement that appropriate overpressure protection is provided in steam systems. It is possible that “safety valves” may be required to be installed after the heat meter which could lead to intermittent losses of heat and this should be recognised. It is very unlikely the economics of the RHI would encourage excessive generation and subsequent dumping of steam.

Heat metering. We support proposals that the topic of heat metering should be the subject of investigation and development by the National Measurement Office. The involvement of CPI in monitoring existing meters across the whole sector for purposes of the CCA has alerted us to the quality of gas meters. Around a third of our installations experienced meter related failures during 2009 and we would highlight similar issues for heat meters if they are widely deployed.

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?

Comments: Investment decisions will be made based on a number of different factors and it is only actual developments that will reveal if the level of RHI support is correct.

However we would make the following points;

15 years is too short a repayment period for large scale biomass plant – 20 years would be more appropriate.

Linking tariff payments to the cost of fuel is difficult. Firstly there are no standard prices for fuel as contract conditions differ and secondly we disagree with the inferred suggestion that biomass prices will fall over time.

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?

We support proposals for the productive use of biogas, but have no comment on the incentive level for larger developments.

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?

No comment

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?

15 years is too short a repayment period for new biomass combustion plant. 20 years would be more appropriate.

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?

No

Comments: Any rule requiring the use of a dedicated boiler for renewable combustion will restrict the use of the RHI for no good purpose.

The requirement for separate combustion facilities for renewable fuel should not be implemented - conventional biomass boilers require the use of gas at start up and potentially to balance combustion depending on the calorific variability of the input fuel. Potential fuel sources (for example paper sludge or waste wood) contain some element of material from fossil sources. Sites in EU ETS using such mixed composition materials are already required to monitor the composition of the fuel. The RHI will require the installation of heat meters. Accordingly the heat generation can simply be factored by the fuel composition figures to enable a simple calculation of the heat arising from the renewable element of the fuel source for RHI purposes. Similar monitoring requirements could be placed on non EU ETS sites.

Already we have examples where permitting of combustion activities limit the range of materials that could be utilised and effectively prevents waste being used for heat recovery. This proposal would reinforce this policy failure.

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

No comment.

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-heat 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)?

Comments: Proposals should be cost effective and reasonable. Care should be taken that costs do not become excessive for those paying the cost of the RHI.

CHAPTER 4: THE RHI BEYOND 2011

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?

Yes/No

Comments: On balance we agree that tariffs should be fixed over the lifetime of the RHI commitment because each installation/company is likely to have a different energy price contract; there is not a standard price that can be used in calculation. If the RHI price support level is fixed, the consideration of fuel price fluctuations is left in the hands of the installation operator. The wording in the consultation also seems to suggest that the price of biomass is likely to fall in the longer term. We would not agree with this analysis and would suggest that widespread deployment of biomass generation may drive prices upwards. Indeed demand for biomass in Scandinavia during the most recent severe winter caused a demand and price spike meaning material for paper making was in short supply.

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

Yes

Comments: It seems sensible to review this option during the first review. With such an ambitious overall target it is equally likely support will need to be increased to stimulate additional investment.

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

Comments: Micro management of technology would be difficult and complex with no guarantee of securing a better outcome than simply leaving it to the market between equipment suppliers to drive innovation.

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

No comment.
Q26: Do you agree with our proposed approach to reviews, and the timing and scope of the initial review?
Yes
Q27: Can you provide examples of situations that could be taken into consideration in determining criteria for an emergency review?
No comment.
CHAPTER 5: INTERACTION WITH OTHER POLICIES
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?
We would suggest a more appropriate date would be the publication date of the UK Renewable Energy Strategy (26 June 2008).
CHAPTER 6: ADMINISTRATION
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?
No
ANNEX 3: CALL FOR EVIDENCE ON DISTRICT HEATING NETWORKS
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 comment.