

REC 04/13

Response to the Office of Rail Regulation Consultation on a freight specific charge for biomass

28 March 2013

About Energy UK

Energy UK is the Trade Association for the energy industry. Energy UK has over 70 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and invested over £10 billion in the British economy in 2011.

We welcome the opportunity to comment on the Office of Rail Regulation's proposals for a freight specific charge for biomass. Some of our members are actively pursuing biomass power generation opportunities, including at existing coal-fired power stations.

Consistency with UK energy policy

Reducing greenhouse gas emissions is a key aspect of the Government's renewable energy ambitions. The conversion of existing coal-fired power stations to biomass could play a significant role in helping to meet the UK's 2020 renewable energy target, with DECC forecasting that some 6 GW of renewable capacity could be provided from such conversions by 2020. Energy UK was disappointed with the ORR's decision in 2012 to implement a coal specific freight charge at a time when environmental legislation and taxes are putting increasing pressure on the future of coal-fired power generation.

Important decisions about the future of coal-fired power stations, including whether to convert to biomass, are being taken now. In some cases, these conversions will rely heavily on rail infrastructure for getting fuel to site and we are therefore concerned about the financial impact that the proposed additional freight charge for biomass could have on these projects.

The Government has established financial support arrangements for power from biomass through the Renewables Obligation (RO) and is finalising details of the new Feed-in Tariff with Contracts for Difference (CfDs) as part of its programme of Electricity Market Reform. This new rail charge for biomass has been proposed at a late stage and therefore has not been factored into the recent RO Banding Review, nor into the strike price setting for the CfDs and undermines the lengthy consultation process that the Government has already concluded with the power industry on financial support for biomass.

This change in taxation provides a good illustration of a change in law that affects the revenues for supported projects. Therefore as a point of principle, the proposed CfDs should include a provision in the contract to ensure that when a change in law such as this occurs, generators are not disadvantaged. We are currently in discussions with DECC on this issue.

Setting the charge for biomass

We are concerned about the lack of transparency of the research the ORR has conducted with the potentially affected markets. We encourage the ORR to share any calculations prior to making its proposals and to discuss them with affected stakeholders.

Conclusion

Energy UK considers that this proposed charge requires further consideration in the context of the Government's renewable energy objectives. We suggest that the charge should not be contemplated for biomass for at least two control periods to allow the costs of this tax change to be factored into support levels and that ORR's view on this should be stated very soon to allow investments to take place.

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