

Renewable Heat Incentive – Confederation of Paper Industries deplores the reduction in support for large biomass installations



DECC has announced that the final approved level of support for heat produced in large biomass installations under the Renewable Heat Incentive (RHI) has been set at 1.0p per kWh – slashed by almost two thirds from the originally proposed level after refusal by the European Commission to grant the necessary State Aid Approval.

The Confederation of Paper Industries (CPI) has welcomed the principle of the RHI as paper manufacturing should be well placed to participate due to the high demand for heat required in its drying process. The industry has already made substantial investment in energy efficiency and the RHI was expected to provide a further push to reduce sector fossil carbon emissions.

However, the delays to the implementation of the scheme and the last minute change in the level of support means the RHI is off to a shaky start with expectations already being dashed.

Almost all major investments require external finance, and the critical factor in securing support is confidence in cash-flows to repay the investment. Such last minute changes simply destroy confidence and make it less likely Government schemes will achieve their objectives. With massive investment required to modernise energy production in the UK, the damage done to investment confidence by last minute changes in policy should not be underestimated.

CPI member companies have already expressed concern that the overall limit on expenditure means large complex installations (taking several years to build) run a development risk in seeing the RHI closed to new developments when the site is ready to be commissioned.

Additionally, potential RHI projects have been developed on the assumption that the support offered would be in the region of 2.7p per kWh (as previously announced); reducing this to 1.0p per kWh destroys investment plans and wastes resources already deployed to develop the plans. In particular, the guaranteed RHI income at the higher level was critical in assessing the financial viability of these investment plans.

More than this, the reduction in support for large scale projects actually makes no sense. Smaller projects under RHI are being offered support of up to 7.9p per kWh, meaning a far higher overall cost to the Exchequer than would result from a smaller number of larger projects benefiting from economies of scale being supported at 2.7p per kWh.

David Workman (Director General, CPI) urged the Government to act to support British industry;

“We’ve been highly critical of Government policies increasing energy costs for UK industry to such an extent that the UK is becoming an uncompetitive location for paper manufacture. We have particular concerns over the impact of the forthcoming Carbon Price Support Taxation on our industry and urge that the impact on Energy Intensive Industries is considered in more detail.

“However, the RHI was one scheme designed to support investment in low carbon heat generation and we welcomed the Government’s decision not to fund the scheme through a levy on fuel bills. This last minute announcement, with no warning, slashes support from the RHI for our members by two thirds.

“DECC economists were clearly convinced that support in the region of 2.7p is required to achieve the required investment and it’s ridiculous that the European Commission should be allowed to veto a UK only scheme developed by the UK Government.

“Realistically, it looks a done deal that the scheme will be launched with support set at just 1p, but we urge that DECC should stand up to the Commission rather than just accept its rulings. It was always envisaged that RHI levels of support for new investments would be reviewed over time. If investment does not take off then we suggest an early review of the support level for large biomass. DECC should argue the case for additional support and stand up for British industry.”

Mark Cropper (Chairman, James Cropper plc) commented;

“The announcement by DECC that the Renewable Heat Incentive is to be set as low as 1.0p/kWh following pressure from the EU is hugely disappointing. Taken with the UK Government’s intention to introduce a penal carbon price floor, over and above proposed EU measures, I fear that many energy intensive users will, at the very least, scale down their operations in the UK.

“Energy intensive users in the UK recognise that they must become more energy efficient and make the transition to lower carbon energy where possible. However the scale of investment is significant and in these uncertain times the commitment to fund capital expenditure of the magnitude necessary cannot be taken lightly.

“The UK Government is using a tiny carrot to incentivise energy intensive users whilst wielding a very large stick in the form of the carbon price floor. This will inevitably lead to a contraction of these industries in the UK with the consequential impact on investment, employment and the economy in general.

“If the UK Government is not able to set the RHI tariff higher than 1.0p/kWh because of EU pressure, then it must consider lowering its proposals as regards the carbon price floor if it wishes to retain steel, glass, chemical and paper making industries, amongst others, in the UK.”

David Workman added;

“Having missed an opportunity to support projects through the RHI, this makes the current consultation into the support available through the Renewable Obligation (RO) even more important. Our members are suggesting a number of tweaks to the RO rules that would enable projects to proceed and we hope the Government listens to our representations, both on this issue and the potentially devastating impact of Carbon Price Support Taxation on Energy Intensive Industries.”

ENDS

For further information please contact Steve Freeman, Director of Environmental and Energy Affairs on 01793 889625 or email sfreeman@paper.org.uk

Notes to Editors

- Further information on the Renewable Heat Incentive Scheme is available on the DECC website at: http://www.decc.gov.uk/en/content/cms/meeting_energy/Renewable_ener/incentive/incentive.aspx
- CPI is the voice and face of the UK’s Paper and Paper-Related Industries, representing recovered paper merchants, paper and board manufacturers and converters, corrugated packaging producers and tissue makers.
- CPI represents 72 Member Companies, with a combined annual turnover of £4 billion and 19,600 personnel.
- For additional information on the UK Paper Industry, in the first instance, please contact Annabel Acton, Communications Manager, on 01793 889612 or email aacton@paper.org.uk
- Alternatively, please visit: <http://www.paper.org.uk>
- James Cropper PLC is a manufacturer of specialist paper and non-woven materials with a turnover of £80 million, of which nearly 50% is exported.
- It is based in Kendal, Cumbria. It employs 500 people and is the largest private sector employer in the area. Being an energy intensive user it is vulnerable to the cost of energy and green fiscal measures.