



Department
of Energy &
Climate Change

John Hayes MP
Minister of State

Department of Energy & Climate Change
3 Whitehall Place,
London
SW1A 2AW

www.gov.uk/decc

Joe Quill
Office of Rail Regulation
1 Kemble Street,
LONDON WC2B 4AN

26th March 2013

Dear Mr Quill

This letter is the Department of Energy and Climate Change's response to the Office of Rail Regulation's Periodic Review 2013 consultation on a freight specific charge for biomass, published on 15 February.

I am concerned about the extent to which the ORR's proposals take account of the impact on electricity bills and on my Department's policy for renewable energy as well as the practical application of its subsidies. I understand that stakeholders have also raised these concerns with you.

Biomass conversion is an important low carbon technology with a central role to play in helping us reach our carbon emission reduction goals. It is also essential to our energy security and has an important role in providing cost-effective transitional generation as other, lower carbon technologies undergo development.

I would like to make the following points:

Government has a responsibility for ensuring security of supply and in lowering the impacts of its policies on consumers' bills. My Department announced changes to the levels of support provided within the Renewables Obligation (RO) for renewables technologies, including biomass in the Government Response to the RO Banding Review published in July 2012. The Regulations implementing these changes will come into force on 1 April 2013 and it is not our intention to revisit these. Proposals which put upward pressure on bills therefore run counter to Government's stated aim.

- i. Biomass for large scale electricity production is a fledgling industry. In order for there to be any growth in the market, substantive investment is required in new and specialised, handling, loading and transport equipment. It is not a matter of simply using the existing coal infrastructure. As such, coal and biomass are not

directly interchangeable; nor are they currently directly in competition. The two are operating in different markets; one subsidised, the other not.

- ii. The analysis used in the Periodic Review 2013 consultation did not take into consideration that information used by DECC for the RO Banding Review and hence my department's considerations on costs and deployment potential, in particular estimates of likely biomass freight traffic.
- iii. One of the 4 main tenets on which we build our policy for bioenergy, is that it must be sustainable; it must deliver real greenhouse gas savings compared to fossil fuel. For large scale generators reliant on imports, this means that rail, rather than road is the only practical solution. Large scale conversions will therefore be a captive market for the rail freight industry as they will be unable to take advantage of any more cost-effective offering from the road haulage industry.
- iv. Unlike the utilities, independent generators are not in a position to pass on increased costs directly to the consumer as they are tied through long term Power Purchase Agreements as to the amount they can receive for electricity that they sell to the utilities. Increasing their costs therefore risks deployment of renewable electricity.
- v. In order to ensure the necessary investment, biomass generators are already establishing long term feedstock supply contracts throughout the supply chain in which prices are set; biomass is not purchased on the spot market.
- vi. By charging on a tonne per kilometre basis, biomass is disadvantaged as it is (a) less dense than coal and (b) lower calorific value, so requiring more biomass to be transported in a greater number of wagons. Evidence presented by Eggborough in their open letter to you indicated that the impact of your proposals on biomass delivered fuel price is substantially greater than the 1% you estimate. Furthermore, this proposal would more heavily impact power stations which are further from ports and therefore more heavily reliant on rail than those situated near ports.

If you wish to discuss points on biomass, I would be grateful if you would contact my official, Elizabeth McDonnell (elizabeth.mcdonnell@decc.gsi.gov.uk).

I am copying this letter to the Secretary of State for Transport.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Hayes', with a stylized flourish at the end.

JOHN HAYES