28/05/2019

REA Response to the BEIS Consultation on Designing the Industrial Energy Transformation Fund

Deadline: 31st May 2019

The £315 million Industrial Energy Transformation Fund will support businesses with high energy use to:

- cut their bills and emissions through increased energy efficiency
- transition to a low carbon future through the use of lower carbon energy and processes

This informal consultation seeks views and supporting evidence to help BEIS design the fund. Its focus is particularly on the benefits and barriers to industrial decarbonisation as government has a good understanding of these issues for energy efficiency.

This scheme is UK-Wide.

Email direct responses to: ietf@beis.gov.uk
Email any comments on the REA response to: nsmith@r-e-a.net

Introduction

The Renewable Energy Association (REA) is pleased to submit this response to the above consultation. The REA represents a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are over 550 corporate members of the REA, making it the largest renewable energy trade association in the UK.

Overall, the REA welcomes the recent suite of commitments from Government to decarbonisation, as part of the 2019 Spring Statement, and parliament's declaration of a climate change emergency. Businesses and Industrial sites accounted for over 20% of the UK's carbon emissions in 2018[1]. As such, incentivising decarbonisation for this tranche of the economy presents significant opportunities for the reduction of overall UK emissions. The UK is currently on track to meet its 2020 carbon budget, although behind on the 2025 carbon budget[2]. The proposed Industrial Energy Transformation Fund offers a strong opportunity to introduce incentives for businesses, especially heavy industry, to invest in low carbon technologies.

[1]Department for Business, Energy and Industrial Strategy, 2018, Table 1, Provisional UK greenhouse gas emissions national statistics 1990-2018 Excel data tables, See here.
[2]Committee on Climate Change, 2018, Reducing UK emissions: 2018 Progress Report to Parliament. See here.

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REA Priorities for the IETF:

1. The REA recommends that the IETF does not take a one-size-fits-all approach to supported eligible technologies
2. It should support low carbon infrastructure on the ground, with an initial focus on supporting mature technologies over demonstration projects to tackle short-to-medium term decarbonisation
3. It should note that renewables and clean technologies require secure, long-term support schemes to gain financing and investment; and should aim to complement existing supportive policies in addition to relieving restrictive policy constraints.

Details on REA Priorities

Studies by Carbon Credentials show that just 10% of UK businesses have set a carbon emissions reduction target[3], despite carbon emissions from businesses and industry accounting for over 20% of the UK's carbon emissions.

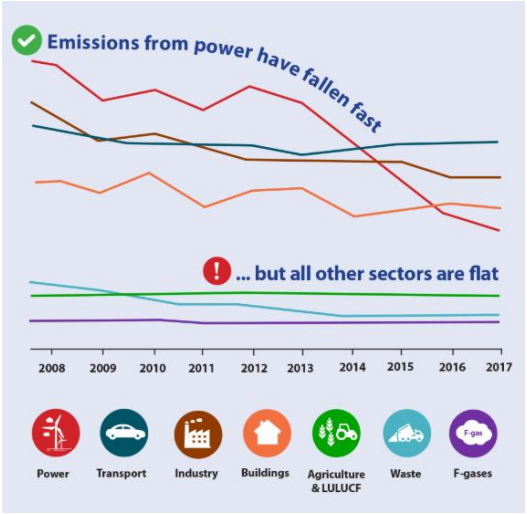

Figure 1 - Emissions by sector, Committee on Climate Change, 2018

The UK is on track to meet its 2020 carbon budget target, although much of the heavy lifting has been done by the power sector, with other sectors including industry remaining flat over the past 10 years. Industry now is the second largest polluting sector, following transport (See Figure 1). The transport sector has seen heavy investment in electric vehicles and EV charging infrastructure, with targets set to end the sale of petrol and diesel vehicles by 2040, although business and industrial sites are lacking incentives to set decarbonisation strategies. Heavy investment is required in the business and industry sectors to aid in reaching the 2025 carbon budget targets, with the IETF offering a prime opportunity to create strong incentives for businesses to engage with and implement decarbonisation strategies.

Support for decarbonising industry and industrial processes not only offers benefits to the wider energy system, in terms of flexibility offerings reducing the requirement for heavy investment in the national grid infrastructure (through large scale energy storage applications or Vehicle to Grid technologies), and improving energy security through the diversification of energy sources. It can also support in improving air quality, reducing strain on the NHS, and improving living standards and welfare; in addition to supporting the green jobs market which has recently seen difficulties due to frequent policy change and removal of support mechanisms such as the Feed-in-

[3] Carbon Credentials, 2018, https://www.independent.co.uk/news/business/news/climate-change-carbon-reduction-uk-companies-energy-global-warming-a8666906.html

Tariffs; where an estimated 9,000 jobs were lost due to cuts during 2016[4]. The IETF also offers the UK an opportunity to become a leader in industrial decarbonisation, and industrial sites offer practical hosts to innovative technologies such as energy storage applications which are boasting globally leading pioneer projects; such as Highview Power's development of cryogenic energy storage, or redT and Pivot Power developing the 'World first' grid-scale lithium-vanadium hybrid project in the UK.

The REA advise that the IETF program should support the deployment of low carbon infrastructure on the ground.

Since the fund aims to bridge gaps among the listed complementary policies, the REA advises that support is given to existing mature technologies over demonstration projects, to tackle short-to-medium term decarbonisation. It should be noted that this will not, and should not, take a one-size-fits all approach, as a range of different technologies – from bioenergy through to smart tech – offer different solutions in varying settings and applications. It must be stressed that the role of Bioenergy is also crucial in industrial settings, as highlighted in part one of our "Bioenergy Strategy". **Our dedicated paper on CCUS is also forthcoming, and it should be noted that Bioenergy with CCUS is essential**; future support mechanisms should take this into account.

Decarbonisation should also be considered within the wider energy context, with a focus on supporting technologies which offer solutions to the energy market in terms of flexibility, to reduce overall energy costs and offer energy security.

There are two key existing policy barriers to industrial energy efficiency and decarbonisation, and these include:

- **The Targeted Charging Review** and Access Charges Reforms – the proposed changes to the targeted charging review will disadvantage industrial energy users which require large capacity grid connections, despite implementing grid cost supporting technologies such as energy storage. The 'hidden' costs to projects from grid usage, planning and taxation regimes must be addressed. These include the TCR grid charges. **Our asks for the TCR include ensuring the implementation of the TCR is aligned with that of the accompanying Access and Forward looking charges review and that smaller 'embedded' generators should not be charged BSUoS rates as they cannot currently access the Balancing market.** It should also be ensured that the 'Forward-looking charges' do provide pro-active signals to reward flexible behaviour from generators and demand, to offset the loss of signals from the TCR reforms. Ofgem's own analysis shows that there is no advantage to the system (in terms of carbon reduction, fuel savings, more efficient grid investment) from implementing the TCR before the Access & Forward Looking Charges review. Find more information on this in our consultation response to the BEIS Select Committee Inquiry into Finance and Investment in Energy Infrastructure, here.

[4] REA, 2018, New data shows significant solar job losses if full government proposals enacted. See more.

- Business Rates – current business rates do not fairly reflect the value of many renewable energy technologies, a widespread example is Roof Mounted solar PV for self-consumption on business units. Commercial properties which are assessed as a business unit and have their own solar panels on the roof will see the solar panels be rateable under their business unit valuation. In such cases the panels are considered 'plant and machinery' and the rateable value is based on assumed capital costs. Find more information on this in our REA briefing on business rates and rateable values, here.

It should also be noted that renewable energy and clean technologies require secure, long term support schemes to be in place to gain financing and investment.

Overall, the REA welcomes the formation of the IETF and would welcome the opportunity to provide further information on this fund, or feed into an industry working group to collaborate and feedback should this be of interest.