

Response to the Office of Rail Regulation Periodic Review 2013: consultation
on a freight specific charge for biomass

Submission by GDF SUEZ Energy UK-Europe

(I) About GDF SUEZ Energy International

GDF SUEZ Energy International (formerly known as International Power) is responsible for GDF SUEZ's energy activities in 30 countries across six regions worldwide (Latin America, North America, the Middle East, Turkey & Africa, UK-Europe, Asia, and Australia).

Together with power generation, we are also active in closely linked businesses including downstream LNG, gas distribution, desalination and retail. GDF SUEZ Energy International has a strong presence in its markets with 77 GW gross capacity in operation and a significant programme of 8 GW gross capacity of projects under construction as at 31 December 2012.

The UK-Europe region (GDF SUEZ Energy UK-Europe) has 8.6 GW net ownership capacity in operation, which includes over 5.8 GW of plant in the UK market made up of a mixed portfolio of assets – coal, gas, CHP, wind, a small diesel plant, and the UK's foremost pumped storage facility. Several of these assets are owned and operated in partnership with Mitsui & Co. Ltd.

The generation assets represent just under 9% of the UK's installed capacity, making GDF SUEZ Energy UK-Europe the country's largest independent power producer. The company also has a retail supply business and a significant gas supply business in the UK, both serving the Industrial and Commercial sector.

In the UK, GDF SUEZ Energy UK-Europe is seeking to convert its Rugeley coal-fired plant in Staffordshire to biomass. The company plans to fully convert both units (500 MW each) by Q1 2015, with sources of biomass to be imported to the UK from overseas. GDF SUEZ Energy UK-Europe received planning permission for the conversion in January 2013.

(II) Summary key points

- **GDF SUEZ Energy UK-Europe recognises Government aims to reduce costs across the rail network. However, the possibility of a new freight charge for biomass from 2017 will create uncertainty amongst owners of coal plant seeking to convert to biomass in the future.**
- **Such a charge could impact Government aspirations for electricity from biomass, especially for large scale conversions. Whilst the consultation analysis indicates an incremental cost caused by proposed biomass freight charges, the prospect of future charging (i.e. beyond the current review period) could lead to greater investor and generator uncertainty. This could contribute to undermining government renewable targets as well as long-term investment plans for those seeking to convert existing coal plant.**

- **GDF SUEZ Energy UK-Europe does not believe the consultation analysis proves the market can bear the impact of any proposed charge. Generation from biomass is incentivised through the Renewable Obligation (RO) system. The need for such incentives proves that biomass would not be able to bear the impact of any new freight charge.**

(III) Questions

Question 1 – To what extent might higher access charges increase biomass road transport?

GDF SUEZ Energy UK-Europe currently plans to transport future biomass supplies to Rugeley via the UK's rail network. However, higher access charges will inevitably impact the economics of this activity. Should the economics of rail transportation prove marginal compared to road rates, the company would then consider the possibility of transporting a portion of its required supplies from port to station site via road.

Question 2 - Should a biomass freight specific charge be calculated on the basis of avoidable costs as was done for the commodities on which caps have already been set?

GDF SUEZ Energy UK-Europe does not agree with the introduction of any type of charging on biomass freight transportation for the following reasons:

- 1) In meeting its low carbon targets, the UK Government has set a policy of 33TWh to 50TWh of electricity to be supplied from biomass renewable sources by 2020. A large portion of this supply is expected to come from existing coal plant that has converted to biomass. For conversions to go ahead, generators will require as much certainty as possible to proceed with potentially large scale investment plans. Converting plant from coal to biomass is a complex and capital intensive process, premised on reliable sources of fuel, grandfathering of ROC bands and sustainability criteria by Government, and capital investment at both site and ports. The proposal to introduce freight charges for the transportation of biomass will add further uncertainty to biomass conversion or co-firing, particularly as generators would have no forward view of charges beyond 2019. This factor could therefore contribute to greater uncertainty, and hence potentially lower levels of generation from biomass, undermining the Government's renewable targets.
- 2) The recent Renewable Obligation Certificate (ROC) banding process has provided generators with ROC levels for different technologies, based on a set of cost assumptions provided by consultants for use by Government. The assumptions did not include any charges for the transportation of biomass on the UK's rail network. ROC bands have now been fixed for the period April 1st 2013 through to March 31st 2017, a period during which a number of generators are seeking to convert plant from coal to biomass. Government has no plans to reopen ROC bands to account for new transportation charges. Consequently, the introduction of new charges would negatively impact the economics of conversion, and could therefore contribute to a lower level of generation from biomass, undermining Government's renewable targets. We refer the ORR to the statement made by NERA, appointed to assess the impact of access charges in demand for coal in 2012, in the Executive Summary of their report to the ORR: *"...the impact of any increase in track access charges will depend on the extent to which government subsidies are also adjusted in order to ensure that biomass generation continues to make its expected contribution to helping the UK meet its renewable energy targets."*¹

¹ Page iv, The Impact of Changes in Access Charges on the Demand for Coal, NERA Economic Consulting, May 2012.

- 3) The consultation states that the 'market can bear it' in relation to the introduction of freight charges on biomass transportation. Proving whether the market can bear it is a difficult task, particularly when the market for biomass generation already requires support through the Renewables Obligation, and cannot rely solely on the wholesale power price in the way existing fossil generation does. GDF SUEZ Energy UK-Europe believes the ORR's analysis does not provide sufficient detail to prove that the biomass market can bear new freight charges. We refer the ORR to the statement made by NERA, appointed to assess the impact of access charges in demand for coal in 2012, in the Executive Summary of their report to ORR: *"It is more difficult to assess the possible impact of higher track access charges on ESI use of biomass. There are different forms of biomass generation, not all of which involve rail transport."*²
- 4) The consultation states that proposed charges for biomass will be applied in the same way, and profile, as those for coal. However, GDF SUEZ Energy UK-Europe believes this approach is incorrect, especially the implication of the same charge on biomass as for coal. More biomass is required to be transported to produce the same amount of electricity as coal, as the calorific value differs between both fuel sources. Consequently, the introduction of the same charge, as proposed in the consultation, penalises biomass compared to coal. Furthermore, proposed charges as discussed in the consultation could add between £0.50 and £1.50 per tonne to biomass costs. This level represents a change to the proposals from the previous consultation in 2012 and may have the effect of delaying biomass projects in the UK.

Question 3 - Should the charge be modified, for example to reflect calorific value or exempt small stations?

For the reasons given in answer to Question 2, GDF SUEZ Energy UK-Europe does not agree with the introduction of any type of charging on biomass freight transportation. The company is therefore unable to comment on modifications to proposed charges or exemptions.

Question 4 - Should freight avoidable costs be allocated to biomass using the same methodology as that used for the other market segments to which a freight specific charge applies?

For the reasons given in answer to Question 2, GDF SUEZ Energy UK-Europe does not agree with the introduction of any type of charging on biomass freight transportation. The company is therefore unable to comment on whether freight avoidable costs should be allocated to biomass using the same methodology as that used for other market segments.

Question 5 - Is the resulting cap on the freight specific charge, of £4.04 per kgtm, for biomass reasonable? How would such a charge affect existing biomass flows and development of future flows?

For the reasons given in answer to Question 2, GDF SUEZ Energy UK-Europe does not agree with the introduction of any type of charging on biomass freight transportation. The company therefore believes that any charge imposed on the transportation of biomass would be unreasonable.

Question 6 - Should a freight specific charge for biomass be phased in? Would it be appropriate to apply the same phasing to a biomass freight specific charge as to the ESI coal freight specific charge?

For the reasons given in answer to Question 2, GDF SUEZ Energy UK-Europe does not agree with the introduction of any type of charging on biomass freight transportation. The company does not believe that a charge should either be introduced or phased in.

² Page iv, The Impact of Changes in Access Charges on the Demand for Coal, NERA Economic Consulting, May 2012.

Question 7 - Should biomass be subject to a freight-only line charge, calculated on the same basis as for other market segments?

For the reasons given in answer to Question 2, GDF SUEZ Energy UK-Europe does not agree with the introduction of any type of charging on biomass freight transportation.

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