

Country Land and Business Association

DTI initial contribution to the PIU Energy Policy Review: initial comments

Introduction

The Country Land and Business Association (CLA) represents the interests of some 46,000 members and 130,000 rural businesses in England and Wales. We have identified that climate change poses a significant threat to the interests of the rural economy, and have recently published our own report "Climate Change and the Rural Economy" available on our website at www.cla.org.uk

Accordingly, we have a profound and legitimate interest in energy policy as it affects our members.

1. Sectoral analysis of energy use and Carbon savings

It is disappointing again to note that the sectoral analysis applied by DTI distinguishes users by market sector, rather than energy source used.

We have consistently argued that this fails to give sufficient emphasis to the potential for renewables in fuel supply generally.

At the same time, the understandable concerns of Government with the reform of the electricity market has led to a real failure to address energy policy in other sectors.

Where DTI has partially and incompletely addressed the issues, we would disagree with its suggestions as to certain specifics: in particular, it is not true to say (at para. X, page 60) that biofuels are limited to potential for the medium term. Recent work by the British Association of Biofuels and Oils (BABFO) has shown that there is currently a potential for 10% of the liquid fuel supply to be met from renewable resources by 2010. We would be happy to supply a copy of their paper if requested.

We urge PIU to look at energy policy on a more broad brush basis. Electricity accounts for only some 25% of all GHG emissions. The potential for heat and transport markets to be reformed to take account of security of supply, environment and social factors is as great as that of the electricity market. More work is required to address potential in these areas.

2. Costings

We are concerned that the DTI costings for electricity are limited to the current predicted price for electricity generation, without reference to wider social and economic benefits that are associated with renewable energy development.

Local power supply developments can avoid long distance transmission losses, which are inevitable if, for example, new nuclear power stations are to be located in remote areas, as in the past. They can avoid the landscape damage from new transmission power lines. They can provide jobs and incomes in rural areas.

We are further concerned that costings for gas interconnectors may not have been properly factored in. Clearly the provision of long distance supply pipes carries significant costs.

Finally, we have significant concerns that the long run risks and costs of nuclear waste disposal (assuming a satisfactory method of disposal can ever be agreed for the UK) should be factored into the generation costs of nuclear energy.

3. Policies

We are supportive of the market based approach to resolving the problems raised by the need to meet environmental and other imperatives. However, we have been disappointed that DTI has raised this to the status of a mantra about “not picking winners”.

The task of government, as we see it in this area, is (inter alia) to seek to facilitate the development of renewable energy (not just renewable electricity). This must necessarily include addressing market failure where it is identified.

We have long been pressing DTI to “band” the Renewables Obligation, to secure separate markets for biomass and other renewables that have a different cost base. With banding, by an iterative process, Government can agree with Industry how much biomass generation is deliverable, and make a Renewables Obligation that specified, say, 30% of the overall 10% obligation is to be met from biomass based generation. This ensures market competition between biomass generators to secure contracts within the band, and that any additional costs are both minimised and passed to the consumer.

DTI has responded with a proposed extensive grant aid programme, that transfers the additional costs of biomass fuel supplies and RD&D involved in developing a new biomass based electricity industry to the taxpayer and lottery participator. We consider that banding offers a much more transparent and market based alternative to dealing with wider environmental and social objectives.

We have been much impressed by the recent Fabian Society paper “at the energy crossroads”. We consider the paper supports our arguments and goes on to develop policies that may well be more appropriate for dealing with fuel poverty on a more rational basis than keeping energy costs low in the face of an environmental imperative.

The UK currently enjoys a competitive advantage in non road fuel costs within the EU (save where other countries are subsidising particular sectors). In this scenario, the environmental argument that a modest rise in overall energy costs would strongly incentivise energy saving without damaging the economy bears close consideration.

At the same time, it seems questionable, to say the least, to continue to require the same level of road fuel duty for transport biofuels when DTI admits (under Current price signals, page 87) that at least a part of the current level of fuel taxation is there to reflect carbon emissions). We have seen consultation that suggests a modest reduction in fuel duty may be applied, but are advised that the cut proposed will not facilitate the potential 10% renewable supply by 2010. BABFO are suggesting that a rate of duty equivalent to that payable on LPG and CNG should be applied to biofuels for road use.

4. How big a role can CHP play?

We see a far wider role for CHP in the rural economy than is currently envisaged by DTI. Should the facilitation required (reform of NETA, Embedded generation benefits, Banding, Enhanced Capital Allowances and reduction of impediments in the field of planning and access to information) come to fruition, biomass CHP can be expected to have a very wide application, and significantly add to security of supply, energy efficiency and GHG savings.

5. How do we encourage a switch towards the provision of energy services and away from competition focused on increased sales?

We believe that a great deal can be achieved by early reform of the transmission charging regime as proposed by the embedded generation working party. Otherwise the development of energy

service companies in the renewable field offers a way forward, together with the suggested metering improvements.

However, we consider the DTI is right to focus on seeking to influence consumer behaviour. A modest increase in energy prices is likely to be the strongest driver in this context.

6. Barriers to change

We responded to the Government's Renewable Energy consultation (**New and renewable energy – prospects for the 21st Century**) on the following basis, which still holds true:-

Tackling the issues

Planning and Development control processes

31. There are real and growing problems with achieving planning consent for renewable energy developments in almost all areas. The DETR has itself refused consent on appeal for 12 out of 14 windfarm proposals in the last three years. Local Planning Authorities have recently refused consent for a proposed biomass plant in Wales, and other renewable developers report very significant costs and delays building up throughout the planning process.
32. The Minister confirmed his view, in a speech to the Parliamentary Renewable and Sustainable Energy Group on 28th April, that a regional energy strategy must be put in place, and that developers must work together with local communities in order to deliver projects. The CLA has two major concerns with this proposal:
 - Firstly, we believe that any new regional energy strategy will either need to be imposed on the ongoing regional planning consultation process, or it will not come into effect until regional plans are reviewed in 5 years time (too late to meet the Government's targets for greenhouse gas reduction).
 - Secondly, whilst renewable developers are making strenuous efforts to build relationships with local communities (in accordance with best practice guidelines which were prepared by ETSU in consultation with representative groups including the CLA), there is enormous ignorance and prejudice about the whole subject of climate change and the relative costs and benefits of addressing the issue, and further detailed concerns about the effect of the technologies on local areas. For example, the planning inspector in the recent Barningham Moor windfarm appeal opined that the energy benefits of wind power are "insignificant", and that pollution savings are "uncertain". Elsewhere, at the Border Biofuels proposed bioenergy plant at Newbridge on Wye, local planning officers have commented "there is much debate both locally and nationally as to just how effective power generation from biomass is in assisting the reduction of air pollution", going on to say "wood as a fuel is neither clean nor green, just a renewable energy resource". Such comments go to the heart of Government policy for renewables, and will need to be addressed.

It is unrealistic in our view to expect that policy for the delivery of renewable energy can be delivered in these circumstances. Accordingly, the CLA calls for three new initiatives. These comprise

- revisions to existing planning policy guidance notes
- a new national expert energy resource centre
- an interim regional planning strategy

Revised Planning Policy Guidance Notes

33. It is clear from experience that PPG 22 is not performing. It fails to provide appropriate signals about the national importance of renewable energy development, and to deal with the status of the advice to be sought from expert statutory consultees as against that offered by NGO lobby groups, which is seldom balanced or scientific. A wholesale revision is called for to give clear guidance to local planning authorities that, as in the case of other national commitments, the presumption is that renewable energy projects should be permitted unless significant harm is occasioned thereby to interests of acknowledged importance.
34. At the same time, PPG23 might usefully better address the relationship between emission controls, which in our view should be left to the statutory regulator, and planning considerations.

A new national Expert Energy Resource Centre

35. **The Government should, in our view, be considerably more proactive in promoting its policies for renewables, and be prepared to support its policies with expert evidence made available to inform the public, and Local Planning Authorities on the issues.**
36. Accordingly, the CLA calls for **the establishment of an expert energy resource centre**, that would supply clear and unbiased evidence in reader friendly format on a range of renewable energy issues, including:-
- Government policy on renewable energy development
 - the relationship between pollution control and planning control in the context of future emissions
 - the role of the Environment Agency in protection of the environment and control of emissions
 - the results of research into the costs and benefits (including environmental costs and benefits) of renewable energy.
37. Revised Planning Policy Guidance should refer Local Authorities to the resource centre for advice and require that due weight be given to the independent evidence provided.
38. Such an resource centre might form part of a new Renewable Energy Agency (if one is to be established), or be developed within ETSU.

An Interim Regional Energy Strategy

39. Given the time constraints (described above) which will make it impossible for the Regions properly to address the question of renewable energy resources before plans have to be returned to DETR for approval this autumn, the CLA calls for **an interim regional target to be assessed for each region.**
40. Interim regional targets should require that renewable resources are allocated physical targets within that framework which are fed into local planning policy. Each region should be required to make a contribution to the overall national target on a proportionate basis of estimated energy use within that region. In the longer term, targets might be based on a best estimate of potential within each region for its contribution to the overall target for greenhouse gas reduction, but the necessary work to achieve this will take some years.
41. The regional strategy will need to be linked to Planning Policy Guidance, so as to produce a presumption in favour of consent for renewable energy developments up to the targeted renewable energy output unless substantial harm to interests of acknowledged importance can be demonstrated.

Embedded generation

Paragraph 35.

42. The CLA welcomes the intention to ensure that embedded generators are given the benefit of avoided costs within the system.
- Embedded generation, especially small scale embedded generation, has potential for rural development and sustainable jobs and income in the countryside. It is important that the reform of the electricity market provides mechanisms that facilitate these benefits.
 - Embedded generation has the potential to avoid both large and small scale development of transmission lines. In many cases such transmission lines can do enormous harm to the landscape. In many others they are unwelcome on the grounds of amenity and concern for potential health risks. Proper planning for embedded facilities within the network will confer benefits to amenity by reducing the demand for unsightly overhead wires.
 - Work by Dr Catherine Mitchell of the University of Sussex has shown that many renewable energy resources are competitive with fossil fuel generation when embedded generation benefits are transferred to the generator. This has significant implications for the likely costs of a new NFFO scheme.
43. Embedded generation has implications for DTI Section 36 consents and for DETR guidance on planning consent and overhead lines. The CLA recommends that developers of new power lines should be required by consenting authorities to undertake a formal test before being granted consent. Developers should be required to show that provision of an embedded generation facility at a key point would not answer the need for reinforcement or a new overhead transmission line.

Embedded Generation

44. The electricity industry has developed against a simplistic model of large central generating stations supplying through a large and expensive distribution grid. All tariffs and costings are based on this model which allows for the historic fact that much of the generating capacity is in the North, and the customers are increasingly in the South East. Development of bioenergy generation close to the point of demand saves transmission costs, reduces waste and allows more opportunities for Combined Heat and Power (CHP) systems. It could have substantial beneficial impacts on unwelcome proposals for new high voltage overhead power lines.
45. **The CLA recommends that more opportunities for embedded generation should be created as follows:**
- Embedded generation projects should receive a premium for the generalised benefits they bring to the system; e.g. reduced transmission losses, avoided reinforcement costs on the primary system.
 - Projects should receive the value of the particular benefits they bring to a regional distribution system; e.g. triad benefits, avoided distribution losses, local demand management, use of system cost, seasonal and time of day tariffs.
 - The Regulator should take a lead role in opening up the markets for embedded generation and CHP by bringing greater transparency to REC's plans for system reinforcement, insisting that renewable embedded generation is considered as an option in all network reinforcement decisions and ensuring that RECs do not exploit their monopoly powers by demanding high connection charges.

- A proactive market intelligence unit should be set up to identify network locations suitable for bioenergy (and other renewables where appropriate) embedded generation.
- A mechanism to minimise backup charges during the early phase of market deployment should be set up including a 3 year exemption from backup charges for clusters of projects.
- Government should support bioenergy embedded generation projects with a price premium designed to reflect their environmental and social benefits.

46. These proposals for embedded generation conform with many of the recommendations of the EU White Paper, and enjoy the support of the Bioenergy Industry, as well as the CLA. The CLA is indebted to British Biogen for the technical input to the problems and solutions.

Availability of information

Paragraph 38

47. The availability of information has wider implications than the questions of consumer choice referred to at paragraph 38 of the consultation document. We have (above) referred to the need for more accurate expert information to redress the imbalance at the planning application stage, and suggested a solution.

48. There is a further issue on the question of openness in relation to the monopoly powers enjoyed by RECs. Prospective embedded generators need access to information in order to ensure that connection prices and embedded benefits are properly assessed. The Regulator will have a key role in ensuring this.

49. **Further, there is a wider role for Government in ensuring the general public are aware of the significance of renewable energies. There is much R&D and many themes that would find a wider audience if promoted: the Central Office of Information may have a role here.**

Innovative technologies

Paragraph 41

50. The CLA is pleased to note the recognition that a number of potential renewable energy resources remain to be tapped, and that pump-priming will be required to bring them forward. We are disappointed that the paper does not offer more of a commitment to doing so. **We recommend the following policies for the consideration of DTI, MAFF and the territorial departments.**

Energy crops and Agenda 2000

51. Bioenergy, and in particular energy crops are expected to play a central role in the development of renewable and sustainable energy sources for the EU. The European Commission White paper 'Energy for the Future, Renewable Sources of Energy' estimates that EU renewable energy targets will require 6.3 million hectares to be planted with energy crops by 2010.

Support is required to assist the entry of energy crops into agricultural markets until costs are brought down (establishment grants) and to match the annual support received under the CAP by other crops and livestock so that energy crops may compete for land use on equal terms.

The planting of energy crops, particularly SRC, is currently undertaken on a high cost and labour intensive basis. Establishment costs are predicted to fall rapidly as the planted area

grows and new suppliers and competitive skills are developed. A rapid expansion of the planted area can only be provided with the assistance of seed corn funding by way of establishment grants.

(Note: an energy crops scheme has subsequently been introduced under the CAP England Rural Development Plan run by DEFRA, but currently only some 200 hectares out a planned 30,000 is in prospect of planting. This is because the scheme requires that a contract for energy end use is confirmed before planting, and the lack of biomass power stations currently under development has made it impossible for farmers to meet this requirement).

We hope these notes will be of assistance in your review, and repeat our offer to meet to discuss the issues. Please do not hesitate to contact us if we can be of further assistance.

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**23 August 2001
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