

British Sugar: response to DECC consultation on Electricity Market Reform

Introduction to British Sugar

British Sugar Group is one of the world's largest producers of sugar with operations in the UK, Spain, Africa, and China. Over half the energy used by the Group is from renewable sources, mainly arising from the use of bagasse to power factories producing sugar from sugar cane.

In the UK British Sugar operates 4 factories that, alongside sugar, produce a range of co-products including animal feed, and specialty chemicals from sugar beet. In 2007 British Sugar opened the UK's first bioethanol plant producing 55000tpa of bioethanol for blending with petrol to meet the requirements of the Renewable Transport Fuel Obligation/Renewable Energy Directive. In addition British Sugar has a joint venture with BP and DuPont, Viverno Fuels, which is developing a large scale facility in Hull which will produce 420million litre of fuel grade ethanol and 500kt of high protein animal feed.

British Sugar is investigating options for reducing its reliance on fossil fuels and recognises that a clear regulatory framework is necessary for the approval of investments that also meet the UK's short and medium climate change mandates. For the purpose of this consultation our response focuses on the impact on, and opportunities for, renewable energy.

Responses to consultation questions.

Having provided input to the positions of both the REA and CHPA we support their responses to this consultation and have further points as set out below.

Decarbonisation options for reform.

The consultation proposes that Feed in Tariffs options provide the best way of meeting legally binding targets (such as the RED 2020 target), while, in addition, providing lowest costs to consumers and certainty to investors. This conclusion is reached through a comparison to the existing RO, with resulting lower hurdle rates for the FITs options.

Our assessment of the RO is that, while there have been a number of regulatory challenges, it is moving toward being very similar to a premium FIT, as the use of the headroom mechanism effectively defines the long term price of ROCs. Our concern is that, due to the lack of detail for the proposed mechanisms it has not been recognised that the same issues of tariff review, grandfathering etc will have to be covered in any Tariff mechanism. As a result we believe that the conclusion that tariff options offer less complexity and hence lead to lower hurdle rates (P56, Table 4), are optimistic. Thus, as a potential developer, we would discount the apparent 0.8% point lower hurdle rate for CfD compared to the baseline suggested by the modelling.

We are also concerned that, in contrast to the Renewable Obligation, there is NO OBLIGATION under the CfD mechanism for a licensed supplier to purchase power from a renewable generator, and so the generator risks becoming a 'distressed seller', with the associated negative effect on investor sentiment.

On this basis, and subject to obtaining more details of how the tariff options will work, we would currently support the use of premium tariffs over CfD.

Investor certainty and Government visibility of development

As indicated above, the problems with grandfathering of biomass under the RO, banding reviews, and the resulting effect on investment, are likely to be carried over into the Feed-in-Tariff system unless action is taken to provide early visibility and certainty for developers and the Government. Developers need an early indication of the proposed project being able to find a market for the renewable power to secure financial approval, and hence to justify moving forward the project development. The Government, in the absence of an obligation, needs visibility of the level of renewable capacity that is likely to be developed.

The visibility and fixing of the tariff level needs to be obtained at an early stage, such as after planning permission has been deemed to be accepted ('grandfathering'). Contracting for the support mechanism would take place later in the project development. The project would have to be completed/accredited by Ofgem within an agreed timeframe after which the grandfathering expires.

We urge the Government to develop a workable system in conjunction with stakeholders within the further development of the EMR process.

CHP uplift.

British Sugar strongly recommends that the 0.5 ROC uplift for CHP should be available until 2017 to cater for delay in the implementation of the RHI.

Transition arrangements and the RO to 2037

It is essential that, for developments that are proceeding under the RO, with accreditation by April 2013, it is clear what arrangements will exist for the 'vintaging' of the RO from 2017.

With respect to ROC pricing, since the RO is a market based mechanism, the ROC price should continue to reflect the present arrangements for deriving the price from 2017, based on headroom.

Given that there will be a reduction of generation via the RO sometime after the RO is 'vintaged' it is accepted that the ROC pricing mechanism should reflect this and the ROC price becomes fixed from, say, 2030, at a level that reflects the grandfathered level of support.