Department for Transport

LowCVP Low Carbon Vehicle Partnership

Transport Energy Taskforce
Working Group 3 – Policy and Investment Certainty

Friday, 21 November 2014, 10:30 - 13:30
Institute of Mechanical Engineers, 1 Birdcage Walk, London, SW1H 9JJ

TE-WG3-M-01

DRAFT MINUTES

Actions

1. Terms of Reference agreed subject to amendment to section 4 to confirm reporting date as February 2015 and refinement of questions in section 6.
2. All papers of the Task Force should be available to the members of the Task Force.
3. DfT to clarify whether crop based cap only applies in 2020 or has impact on interim targets/reporting?
4. Seek greater aviation industry representation.
5. Circulate minutes along with proposed dates for future meetings and draft project brief.

Attending
Adam Baisley, Olleco
Andy Eastlake, LowCVP
Baden Gowrie-Smith, CNG Fuels
Charlotte Gibson, Shell
Clare Wenner, REA
David Baldock, IEEP
David Calderbanl, DfT
Grant Pearson, Ensus
Hugh Tucker, UKPIA
James Mills, NFU
Jonathan Murray, LowCVP

Apologies
Anja Hazebroek, Vivergo
Chris Malins, ICCT
Helena Busby, DEFRA
Patrick Lynch, Greenergy Fuels Ltd
Rick Taylor, Vivergo
Tom Parsons, BP Oil UK Limited
Vikram Paul, Shell

1. Welcome

Andy Eastlake, LowCVP welcomed the members of Working Group 3 (WG3), introduced himself and the chair of the Group, David Baldock of IEEP and there was then a tour of the table to introduce the members of the group.

2. Purpose of the group

David Baldock, IEEP (Chair) outlined the objectives of the Transport Energy Task Force, the roles of the five working groups that have been set up and the role of WG3 Policy and Investment Certainty. There are five working groups under the Task Force, which are;

- WG1. Establishing the evidence base
- WG2. Sustainability & objectives
- WG3. Policy & Investment certainty
- WG4. Customer acceptability
- WG5. Role of alternative fuels

The role of WG3 is to consider the measures required to meet the Renewable Energy Directive transport fuels target for 2020 and how to provide confidence to investors and the wider stakeholder community.

The Task Force plans to complete its work by the end of March 2015, and therefore WG3 would need to complete its work by the end of February 2015. This was seen as challenging however, LowCVP made the group aware that it and it's members had resources available which could be used to commission work to support WG3.

It was proposed that WG3 would hold approximately 4 meetings, and there would be the potential for some of these meetings to be web meetings.

The Terms of Reference for WG3 were considered and approved. Key points are that WG3 would operate under Chatham House Rules, that minutes would not attribute comments and that papers would not be put into the public domain unless approved. (see paper TE-WG3-P-01)

Action: Terms of Reference agreed subject to amendment to section 4 to confirm reporting date as February 2015 and refinement of questions in section 6.

3. Policy Context

Jonathan Murray, LowCVP made a presentation (see paper TE-WG3-P-02) providing the policy background to the taskforce, the scenarios and trajectories proposed by DfT and mechanisms proposed in response to call for evidence on advanced fuels, which DfT issued at the start of 2014. There then followed a discussion which covered the following issues.

European Policy

The impact of the Fuel Quality Directive (FQD) was discussed and the impact of it's being transposed into UK legislation. It was confirmed that DfT's interpretation was that the current proposal by the EC, which is expected to be agreed by the end of the year, would not drive demand for additional biofuels beyond that required to meet the RED target. It was stated that the interpretation of the text was different in other European countries.

It was noted that the DfT modelling did not include that part of the RED target which was met through EVs. It was suggested even though DfT doesn't have policy control over the proportion of renewables in the generating mix, that the data should be included in the modelling.

There was some confusion over which were the latest DfT modelling figures. After the Modelling Workshop it was agreed that a revised modelling paper would be issued. This is apparently available on the DfT website via the biofuels calendar. There was a request that the revised modelling paper and spreadsheets be made available and that all working papers of the Task Force should be available to WG3 and other WG members.

Action: All papers of the Task Force should be available to the members of the Task Force.

There was a discussion regarding what was possible under the RED. It was confirmed that the current proposals for reform of the RED allowed Member States to distinguish between feedstocks for the first time on the basis of whether they were; crop based (via the cap) or advanced, and this was the only basis for treating feedstocks differently. However, under the current RED Member States were able to distinguish between fuels, as opposed to feedstocks, through policy measures such as fuel duty.

Scenarios

The DfT scenarios set out a base case of simply increasing the target under the Renewable Transport Fuels Obligation (RTFO), against options for encouraging advanced fuels, and then options for advanced fuels and the managed introduction of E10.

It was agreed that the base case scenario of raising the RTFO to 10% and the scenario of an advanced biofuel sub-target of 0.5% were achievable.

However, it was stated that the scenarios for 1%-1.5% advanced fuels sub-targets were very ambitious if the intention is that UK sources supply the fuel (assuming conventional definitions of advanced fuels). Advanced fuels sub-targets higher than 0.5% would create demand for advanced biofuel from elsewhere in Europe or beyond, and might not be able to be achieved.

It was also stated that the scenarios which didn't include the managed introduction of E10 depict a position which would, undermine the investments in UK first generation ethanol. The risk is that these investments would be lost and that this would have a negative impact on future investments in biofuels in the UK, leading to more reliance on imports.

Deployment of Feedstocks
The DfT modelling incorporates an assumption that feedstocks would be deployed up to the blend wall in the following order; E5 then B7 then E10 and higher blends. It was proposed that there is an alternative which could be driven by commercial pressures or via policy, and that is; E5 then E10 then B7.

Trajectories
DfT have shown two trajectories for deployment of biofuels to 2020. These are a straight line increase from the current position to 10% of transport fuels, and a hockey stick trajectory whereas the current proportion continues until near to 2020 and then the % is increased through the RTFO rapidly. All the scenarios stop at 2020.

It was stated that the hockey stick scenario presents a problem to UK first generation biofuel investments as it delays the creation of a market and runs the risk of losing the confidence of existing UK investors and making future investments more difficult. From an investment perspective steady growth will build confidence whereas as the hockey stick represents no growth and pushing back targets which it was argued will undermine investor confidence.

It was proposed that the trajectories would be more meaningful if they were extended to 2030.

Secondly, it was proposed that an alternative scenario should be realistically considered which is an early ramp up of the target through the RTFO, which then could be adapted steadily to allow for a developing market of advanced biofuels.

However, it was pointed out that a more gradual trajectory could have advantages too if it was aligned with a minimisation of the GHG emission.

There was a discussion as to whether the 7% cap on crop based feedstocks was soley a point target for 2020 or whether it feed back into interim targets. DfT offered to provide clarification on this point.

Action: DfT to clarify whether crop based cap only applies in 2020 or has impact on interim targets/reporting?

Speed of deployment of measures
There was a discussion about how quickly policy measures could be deployed. DfT's view was as follows:

- Changing % in RTFO – changing the obligation can be done under existing legislation and would be very quick and easy to undertake.
- Introducing the cap and sub-targets – would take longer possibly 12-18 months.
- Anything requiring primary legislation – this would take a minimum of 2 years

It was noted that an increase in the RTFO % above 7% before the crop based cap was introduced would run the risk of infraction if the crop based feedstock rose above the cap as a result. Also limiting the RTFO % to 7% until the crop cap has been introduced would provide the NGO community with greater confidence.

It was noted that the scenarios should consider a combination of policy measures, this could include RTFO and other measures, such as fuel duty on the demand side and support for advanced fuels on the supply side, to drive the outcome.

Beyond 2020
It was noted that any policy initiative applying beyond 2020 would require primary legislation. From a policy perspective it was confirmed there would be sufficient time to develop and implement a new scheme for implementation in 2020.

The Carbon Plan envisages the widespread electrification of Light Duty Vehicles (LDV) from the 2020s onwards. Renewables seen by DfT as initially being deployed in road transport but then moving to aviation. Those LDVs not able to be electrified in the long term could run on fossil liquid fuels. However, Heavy Duty Vehicles (HDV) are envisaged to run on biofuels and biogas.

It was agreed that there needs to be scenarios developed for 2030, along with trajectories based on the work of WG2.

4. Review of key questions and issues to be addressed by the Working Group
Three questions were provided by the High Level group for WG3 to consider as part of its role in considering the measures required to meet the Renewable Energy Directive transport fuels target for 2020 and how to provide confidence to investors and the wider stakeholder community.

The questions were:
- How should biofuel plant investments be protected and future investment in advanced fuels encouraged?
- When and should E10 or E20 be introduced?
- How might advanced fuels be incentivised for use in aviation?

There was initially a discussion around the role that transport and renewables played in UK policy on Climate Change. It was noted that there is little to indicate the role that transport, and in particular transport fuels, will have beyond 2020 in reducing carbon emissions. It was proposed that the UK government should incorporate transport into the Climate Change Action Plan.

It was proposed that the first question be divided into two separate issues regarding existing investments and encouraging future investments.

- How should future investment in advanced fuels be encouraged?
- How should existing biofuel plant investments be protected?

Other questions WG3 should consider

- What tools are available and how quickly could they be implemented? Eg. RTFO, Fuel Duty, Motor Fuel Regulations etc)
- Understand the interim targets and their implications better.
- How do we ensure demand is taken into account and is in balance with supply? (Issue for WG4 also)
- What are the risks of not acting?
- Map out the policy timeline. What we know by when?
- How late can we introduce a measure to be effective?
- How we deal with the risks of not being able to achieve B7, in particular in winter? Is this a volume issue or a cost issue? (Issue for WG4 also)
- What does it take to secure investment?
- What does investor certainty mean?
- How are sustainability issues best taken into account?

With respect to E20 it was noted that there needed to be an agreed fuel specification agreed and any consideration as to when it was deployed would also have to take account of vehicle compatibility and infrastructure constraints. The LowCVP has commissioned studies on Fuel Roadmaps and Infrastructure Roadmaps which the group could draw from.

DfT expressed the view that the ideal outcome from WG3 would be a menu of options identifying the measure, what could be achieved, how easily it could be achieved and when could it be effective?

The following issues were considered to be out of scope:

- Demand side issues
- Beyond 2030
- But it was not clear whether non-liquid fuels are out of scope

5. Stakeholders Involved

The Working Group was asked if the Working Group was sufficiently broad to adequately undertake the task it has been set and if not who else should be invited to participate? The members of WG3 are set out in paper TE-WG3-P-04.

Although the group felt it was sufficiently broad there was a discussion regarding aviation. It was commented that there was a Sustainable Aviation Group and that it would be useful to make links with that group and to have greater aviation representation on WG3. It was proposed that Virgin might be invited to join WG3.

Action: Seek greater aviation industry representation.

6. Next steps & DONM

Chair reported that the outcome of the discussion would be feedback to the High Level group on Monday 1 December. At that meeting the High Level group would confirm that what the Working Groups have proposed is acceptable and provide any clarification on points requested.

In the meantime the minutes will be produced and circulated to WG3 members.

It is proposed to commission a study to help develop the deliverables of WG3. A draft project brief will be circulated for comment as a basis for an invitation to tender.

At that meeting a timetable of meetings for the High Level group will be agreed which will then help provide a timeline for the work of the Working Groups.

Action: Circulate minutes along with proposed dates for future meetings and draft project brief.

<u>Next Transport Energy Taskforce Working Group 3 meeting</u>
Remaining meeting date: **Dates to be confirmed** ***Venue tbc (offers welcome)***