

CHPA CONFERENCE SPEECH

Ladies and Gentlemen, a very good morning to you all. Let me thank you for inviting me to speak to you at your conference today.

I would like to start by paying tribute to your Association. I need hardly tell you how committed David Green and his hard working staff are to the cause of CHP. Most of you will not have attended meetings with Government Ministers and officials where your Association have argued eloquently and passionately for your industry and its' technology. We may not always see eye-to-eye but our mutual respect has helped gain many benefits for CHP over the years. I very much look forward to a similarly fruitful working relationship in the years to come.

At previous conferences, Ministers have not hidden from the fact that the CHP industry has faced very difficult times in recent years. You have looked to government to help ease the considerable strain on your industry and, despite us not being able to deliver all that you would like, we have introduced some important support measures. These have not been sufficient to prevent a number of schemes being mothballed or closed with a consequential standstill in the level of CHP capacity until the Immingham plant came on stream last year. Within this climate, I am pleased that in the last year the Government has been able to announce extending the Community Energy programme and VAT reduction on Micro-CHP. More on these later, but we are far from complacent.

On the wider canvas, there is much going on within Government. Key amongst this for the CHP industry is the Climate Change Programme Review. The comprehensive remit of the Review has been to ascertain the successes and failures of the original programme since its' publication in 2000. A key focus of this has been to evaluate new possible measures that will help us meet our climate change goals. We already know that CHP saves over 4 million tonnes of carbon annually. So, the Review of the Programme is an important opportunity to evaluate how CHP could make an even more significant contribution to the UK's climate change objectives.

As part of this Review, we have primarily focused on three major support measures for CHP. A decision on these will be made as part of the Climate Change Programme Review process. We are aiming to publish the revised Programme before the end of this year.

On these measures, we have examined the Alan Whitehead proposal. As I am sure you all will know, this would provide a support mechanism for CHP through guaranteeing a certain level of spark spread. We asked the consultants ILEX to carry out an appraisal of this proposal, following which there have been detailed discussions between the CHPA and officials about how the Alan Whitehead proposal could be implemented in a way that would reduce the cost of the guarantee. We are extremely grateful to the Association for the time and effort they put into helping with our investigation into the proposal.

We have also looked again at a CHP Obligation, along similar lines to the Renewables Obligation. Although such an obligation has been rejected in the past, we are conscious that this is the single measure that would effectively help us reach our 2010 target. It was reconsidered for completeness, but the cost remains prohibitively high and it would be a major intervention in the market.

Finally, we are looking at a proposal to exempt CHP from the Renewables Obligation base. As many of you are aware, the Renewables Obligation is currently being reviewed. We have worked closely with Dti colleagues to ensure that this proposal is contained within the consultation document which was published last month. I am aware that exempting CHP is viewed with concern in some quarters as possibly undermining market confidence in renewables. It is therefore important that you feed in your thoughts to the consultation exercise to ensure we get a balanced picture of opinion.

Separate to the Review, the consultation document is also considering extending Renewable Obligation Certificate eligibility to include mixed waste plants which use Good Quality CHP. This would add CHP to the list of advanced conversion technologies eligible for ROCs and reflects the findings of the analysis by the consultants ILEX. This found that energy from waste plants utilising CHP offer net

environmental gains compared to electricity-only plant but that the additional cost of utilising CHP is not generally economical without some form of Government support.

In addition to these measures, and in parallel to the Review, we are also looking at the EU Emissions Trading Scheme and whether we can treat CHP more equitably under the Phase II National Allocation Plan. We are focusing in detail on the treatment of CHP in order to try to overcome the sorts of difficulties experienced by some CHP installations in Phase I. In particular, under Phase II, we are looking at the possibility of a separate CHP sector and a CHP-specific New Entrant Reserve. We are currently working with DTI colleagues to examine allocation methodology options for a separate sector, including benchmarking, and to resolve a number of issues concerning the feasibility of creating such a sector.

If I may return to the Climate Change Programme Review for a moment, we have also looked at other measures. These include:

- reviewing the Government Estate target for the use of CHP electricity, within which we have looked at the feasibility of adding a heat element to the target;
- considering carbon factors, which we are aware the CHP industry views as damaging to the cost-effectiveness of any new CHP support measures; and
- extending the Community Energy programme.

Although it must be emphasised that on their own they could not be expected to add a great deal by way of additional CHP capacity, they would all act to create a more positive environment in which CHP can grow.

Taking up the issue of Community Energy, I know that many of you here will be disappointed that we have yet to launch a bidding round for the £10m extension to the programme. However, I know that you will have been encouraged that we were able to secure the future of the programme until at least 2008. We are currently working with the programme's managers to develop the programme extension, having taken this opportunity to review the current programme criteria. This is taking longer than we had anticipated. However, we are determined to secure the best possible position for Community Energy in order to deliver our aim of a sustainable community heating market, bringing the benefits of this undervalued technology to the wider community.

To continue the theme of CHP in the domestic sector, another important initiative is the development of the Government's strategy on microgeneration, and the potential to use this to aid the promotion of micro-CHP. The formal consultation period ran from June to September, and officials have since run several workshops, as well as engaging with organisations on an individual basis. We are analysing over 200 responses, no doubt some of which came from Association members seated here and I thank you for your constructive input. Your comments will be invaluable in influencing the document's development.

As you will be aware the Government has already shown its' commitment to the development of micro-CHP in this year's Budget, by extending the 5% VAT rate that applied to certain grant-funded installations to all domestic micro-CHP. This is very welcome sign of the Government's support for this emerging micro-CHP. There is to be a type-approval workshop held next month with industry. This could be another important step forward, with the interim results from the micro-CHP field trials beginning to be analysed. The Carbon Trust will be publishing a report on the status of the field trials before the end of the year.

These measures aside, we are working on other issues, that can benefit the CHP industry and I would like to briefly mention two: simplified licensing and renewable heat. On licensing we are working closely with Dti and Ofgem and are about to commission a piece of work to examine the scope for setting up a simplified electricity supply licence for small CHP. But before we do so we intend to consult your Association on the project specification. On renewable heat, a study on the CHP and renewable heat market has now been published and Dti are seeking comments from interested parties on the final report until the end of this month. Given the potential for carbon savings by stimulating the market for heat, the report recommends that Dti and Defra should consider mechanisms for delivering that support.

Before I wind up, I would just like to say a few words about the Cogeneration Directive, which we must transpose into national law by next February. This places an obligation on Member States to ensure that support for CHP is based on useful heat demand and primary energy savings. The UK is already largely compliant with the Directive, due in large to the CHP Quality Assurance programme, and we are

putting into place the necessary changes to ensure compliance. These include consulting you, the industry, on our plans for transposition, which we aim to do next month, and your views would be very much welcomed.

In conclusion, when Lord Whitty spoke to you last year, it was amidst the very bleakest of times for the industry. While I cannot pretend that we have turned the corner, we believe that the corner is now in sight. A widening of the spark spread that would lead to profitability for CHP is now projected and we are doing our level best to ensure that the Review of the Climate Change Programme fully recognises the energy efficiency and carbon saving benefits that CHP can bring. If we are able to deliver an environment in which CHP can flourish I know that you in the CHP industry will rise to the challenge. I want to assure you that Government, and your representatives here at the CHPA, are working very closely together to ensure that we deliver such an environment.

Thank you.

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