

Sent via email to [LCFstrategy@dft.gov.uk](mailto:LCFstrategy@dft.gov.uk)

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# Energy UK Written Ideas: Low Carbon Fuels Strategy

## Introduction

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the energy industry with our members delivering nearly 80% of the UK's power generation and over 95% of the energy supply for the 28 million UK homes as well as many businesses.

Our members are highly active in the electric vehicle (EV) space, offering EV tariffs, smart charging and vehicle to grid, leasing and selling EVs either directly or in partnership with other companies, and installing and operating chargepoints in homes, businesses and in the public domain. This response advocates for the inclusion of renewable and very low carbon electricity in any transport fuel obligation. Our members may address each consultation question individually where experience allows them to.

## Electricity in the RTFO

Energy UK welcomes this call for ideas on the Low Carbon Fuels (LCF) Strategy as committed to in the Transport Decarbonisation Plan (TDP) and is encouraged by the intention of confirming priorities and topics for further discussion.

We recognise benefit in maintaining biofuel blending in the RTFO given demand in maritime and aviation. However, the overriding priority must always be zero emissions and this priority is very much achievable in road transport with supportive measures in place for EVs.

Therefore, Energy UK propose that the RTFO be *adapted* to include all forms of renewable energy, including renewable electricity use in transport, alongside biofuels and hydrogen. In the long term, electricity will be a major source of renewable energy for the majority of road transport and therefore impeding its involvement in any fuel strategy of the near term may counteract efforts of the TDP and EV Infrastructure Strategy. There is ease and necessary value, for both the EV market and broader decarbonisation, in including electricity in the UK's fuel blending mechanism.

## A Renewable Transport Energy Obligation

Electricity should be directly included in the RTFO to allow for all forms of renewable or very low carbon transport energy ('fuel') to be treated equally under one scheme. The specific details of delivering this scheme should be consulted upon by Government with consideration also due in future on expanding the scope of eligible low carbon hydrogen. Energy UK Members are prepared with

### Energy UK

26 Finsbury Square  
London EC2A 1DS

T 020 7930 9390  
[www.energy-uk.org.uk](http://www.energy-uk.org.uk)  
t @EnergyUKcomms

frameworks on a Renewable Transport Energy Obligation (RTEO) to assist, including on ideas conferring benefits for private charging.

Under such an energy obligation, the generation of credits for electricity forms a market-based mechanism which improves the investment case for chargepoints (CPs) with a sustainable revenue stream landing directly with chargepoint operators (CPOs) themselves. With increased investment in public charging infrastructure needed to provide confidence for consumers to switch to EVs, improving the business case for public CPs will encourage greater EV uptake, particularly from those without access to private charging, a priority for government.

To further simplify, inclusion of electricity as a compliance mechanism in the obligation does not automatically create a need to increase overall targets. Overall targets are a policy decision for government and can ultimately be designed to incorporate all types of transport fuels/energy, as is the case in Germany, the Netherlands, France, Austria, British Columbia and several US States.

We note that the buy-out price and therefore cost of compliance was increased by Government in 2020 from 30 pence per litre to 50 pence per litre, having an up to 2 pence per litre impact on cost of fuel. It is also worth highlighting that the cost of compliance could in fact be decreased, if electricity is included within the mechanism, and targets remain the same, as electricity would represent an additional compliance mechanism to meet the set targets. Through treating low carbon transport fuels equally, the current distortion that effects electricity can be omitted, without hindering the role of biofuel or hydrogen and ultimately better serving the end goal of zero emissions from vehicles.

Furthermore, as inclusion of electricity should not change existing market mechanisms of CP investment and anticipated levels of utilisation, there should not be any distorting effects or defective investments made viable. Indeed the opposite may ensue as with improved business cases for CPOs, Government can leave the market to deliver charging infrastructure in areas where support is not needed, and instead concentrate funding in areas which are not seeing profitable levels of infrastructure or where support is needed for the cost of connections. Even in these areas, as electricity credits provide a sustainable revenue stream for all CPOs, less Government support will be required than without the scheme.

Government should act on including electricity simply because not doing so will be a vital lost opportunity. Electricity can be added with relative ease whilst also conferring benefits of EV uptake and therefore better serving the primary goal of zero emissions from vehicles.

### On Hybrid Schemes

Notably, the consultation indicates enquiry into a hybrid greenhouse gas (GHG) scheme running parallel to the RTFO for 2023. With inference from previous GHG regulations from the Fuel Quality Directive, Energy UK strongly recommend that this hybrid approach is steered away from as it will not remove the inefficiencies and distortions present in the existing RTFO scheme. Through accounting for biofuels and hydrogen in the RTFO as well as biofuel, hydrogen *and* electricity in a GHG system, creating a secondary mechanism will maintain prior experience of having one leading instrument above the other, and will not address the issue of unequal treatment of electricity as a renewable transport fuel.

Electricity can be easily added to the RTFO, keeping volume based metrics. However, if Government prefer a GHG alternative, a full GHG system as exists in Germany is much preferred by industry and can similarly confer benefits for both public and private charging. A full GHG system also allows all forms of very low carbon energy to be treated equally under one scheme including biofuels, electricity, hydrogen and nuclear energy. Energy UK Members are again prepared to assist on such thinking.

### Benefits of Including Electricity in Fuel Blending

#### ***Removes current market distortion to support EV infrastructure:***

The consultation states that policies to promote LCFs should not involuntarily distort other markets. The direct inclusion of electricity in any fuel blending mechanism serves to remove market distortions that exist in the current RTFO. The 2018 RTFO inclusion of hydrogen, but not other forms of renewable energy or indeed nuclear hydrogen, has produced a distorting effect. Suppliers of renewable hydrogen

#### Energy UK

26 Finsbury Square  
London EC2A 1DS

T 020 7930 9390  
www.energy-uk.org.uk  
t @EnergyUKcomms

that meet carbon and sustainability requirements receive double the awards for RTFCs if it is a renewable fuel from non-biological origin (RFNBO), i.e. hydrogen generated from renewable electricity which goes into a fuel cell EV. This allows renewable electricity to participate indirectly through hydrogen used in transport, but not for the same electricity if it were used directly in EVs.

Distortion should be corrected via enabling renewable electricity, biofuel and all appropriate forms of low carbon hydrogen (including from nuclear sources) to contribute together in delivering carbon reductions under one mechanism.

***Ensures that the UK EV market remains competitive internationally:***

With the Netherlands, Germany, Austria and France having amended their equivalent fuel blending mechanisms to include electricity in 2015, 2017 and 2022 respectively, the European Commission has now proposed to mandate this inclusion in its proposals for the new Renewable Energy Directive 2. Globally, California has a similar inclusion in its Low Carbon Fuel Standard from 2011, the concept of which has been copied in Oregon, Washington State and British Columbia. For the UK's EV charging market to remain competitive and attract vital investment, electricity must be included in our scheme to improve the business case and assist the overarching goal of zero emissions in transport.

***Coordinates with wider transport policy and decarbonisation ecosystem:***

To ultimately achieve zero emissions from vehicles, transport policies must coordinate and assist each other. With detail on a ZEV mandate and CO2 emissions regulations to be released this year, EV supply is set to accelerate. However, perception on ease of EV use is vital to majority consumer uptake and appropriate charging infrastructure must be in place ahead of increased demand to meet consumer expectation. Whilst Government support for purchasing EVs is phasing down in some areas, inclusion of electricity provides a much needed market based mechanism to support investment for infrastructure, an issue frequently highlighted by industry that should be addressed without delay.

Finally, any transport policy in this phase of our net zero transition should always serve the country's wider decarbonisation ecosystem. Electricity will be *the* fuel for road transport, but it is also not a standalone resource. Including electrons in our biofuel blending mechanism will join up this scheme to our wider energy policy goals as we electrify our systems. Not including electricity may be a lost opportunity. Importantly, any future fuel blending scheme should allow all forms of renewable electricity generation to contribute without additionality as these forms contribute equally to decarbonisation. Including electricity and removing additionality better serves the broad range of policies supporting growth of new low carbon generation to decarbonise the power sector by 2035.

Overall, Energy UK are encouraged by this Call For Ideas and would like to invite the Department for Transport for further discussion on including electricity in a biofuel blending mechanism. We are also ready to be actively involved in assisting the design of such a scheme should it be acted upon.

Yours sincerely,  
Yumann Siddiq  
Senior Policy Executive  
Energy UK  
[yumann.siddiq@energy-uk.org.uk](mailto:yumann.siddiq@energy-uk.org.uk)  
26 Finsbury Square  
London  
EC2A 1DS

**Energy UK**  
26 Finsbury Square  
London EC2A 1DS  
T 020 7930 9390  
[www.energy-uk.org.uk](http://www.energy-uk.org.uk)  
t @EnergyUKcomms