

## **IETF Phase 3 Consultation – UKPIA response**

### **1. Is the IETF achieving its aims of supporting first movers?**

Yes

Based on current evidence, the Industrial Emissions Transformation Fund (IETF) is achieving its aims of supporting first movers.

We welcome the ongoing support of the IETF in order to continue to meet the decarbonisation objectives required for the energy transition to Net Zero.

### **2. What are the main barriers to investing in deep decarbonisation or energy efficiency technologies?**

UKPIA understands that the main barriers to investing in deep decarbonisation or energy efficiencies are access to finance and to staff with the appropriate skills, as well as the competitiveness of UK projects relative to other projects for international companies.

We discuss some of the skills issues facing our members in our recent report “Future Skills for the Downstream Sector”<sup>1</sup>.

Such international companies have a limited capital spend budget and capability and UK policies offer lower support overall compared to international peers, such as the US under the Inflation Reduction Act (IRA) and the EU (Fit for 55)<sup>2</sup> risking investment being placed outside of the UK. Information on the funding available in various international jurisdictions is included in our response to Q24.

Experience from member companies suggests that these barriers are lowered to manageable levels by adequate level of IETF financial support.

### **3. What role does the IETF play in addressing investment barriers, and does this differ to other public and private financing options?**

UKPIA believes that an adequate level of IETF financial support enables projects to meet the required payback threshold for Final Investment Decisions (FIDs) as per individual company’s criteria.

As we discuss in our response to Q2, international companies have a limited capital spend and financial capability. This means that not every project that meets the threshold for consideration will go ahead because of constrained capital. Projects are better supported outside of UK, with UK policies offer lower support overall compared to international peers, such as the US under the US (IRA)<sup>3</sup> and the EU (ReFuelEU) risking investment being placed outside of the UK. Information on the funding available in various international jurisdictions is included in our response to Q24.

Other funding options such as public and private financing options do not offer this same level of revenue certainty, so may not allow companies to pass the relevant requirements to enable FIDs to be made.

However, as outlined in the UKPIA Future Vision document<sup>4</sup>, Enhanced Capital Allowances (ECA) have been available for specific technologies delivering energy efficiency

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<sup>1</sup> <https://online.flippingbook.com/view/861718875/>

<sup>2</sup> <https://www.consilium.europa.eu/en/policies/green-deal/fit-for-55-the-eu-plan-for-a-green-transition/>

<sup>3</sup> <https://www.mckinsey.com/industries/public-sector/our-insights/the-inflation-reduction-act-heres-whats-in-it>

<sup>4</sup> <https://www.ukpia.com/future-vision/>

improvements. However, the government has announced that the ECA scheme will end in April 2020, with the revenue saved being used to fund the IETF.

Scoping and preparation of applications for major projects is itself resource intensive. The proposal for use of a competitive grant process under the IETF provides no certainty that early scoping of major projects before preparation of applications will result in successful allocation of grants under the IETF. Instead, UKPIA strongly support development of an ECA scheme for major energy efficiency, decarbonisation, and environmental projects, providing first year or tapered capital allowances against qualifying expenditure.

**4. Do you agree with the range of SIC codes proposed to determine IETF eligibility? If no, what additional categories of activity (using SIC code descriptors if possible) should be included or excluded and why?**

**Yes**

UKPIA agrees with the range of SIC codes proposed to determine IETF eligibility.

Given the limited budget available from the IETF (£315 over 5 years to 2024 in two Phases), UKPIA believe the fund is best targeted where smaller energy efficiency and decarbonisation projects can be implemented within the timescales identified.

The restriction to organisations in manufacturing sectors covered by SIC codes 10-33 largely achieves this, although the design is not well suited to sectors such as refining, where energy efficiency and decarbonisation projects range from less than £100k to over £100m and usually involve planning over an extended period (often up to 5 years).

**5. Do you agree with the decision to limit IETF support to existing sites and processes? Are there any opportunities being missed and, if so, how could the energy and emissions impacts of these projects be evaluated?**

**Yes**

UKPIA agrees with the decision to limit IETF support to existing sites and processes.

The IETF should be limited to existing sites and processes to enable their transition into a Net Zero UK. However, for clarification this should also include CO<sub>2</sub> transportation systems that are needed for existing, dispersed, sites to enable their transition, ensuring a level playing field for UK operators.

The introduction of new Net Zero Industrial assets is being incentivised by other HMG mechanisms. These include the Hydrogen <sup>5</sup> and CCUS <sup>6</sup> business models, amongst others.

**6. Do you agree with the decision to limit IETF support to investments or studies that are relevant to onsite infrastructures only? Are there any opportunities being missed and, if so, what types of *off-site* investment should be permitted?**

**No**

UKPIA does not agree with the decision to limit IETF support to investments or studies that are relevant to onsite infrastructures only.

Some large industrial sites spread their business across various regions in the UK.

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<sup>5</sup> <https://www.gov.uk/government/publications/hydrogen-production-business-model>

<sup>6</sup> <https://www.gov.uk/government/publications/carbon-capture-usage-and-storage-ccus-business-models>

IETF should be extended to investments or studies that may spread offsite but synergistically deliver Energy Efficiency (EE) or Deep Decarbonisation (DD) with the main site. Again, for clarification this should also include CO<sub>2</sub> transportation systems that are needed for existing, dispersed, sites to enable their transition, ensuring a level playing field for UK operators.

**7. Do IETF rules currently encourage collaboration and the creation of beneficial consortia arrangements? If no, how can we improve this?**

**Yes**

UKPIA agrees that the IETF rules currently encourage collaboration and the creation of beneficial consortia arrangements.

To prevent misuse of the aggregation system, bids from consortia or joint ventures should be supported by details of all commercial arrangements between the organisations concerned, including arrangements other than the project(s) concerned, within the bounds of applicable competition law and confidentiality agreements.

**8. Do you agree with the current minimum grant thresholds set by the IETF? If no, what amount should they be amended to? Please explain your rationale including details on what types of project and site would benefit from the change.**

**Yes**

UKPIA agrees with the current minimum grant thresholds set by the IETF, recognising that these may differ from those used in previous phases.

the proposed figures strike the right balance between materiality and affordability for the intended purpose (i.e., feasibility, engineering studies and deployment projects)

**9. What financing routes would you typically consider when developing a project? Do you have access to all the routes you need, and how do you determine whether grant funding is required to unlock investment in a project?**

This is a commercial matter for individual companies and UKPIA cannot comment in detail on this question.

However, we recognise that grant funding may be required to prioritise projects which do not meet the required payback period threshold in order to enable FIDs to be successfully made. The level of grant requested would be such that the project meets that threshold and enables the project to proceed.

**10. At feasibility study stage, would industrial sites benefit from an expansion in scope so that the IETF funding can also support an options analysis of technologies?**

**Yes**

UKPIA agrees that industrial sites benefit from an expansion in scope so that the IETF funding can also support an options analysis of technologies at the feasibility study stage.

At the feasibility study stage the project typically explores “all options” to deliver the most suitable technical/economical outcome, hence by definition, these projects should also support an options analysis of technologies. Narrowing down the selection of a technology for an EE or DD project without proper consideration may not result in the best ‘Value for Money’ alternative.

**11. Are there any other changes to the scope of activities eligible for study strand support that might improve outcomes?**

IETF should support inclusion of projects which intends to use the recovered energy from an industrial site into non-industrial applications such as space heating (currently not allowed under the IETF eligibility criteria), as this would enable industrial projects to make more and more efficient use of low-temperature heat sources which are simply wasted to atmosphere in the industrial world. The net effect could significant CO2 savings for the UK.

**12. Are there any other changes to the range of eligible technologies or scope of deployment strand support that might improve outcomes?**

No

UKPIA is not aware of any other changes to the range of eligible technologies or scope of deployment strand support that might improve outcomes.

**13. Do you have any comments on the application process and delivery through to post award for the IETF? Please explain any practical considerations the government should consider when designing IETF Phase 3 or other future schemes.**

No

UKPIA has no further comments on the application process and delivery through to post award for the IETF and understands that the current process is adequate.

**14. Do you have a clear understanding of the range of government support that is available to you and how to access it? Please expand on your answer, describing how you currently identify funding opportunities and any ways in which the accessibility of this support could be improved.**

Yes

UKPIA has a a clear understanding of the range of government support available at any point in time.

An area for improvement is the structure of the DESNZ website where “all” ‘currently available’ and ‘envisaged’ support schemes could be clearly listed to ensure industry does not miss any opportunities. Currently, it is difficult to navigate through the DESNZ website and find out what is currently available and what are the ‘soon-to-be-released’ opportunities.

**15. Do you have any feedback on how the application questions and criteria used to assess IETF studies and deployment projects could be improved?**

To make the application more streamlined and avoid repetition, the Study overview and technical feasibility sections could be combined.

**16. If you applied previously, please share your views on whether the application questions provided you with adequate opportunity to describe the purpose and scope of your study or project. Are there additional questions that should be asked, particularly in regard to evidencing that the proposal meets the IETF eligibility criteria?**

UKPIA understands that the current set of application questions are adequate.

**17. If you applied to the deployment strand, did you find the economic assessment questions and project benefits calculator easy to understand and complete? Did you encounter any issues and what improvements could be made? In your view, does the IETF assessment process discourage applications for projects or studies that may have otherwise gone ahead without IETF support?**

While UKPIA has not applied to the deployment strand directly, we understand that it would be beneficial to add a 'comments' column to each table in each tab within the "project benefits calculator" spreadsheet as currently only a set of 'fixed' options from a 'drop-down menu' is given.

Sometimes, responses are "Yes, but..." rather than a simple "Yes/No" type of answer. Clarifications can be provided right beside where the information is provided and avoid questions during Due Diligence stage.

**18. How could the assessment of "additionality" be improved, particularly in terms of identifying where investment exceeds existing commitments, such as Climate Change Agreement requirements?**

UKPIA cannot comment on this question in detail.

**19. In your view, is it appropriate to assess all applicants against the same criteria or should there be a different approach for certain businesses or projects?**

UKPIA agrees that it is appropriate to apply the same criteria for all applications in order to create a level playing field within the scheme.

Customisation of the IETF scheme for SME vs large businesses is already embedded by setting different Min/Max Grant levels as it was done in phase 2 of the IETF.

**20. Would the current level of technical detail required for M&V in the IETF application deter you from applying?**

UKPIA believes that the current level of technical detail required for M&V in the IETF is adequate.

We think this offers enough transparency to prove claims made as this forms the basis for which the project got the grant and proved Value for Money (VfM) in the first place.

The level of technical detail required for M&V needs to be carefully balanced, recognising that companies can also be human resource constrained, particularly considering the skills required for a robust application. The level of M&V requirements may therefore influence a company's decision to apply as an ongoing work commitment would be part of the decision process. Directionally therefore having less M&V would trend to having more applications.

**21. How can the IETF encourage further the sharing of knowledge of energy efficiency and deep decarbonisation measures between organisations?**

Rather than create another mechanism for knowledge sharing, the IETF should engage with existing knowledge sharing networks. Some well-established networks include the Energy Systems Catapult <sup>7</sup> and the Innovate UK Knowledge Transfer Network (KTN) <sup>8</sup>.

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<sup>7</sup> <https://es.catapult.org.uk/contact/>

<sup>8</sup> <https://iuk.ktn-uk.org/>

This approach focuses effort on sharing knowledge in several key and well-established organisations. Creating another, new, organisation risks diluting efforts, causing confusion, and diluting the knowledge sharing approach.

**22. What do you see as the IETFs long term role in supporting industry to save energy and reduce emissions? Please consider how the IETF should interact with other decarbonisation and energy efficiency policies to avoid duplication and maximise value for money.**

UKPIA sees the role of IETF being the same as of today to assist late adopters.

With the finalised delivery of the Hydrogen and CCUS Business Models taking longer than originally planned, supporting DD projects, and providing certainty to investors, schemes such as the IETF are the only help industry receives from the UK government to help them prepare their transition plans in line to meet the UK's net zero ambitions<sup>9</sup>.

From the above, we strongly suggest that a cap of £185mln for the next (or future phases) is not enough to keep industry engaged during the next few critical years and prevent key players from leaving the UK while pursuing EE and DD opportunities elsewhere in the world, like the US, where financial support is being deployed significantly faster.

**23. Do you support the principle of technological neutrality in the IETF? Should any particular technologies or sectors be excluded or prioritised in future support should it become available?**

Yes

UKPIA supports the principle of technological neutrality in the IETF.

**24. What type of support will industry need out to 2035 to enable energy efficiency and decarbonisation projects to be replicated and deployed at scale? Would any of the following provide an effective intervention: support for capital costs, operational costs, access to finance or information, clarity on grid capacity and connections or the availability of hydrogen, or capacity building?**

UKPIA sees the role of IETF being the same as of today to assist late adopters.

In the lack of finalised Business Models which are taking longer than originally envisaged to support DD projects and that will provide certainty to investors, schemes like IETF are the only help industry is getting from HMG to help them prepare their transition plans in line with a Net Zero UK in the meantime.

From the above, we strongly suggest that a cap of £185m for the next (or future phases) is not enough to keep industry engaged during the next few critical years and prevent key players from leaving the UK while pursuing EE and DD opportunities elsewhere in the world, like the US IRA, where financial support is being deployed significantly faster with clearer incentives and lower complexity for businesses.

The table below illustrates, at a high level, the differences between the schemes in various jurisdictions:

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<sup>9</sup> <https://www.gov.uk/government/publications/powering-up-britain>

**Table 1: Comparison of various decarbonisation funding schemes <sup>10</sup>**

Jurisdiction	Total value (£ billion) <sup>(1,2,3)</sup>	% grant spend per technology (H2, CCUS, LCF, SAF)			
		H2	CCUS	SAF	LCF
UK <sup>4</sup>	2.39	19.5%	57.0% <sup>5</sup>	19.5%	4.0% <sup>6</sup>
USA	102	24.2%	47.5%	28.3% <sup>6</sup>	
France <sup>4</sup>	3.32	76.8%	Share of 23.2% <sup>6</sup>		
Germany <sup>4</sup>	11.7	87.6%	Share of 12.4% <sup>6</sup>		
EU (excl. state aid) <sup>4</sup>	10.7	53.6%	Share of 46.4% <sup>6,7</sup>		

1. Total value includes the sum of subsidy packages and penalties in the sectors of 'Clean transportation, Hydrogen, and Carbon Capture'.

2 EU member state countries' values include a combination of state aid and a proportion of the EU funds relative to its population.

3 Grants include competition funds, tax credits, and other infrastructure funding.

4 Expected upcoming obligation penalty scheme for UK, EU, France, and Germany SAF production.

5 £20 billion CCUS funding from the UK Spring Budget 2023 and EU Net Zero Industry Act not included as details are unclear as of analysis on the 21st of March 2023.

6 Percentages may not add up to 100% due to rounding.

7 Funding for some low carbon sectors in EU states is unclear due to "quality of project" assessment criteria applicable across all LC sectors.

**25. Which of the following would provide an effective funding mechanism for energy efficiency and decarbonisation projects out to 2035, and could any become more attractive or necessary: grants, loans, guarantees, and equity? Do you feel that the existing balance between these different types of government support is appropriate?**

Grants through schemes like IETF, Loans and guarantees like those to be provided by UKIB are all adequate to de-risk projects and meet investment criteria.

UKPIA sees the role of IETF being the same as of today to assist late adopters.

In the lack of finalised Business Models which are taking longer than originally envisaged to support DD projects and that will provide certainty to investors, schemes like IETF are the only help industry is getting from HMG to help them prepare their transition plans in line with a Net Zero UK in the meantime.

From the above, we strongly suggest that a cap of £185m for the next (or future phases) is not enough to keep industry engaged during the next few critical years and prevent key players from leaving the UK while pursuing EE and DD opportunities elsewhere in the world, like the US IRA, where financial support is being deployed significantly faster.

<sup>10</sup> Source: UKPIA analysis, 2023

**26. Besides energy and emissions savings, what wider benefits could fund like the IETF deliver? How would you assess and evaluate these benefits?**

A reduction in UK energy use, delivered through the IETF reduces the UK's demand on imported energy such as Liquefied Natural Gas, or electrical imports.

This assists the UK's energy security, as outlined in the energy security strategy <sup>11</sup> by reducing reliance on foreign sources of energy to meet the UK's needs.

These benefits should be assessed and evaluated by DESNZ as part of their national energy security strategy.

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<sup>11</sup> <https://www.gov.uk/government/publications/british-energy-security-strategy/british-energy-security-strategy>