DOWNSTREAM

WINTER 2021/22

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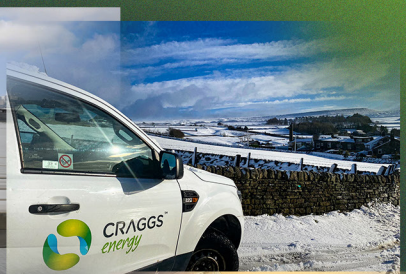

2021

Celebrating a Year of Liquid Renewable Fuels

UKIFDA

Representing the best in liquid fuels

Welcome

EDITOR'S LETTER

Welcome to the Winter 2021/22 edition of Downstream!

While consumers prepare themselves for what looks like unprecedented increases in energy costs witnessing the regulators incapacity to prevent the surge; UKIFDA Members continue to work hard 'together' to represent the interests of their off-grid customers, who are wrestling with government policies which look set to ask over a million homes to foot the bill for zero carbon home energy. For some this could be as early as 2026. This edition of *Downstream* is somewhat of a showcase for efforts in this regard.

Having only been at UKIFDA for 12 months the new CEO, Ken Cronin has really stuck to his word on the Association's focus. We can look forward to a re-juvenated, fully-loaded EXPO in Liverpool on the 27-28th April; there is a strong, connected approach to creating a framework for HVO and industry evolution, based not just on political will, but actual data (something previously trapped within the membership) ;and UKIFDA Members are being provided with greater insight on and for their customers.

This Special Edition of *Downstream* contains a 20 page response from UKIFDA and OFTEC to the Governments' Rural Home Heating Strategy. I urge you to read it and get involved by visiting **www.futurereadyfuel.info** If you want to find out how the industry is demonstrating the efficacy of HVO why not read **P42** which lays out the roll out of HVO across 200 homes and the ease of transformation.

In addition, *Downstream* reports on some of the issues emerging around Red Diesel – most notably the duty of care placed on distributors due to the allowable use class changes.

In collaboration with AON, UKIFDA also provides the underwriters view **(P12)** on credit insurance, the mechanics of which have a fundamental impact on both consumers ability to secure supply and Members' bad debt exposure.

Finally there are a plethora of news stories from the industry that showcase how participants are winning with Sustainable solutions such as the P66 and British Airways deal and the support of other influential bodies such as TRA who are paving the way for low carbon liquid fuels.

Finally, a note of caution... **(P10)** the tickets for the EXPO dinner are selling fast (and EXPO registration is open), you better get on it.

Happy reading,
Ben

Benjamin JP Rushton
Publisher

Key Dates

UKIFDA EXPO 2022

April 27 & 28, 2022

The EXPO is back! After three years without a physical EXPO, we are excited to be reunited. Expect a buzzing exhibition hall and a future fuels packed agenda.

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Update from Ireland

UKIFDA, OFTEC and Fuels for Ireland have come together to form a new partnership called the Alliance for Zero Carbon Heating.

The Alliance has been established to ensure that Irish consumers have a choice when it comes to their home heating needs which reduces carbon emissions. Recently the Alliance has launched new research from the world-leading consultancy firm AECOM which has demonstrated that new liquid heating fuels could dramatically reduce emissions in Ireland's home heating sector.

Nearly 700,000 Irish households currently use oil to heat their homes. AECOM's report titled 'A Review of the Irish Residential Heating Sector' shows that switching to the use of the B50K bioliquid blend could reduce emissions more than switching to an air source heat pump. AECOM also found that it costs more than twice as much for a household to switch to an air source heat pump, compared to what it would cost to switch to a B50K blend. The research demonstrates that the use of B50K would produce 40 tonnes of CO_2 emissions over 10 years, while B30K would produce 52 tonnes and HVO 10 tonnes compared to an air source heat pump which would produce 53 tonnes of CO_2.




Crucially, AECOM based their analysis on the assumption that homes were heat pump ready, yet many homes require extensive deep retrofitting processes before heat pumps can be installed. The average cost of a retrofit in Ireland is currently €56,000 which goes some way to explain why uptake has been low and Government is lagging behind their targets.

The Alliance is calling on the Government to incentivise a shift towards fuels which can dramatically reduce carbon emissions in the coming years, such as Hydrotreated Vegetable Oil, which can cut emissions by up to 86%.

The Alliance has called on the government to build on the massive progress which has been made by using biofuel blends in transport, the Government should consider subsidies - like those available to other technological solutions - to encourage this and to boost domestic and sustainable production.

Alongside our partners UKIFDA submitted a response to the consultation on the renewable heat obligation. In a response to a question on the obligation, the Minister for the Environment, Climate and Communications Eamon Ryan commented:

> The obligation could potentially be met through the **supply of renewable gas, biomass or renewable fuels such as hydrotreated vegetable oil (HVO).**

Given the support which biofuels and other alternative low carbon fuels enjoy in other areas, UKIFDA and its partners believe that we now need to properly examine how such fuels can play a similarly important role in cutting emissions in the heating sector. Introducing a Renewable Heat Obligation, which would be operated in a similar manner to the Biofuels Obligation Scheme, would kickstart a new era in our sector as more and more renewable fuels such as liquid biofuels are gradually introduced.

Nicholas Hayes, UKIFDA's Irish representative recently commented "We can do more, and reduce emissions by more, if we give households effective and affordable alternatives made up of a gradually-increasing percentage of renewable fuels. Our Industry is determined to give Irish households the alternatives they need to dramatically reduce emissions from home heating, with the right support from Government.








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Red Diesel Changes and the Impact on the Credit Insurance Market

Aon and UKIFDA have been working together over the last few months analysing what the impact could be on the credit insurance market and the consequential impact on fuel distributors and their customers.

The government announced the changes in March 2021 and expects to raise £1.5bn in extra tax revenue per annum. We asked Aon a number of questions to understand more fully what the impacts of these changes could mean for our sector.

What does the increase in excise duty of rebated fuels mean for credit insurance underwriters?

When viewing the increase in isolation it would be easy to think that this is a downstream issue and therefore the impact is self-contained, but that's just not the case. It's undeniable that this will have a profound impact on many companies in the downstream, and that in turn will determine the depth of the impact to the sector at large, but the cost is also passed on to the end user. With the list of 'who can't' use rebated fuels after April 2022 far longer that the list of 'who can', operating costs for the end user are going to increase. Not only that, but there are also many other considerations, such as tank cleaning costs, lead times on tank manufacturing (plus the impact of the steel price on production), all the way through to the increased threat of crime.

Any change that creates a potential ripple-effect like this must be a key consideration for an underwriter. Not only do credit insurers insure and reinsure these exposures, but they also monitor these affected companies all year-round, and ultimately can pay claims on these companies.

The duty change doesn't come into effect until April 2022, so why is Aon working with underwriters and clients now?

Our team have been credit insurance underwriters as well as credit insurance brokers, so we know first-hand the pressure that underwriters are under with regards to managing exposures, as well as how reactive they have to be when dealing with local and world events such as Brexit and COVID-19.

So, we know the truth in the old adage, forewarned is forearmed. Credit exposure is not easy to come by, especially in a world that is as interconnected and co-dependent as it is today. With nothing being self-contained, underwriters always take a wide and long view to risk.

As a result of the change, credit limit requirements are going to increase for many insured fuel companies, and with many fuel companies credit insuring, most, if not all, underwriters will have to facilitate that additional risk, either through underwriting more cover directly, or by looking to increase the level of discretion their clients can have to set their own credit limits. So, it's essential that underwriters understand what's expected of them and have time to prepare, and that time is what we're trying to give them.

It is, of course not just about the credit risk they underwrite for their fuel clients, underwriters also need to be aware of the impact on companies purchasing the fuel at the end of the chain, and the knock-on effect to that company and that industry. Their risk stance potentially needs to change there too.

Making sure underwriters understand the change, are comfortable with what will be expected of them, and are able to plan accordingly, is essential but only half the preparation.

AON

UKIFDA

Aon and **UKIFDA** have been working together over the last few months analysing what the impact could be on the credit insurance market and the consequential impact on fuel distributors and their customers.

The second half sits with anyone who credit insures and that's why we've been discussing this with our clients for the last couple of months. As we've said, there is only ever so much exposure to go around, and it could come down to first come first served.

There are other considerations that need to be taken into account, not least the impact of COVID-19 and this is not only the direct impact of COVID-19 on financial performance but also for example what companies decide to include in their accounts. The delay in filing accounts means there is always a risk that further bad news is being included in company accounts which will impact their credit rating. This can adversely impact the cover available. There needs to be time for new management accounts to be produced, requested, and then reviewed by the underwriters.

So, when it comes to credit insurance what is the best-case scenario?

It is genuinely hard to forecast what the impact will be at this point, and it will be after April when we see how demand for DERV changes, and what role HVO will play. We've held calls with all the underwriters and not just with their fuel teams, but all the risk teams that underwriter the end-user sectors that will be affected. The response has been very positive. They've been really appreciative of the information and insights we've given them, and they're all keen to try and facilitate new cover and look at the information needed to try and positively regrade risks as and when they can. From here, the goal really is to know where the problem risks are and to start working early to resolve the issues.

And the worst-case?

That depends on two things we've already mentioned. The first is timing. Clients that engage with their underwriter as soon as they can, stand a much better chance of finding a solution. The second concerns who the credit risk is. Sometimes you start all the conversations you can with a risk and get all the available management information, but the figures just aren't strong enough to support cover. And that's why we're having these conversations now with underwriters, so we can try and find contingencies.

What do you think the impact will be on those companies that don't credit insure?

That's hard to say. But what you can't ignore is the increased risk that this will bring. Uninsured credit is always a risk, and although many companies have some form of bad debt provision, a 46.81p increase in duty either means finding an increase for that provision or taking a huge gamble. Margin and volume are everything, and as tanks are emptied and demand shifts, there will be a period of flux, and as always there will be winners and losers. Distributors should also be aware that some end users may be refused credit and are forced to shop around to find ways of purchasing fuel without credit cover.

UKIFDA RDCO Simplified Guide for Red Diesel Change

Tony Brown
UKIFDA
Technical
Manager

Many of our members face difficult challenges, both with legislation, and those risks associated when dealing with the planned changes for the use of red diesel in certain appliances.

RDCO management and training of staff should be key to any business pre implementation which comes into force from 1 April 2022. Legislation is an area that can be forgotten due to work pressure but can run the risk of the loss of RDCO registration or sanctions if these changes are not implemented correctly.

This guidance note has been produced with the aim of helping members understand these new requirements, and the importance of records when taking orders from customers and in particular to ask the right questions of customer. This should be read in conjunction with the UKIFDA guidance note published in the last edition of *Downstream*.

Definitions

HMRC have provided some specific guidance on what is changing Changes to rebated fuels entitlement from 1 April 2022 - GOV.UK (www.gov.uk)

Put simply, the fuels impacted are:

- Rebated diesel (often termed gasoil or red diesel)
- Rebated Hydrotreated Vegetable Oil (HVO)
- Rebated biodiesel and bioblend
- Fuel substitutes

The sectors that can use red diesel are:

- Agriculture, horticulture, fish farming and forestry
- Rail transport
- Fuel used for power generation and heating in non-commercial public service premises (such as schools, hospitals and prisons)
- Community amateur sports clubs and golf courses equipment
- Sailing boating and marine transport excluding private pleasure craft in Northern Ireland
- Travelling fairs and travelling circuses

RDCO registration/responsibilities

RDCO responsibilities have not changed. It is necessary to take all precautions to ensure that the business only supplies rebated fuels to those that will be permitted to use it.

Under the RDCO rules each member needs to demonstrate all reasonable care to allow rebated fuel use. If a member supplies rebated fuel to a customer knowing or having sufficient reason to believe the customer is not allowed to use it then the member will not have met the requirement of the RDCO obligation and could be subject to sanctions.

If a member no longer stocks or suppliers rebated fuels, then there is no requirement to be RDCO approved under these changes.

Members need to:

- Understand what is required
- Establish customers that are affected
- Identify customer end use at point of order to confirm correct fuel (see staff checks)
- Record evidence of use on customer database
- Take care to manage customer demand to prevent stock piling ahead of the changes
- Take care not to supply rebated fuel to those no longer allowed

What you need to do: (duties under RDCO)

- Notify those customers identified in this change
- Explain requirement to run down stock ahead of 1 April 2022
- Explain storage tank and machinery requirement (note 1)
- Discuss with customers their usage to prevent misuse of red diesel post 1 April (note 2)
- Explain that any surplus rebated fuel must not be used post 1 April 2022 and must be disposed to an approved location with appropriate paperwork retained.
- Explain that HMRC compliance officers could carry-out spot checks at any time (note 3)
- Explain to customers what is required if a machine or piece of equipment is used for both acceptable (for example agricultural) and non-acceptable purposes (for example construction) (note 4)
- Ensure Staff are adequately prepared in terms of the questions they need to ask both new and existing customers (section on staff checks)

Note 1: Storage

- If changing from red to white diesel, the RDCO holder wet depot storage tanks must remove red diesel, clean, and replenish with white diesel or equivalent. Records of this should be retained.
- Customer machinery with tanks can still use red diesel post 1 April 2022 but only until replenished with white diesel or equivalent at the next fill period. (No requirement to clean the fuel tank of the machine, only to drain the tank and fuel system before being refilled with EN590 white diesel)
- End user storage tanks to be drained down before filling with EN590 white diesel by 1 April 2022.
- Exemptions exist for critical standby generators 'banks and data centre', no requirement to drain or flush before changing to EN590.
- Records and delivery tickets must be available showing date and time of tank clean or change over from one grade to another.
- Any surplus red diesel for disposal by end user, details of the date, time, volume, and location of sale to be recorded.

Note 2: Usage and purchases prior to 1st April 2022

- Customers should not be permitted to purchase above their normal levels to avoid stockpiling.

Note 3: Compliance and record keeping

- HMRC acknowledge that fully duty-paid fuel may be mixed with existing stocks of rebated fuels during a transitional period until the red dye has been removed as per above.
- HMRC may carry out checks on storage and equipment to confirm compliance and the customer will need to provide evidence that any rebated fuel was purchased ahead of the 1 April 2022

Note 4: Dual Purpose machinery and appliances

- Certain machines can be used in different settings
- Customers should be instructed between different uses either to flush out the tank to remove traces of rebated fuel when switching or use full duty paid fuel all of the time. Evidence must be available at each change and reason.

Requirement for staff checks

An RDCO has a responsibility to ensure that staff are trained and made aware of the pending changes and particularly in the correct use for rebated fuels. An RDCO should ensure that adequate checks are carried out regarding customer usage of the fuel. As an added precaution you should consider exercising proper judgement when making supplies.

Once you have notified your customer of the impact of the change listed under 'what you need to do' we have provided some typical example questions that should be used at the point of order by trained staff to ensure compliance:

- What type of fuel is going to be used? (see fuel sector above)
- Is the fuel going to be used for an allowable sector? (see sector above)
- What type of equipment is in use? (see UKIFDA guidance note published in the last *Downstream* magazine)
- How is the equipment going to be used? (see UKIFDA guidance note published in the last *Downstream*)
- For heat and power generation: is the building being used for a public service (such as a school, prison or hospital)?
- Is the public service building a private establishment run for profit?

Under the obligation you are required not to supply a customer if you suspect that they do not have a legitimate use of the fuel, or if you have reason to believe the fuel will be put to use which attracts a higher rate of fuel duty. RDCO members are required to carry out additional checks and have sufficient information to show that your cause for concern was groundless.

HVO Demonstration Project

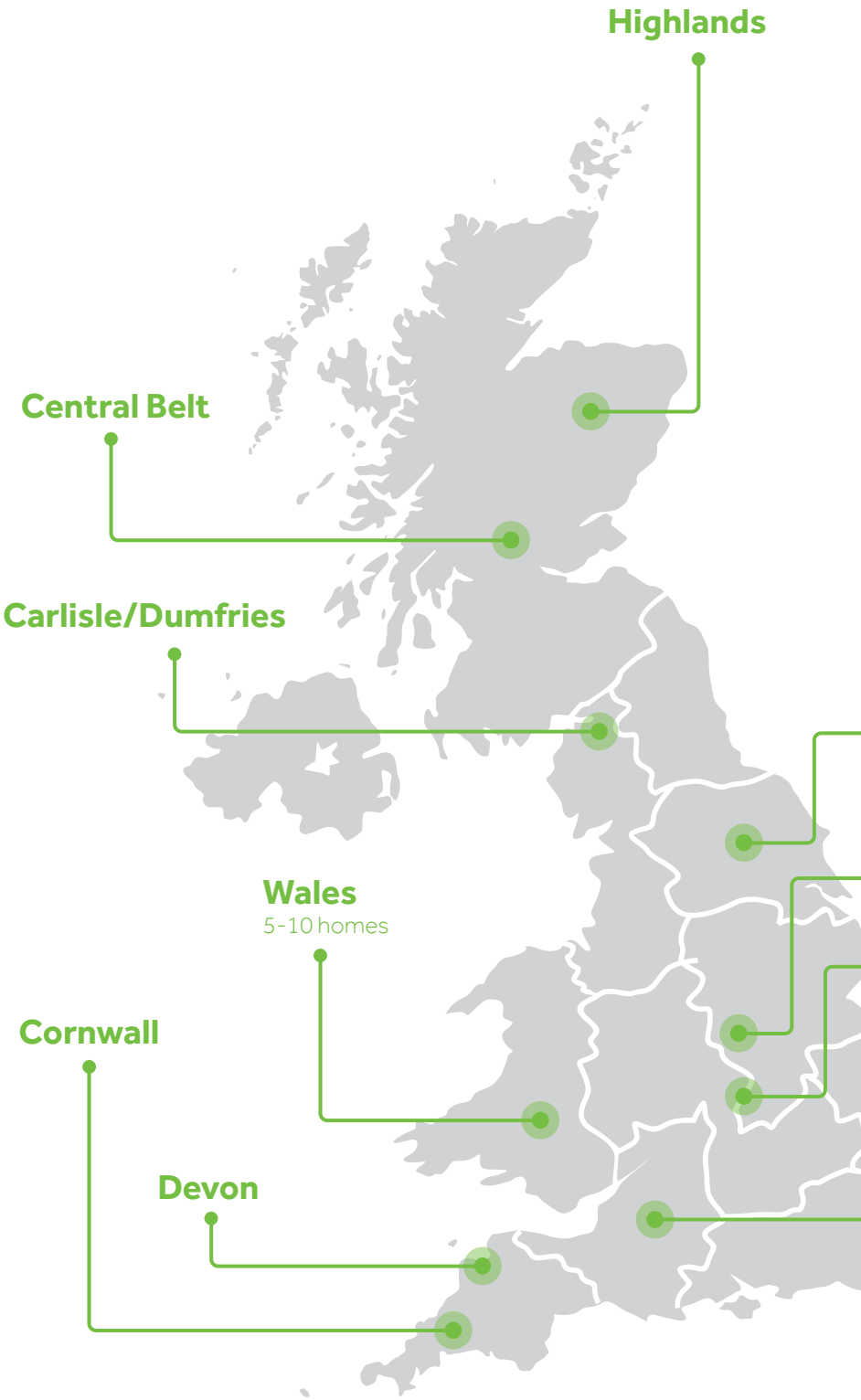
On 26th November 2020, a bungalow in the small village of Scorrier near Redruth in Cornwall was the first UK home to be converted to HVO. The property previously relied on oil for heating. In order to switch the property to the new HVO supply, Mitchell & Webber, the local fuel distributor, removed the fossil heating oil from the oil tank and installed a HVO compatible nozzle with some pump pressure adjustments to the oil boiler. The process took less than an hour and around £500 in cost to change.

During the winter of 2020/21 a further 19 properties were converted across the UK.

In late October 2021, The Future Ready Fuel campaign launched the next phase of the renewable liquid fuel demonstration project with an investment of £800,000.

The second phase broadens the geographic spread and will also, for the first time, allow the industry to test the logistics of what could be a bigger transition to renewable liquid fuels over the coming years for the estimated 1.7 million UK properties using oil for heating.

> **Nearly all the homes have now been identified** and are in the process of being surveyed for compatibility.



The project was mentioned in the recent off-grid consultation being run by government:

We understand that industry is currently developing innovative 'drop-in' biofuels which may in future be consistent with net zero emissions and compatible with oil or liquid petroleum gas heating systems on the market today. These fuels are not yet widely available on the domestic heating market but may present an attractive proposition to some consumers in the future.

Together, these 200 homes, which are located across the country from Scotland, to Wales and England, will save nearly 1,000 tonnes of carbon emissions per year of operation with less than one hour of work, zero disruption to the consumer and minimal upfront cost.

Good progress has been made by the 15 fuel distributors involved in the project and the many dedicated heating technicians. By early 2022 we hope to have 200 buildings using HVO in the UK.

Currently as expected no major technical issues have been encountered.