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Ian McPherson
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By e-mail

Miss Rhonda Scobie
EU and International Air Quality Branch
DEFRA

29 September 2003

Dear Miss Scobie,

IMPLEMENTATION OF REVISED LARGE COMBUSTION PLANTS DIRECTIVE

UKPIA is the trade association representing the oil refining and marketing industry in the UK and our members own and operate all the major crude oil refineries. We are grateful for Michael Harryman's letter of 30th June and the opportunity to respond to this consultation. We have the following comments:-

GENERAL COMMENTS

We believe DEFRA's interpretation of article 2 (7) of the directive (the definition of combustion plant) to be legally wrong, and to have the effect of greatly increasing the scope of the directive and the burdens of continuous monitoring. This is gold-plating the directive, and affects both the elv and the national plan options.

Our main concerns under the national plan option are:-

1. **To clarify the basis for the calculations of allowances.** We would like to see the full list of factors used to convert fuel burned to flue gas emissions. Also, we would like to clarify the profile of the pollutant elv reduction curves when firing less than 50% fuel oil, and especially that for dust.
2. **To confirm that under the national plan option there will be no need for the Regulator to set elvs on existing plant stacks**, except to the extent that they are needed to comply with local mandatory environmental quality standards.
3. **To clarify what monitoring and continuous monitoring requirements will apply under the national plan option.** The national plan provides an annual mass limit – what other monitoring is required and why, and under what timeframe will compliance be judged?

SPECIFIC COMMENTS

Para 3.2 *Q Are there any further comments on the interpretation issues?*

Ans: We have participated fully in the debate on these interpretation issues. We continue to doubt the conclusions on two main issues; the need to aggregate existing plants sharing a common stack and the need to remove closed plant from a national plan. The second issue has been very fully discussed because it concerns all stakeholders, and we do not have new points to make here.

However, the first point is of fundamental importance to the oil refining industry and has received much less attention due to the delays in resolving issues of wider concern. Our members are increasingly firmly of the view that the paragraph in 2(7) “Where two or more separate new plants are installed.....such plants shall be regarded as a single unit” has been incorrectly extended to existing plant. The purpose of the paragraph is clear (and it is copied from the first directive) – it is to prevent new construction using multiple stacks to circumvent the scope of the directive. The consequences of this gold-plating are very expensive for the oil refining industry in terms of retrofitting additional continuous monitoring equipment which serves no useful environmental purpose. **We urge DEFRA to re-consider this interpretation.**

Para 3.7 *Q Are there any comments on the Regulatory Impact Assessment?*

We do not believe the national plan option will deliver the theoretical savings because the market is expected to be very small and far from liquid, and constrained by the need to meet each bubble in every calendar year. We are also concerned that verification costs are not considered.

Para 4.4: We appreciate that allowances may be moved between plants operated by the same company, however we would expect that such transfers would need to be registered within the emissions trading scheme, even if no money changes hands.

Para 4.7: The requirement to meet all three national plan bubbles each year with no banking is very much more restrictive than rules for the EU emissions trading scheme being introduced for CO₂. This and the fact that there will be few players in a UK-only scheme leads us to believe that the market liquidity will be severely limited, and hence the theoretical benefits of the NERP are unlikely to be realized in practice.

Para 4.12: From our perspective **the main objection to auctioning allowances is the disadvantage UK refineries would suffer compared with their competitors** on the coast of Europe. The market in refined products is a global one with common product specifications, transparent price disclosure, and very low barriers to imports. Auctioning in a single member state would constitute gross distortion of competition leading to reduction in UK refining, an increase in imports, and reduction in supply security. It would be totally unacceptable to the UK industry and we would be surprised if it were acceptable to those in HMG concerned with security of supply. Your paper omits to recognize the importance of international competitiveness.

Para 4.13 *Q Are we correct that the Directive limits the choice of the allocation mechanism?*

Ans: Yes - emission reduction investment needs a firm long-term basis and **the allocation of allowances must be independent of the actions of other plants**. There is therefore no other acceptable option for allocation.

Para 4.14 *Q Is the underlying information correct, are the calculations correct?*

Ans: Our member companies are checking their data. UKPIA has concerns with the calculations, and not enough data is presented to enable the calculations to be checked. The calculations for

NOx need to make assumptions on waste gas flows which are not clear. **Could we please see the full list of factors used to convert fuel fired to flue gas emissions?**

Para 4.24 We fully agree that the activity of one plant should not impact the allocations that the other plants receive to ensure certainty for operators.

Q Have we correctly identified suitable mechanisms to handle plant closures.....?

Ans: Yes we believe so.

Para 4.28 *Q Would a trading scheme deliver the cost savings expected?*

Ans: We remain concerned that the restrictions on the scheme will prevent the theoretical benefits from being realized.

Para 4.29 We are concerned that the costs of monitoring, verification and registration are not discussed. Verification of emissions of all three pollutants every year could easily become extremely onerous, work-intensive and expensive.

Para 5.24 *Q Do you agree that we should adopt the national plan approach?*

We are concerned that the benefits of the NERP approach may not be realized in practice, and we have a particular concern that the Environment Agency may seek to impose BOTH national plan bubbles and elvs on existing plant. We would like more clarification to enable us to check the calculation of allowances, and more clarification on the monitoring requirements under the national plan option and the timeframe under which compliance will be judged. Until these points are resolved we cannot support either the national plan approach or the elv option.

A disadvantage of the national plan approach is that refineries expect to run existing plant at higher processing intensity in order to produce cleaner fuels mandated by EU legislation, which will involve a higher proportion of fuel oil burning (some refineries do not have the option of importing natural gas) and higher emissions. There appears to be no opportunity to increase the allowances to such refineries to recognize this. The EU ETS does provide for additional allowances to reflect unavoidable increases due to legislative changes, and it is a weakness of the LCPD national plan approach that this precedent is not followed.

We hope these comments are helpful.

Yours sincerely,

Ian McPherson