

# Lynemouth receives state-aid approval

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**UK subsidy support for German utility RWE's coal-to-biomass conversion in Lynemouth complies with EU state aid rules, the European Commission said today. The commission's announcement brings an end to its ten month in-depth investigation on whether the 400MW conversion — supported with a contract-for-difference (CFD) strike price of £105/MWh — violated EU rules.**

The commission began investigating Lynemouth in February to assess whether the funds to support the conversion were limited to what was "necessary." "In light of comments received from interested third parties as well as detailed technical information submitted by the UK, the commission is now satisfied that the submitted parameters are robust and present no risk of overcompensation," it said. The commission also did not find any evidence of market distortion in the global wood pellet market.

RWE's conversion amounts to roughly 1.5mn t/yr wood pellet consumption, a significant quantity in the European wood pellet sector. Market participants are looking to new sources of UK demand, given the present delays to Dutch biomass-fired capacity coming on line, and had been anxiously awaiting news of state aid approval for both RWE and UK utility Drax.

RWE will now progress with plans to convert its plant to biomass and will make a final investment decision in early 2016.

"We welcome this confirmation of the government support for biomass power generation, which provides a reliable base load to complement other renewables such as wind and solar," RWE chief commercial officer Andree Stracke said. "We are working towards full conversion and power production from 100pc biomass within 18 months."

Today's announcement leaves Drax as the only renewable energy project out of eight to obtain early CFD support from the UK government that has not yet been endorsed by the commission. The firm is co-firing unit 1 in Selby at 85pc biomass, until it receives CFD approval to move to 100pc.

But the commission's competition office would not be drawn out on whether Drax would also be granted state aid approval. "Each case is assessed on its own merits and facts. We are still assessing Drax, so we cannot give any indication on the outcome of that assessment," it said.

Drax described the decision as "encouraging", particularly the conclusion that there is no real impact on upstream wood pellet or other fibre markets. But "Drax and Lynemouth contracts are separate, with different underlying technical and economic assumptions", it said.