23/1/18

Proposed edits and addition to TG6 'Contracting to deliver quality wood fuel to customers'

CHANGE 1

It is proposed that the Technical Guide be renamed to be "Contracting to deliver quality biomass fuel to customers'. This change is in line with the general trend to revise all Bioenergy Association documents to address biomass energy rather than the more narrow wood energy. This is because Association documents are now being used in Australia and the Pacific where non-woody biomass is also available as fuel.

CHANGE 2

5.5 Verification of quality assurance

Suppliers of biomass fuel should have quality assurance systems as set out in section 4.4 which ensure that the fuel delivered meets the buyer's contract specification (refer section 4.3). Having a quality assurance system will give buyers confidence that they are receiving the fuel they have specified in the fuel supply contract for their heat plant.

There are certifying bodies which can verify that the fuel supplier has an adequate quality assurance system and that it is being used consistently. Currently certifying bodies recognised by the Bioenergy Association are:

1. DIN Plus – covers production of wood pellets and is based on EN ISO 17225-2. Certification scheme developed by Germen Pellet Institute.
2. ENplus – covers production of wood pellets and is based on EN ISO 17225-2. The ENplus® trade mark is owned and administered by the European Biomass Association.
3. Bioenergy Association Biomass Fuel Supplier Accreditation Scheme (BFSAS) - covers all biomass fuels including wood and non-woody pellets included in Technical Guide 1 'Solid biofuel classification guidelines'. DIN Plus and ENplus certification is recognised and accepted as part of WFSAS accreditation. WFSAS is overseen by the Bioenergy Association Professional Standards and Complaints Committee. WFSAS covers biomass fuel suppliers based in New Zealand, Australia and the Pacific.

Potential purchasers of biomass fuel should require suppliers to provide evidence of their certification when tendering for fuel supply.

CHANGE 3

7.5 Fuel price escalation

For contracts with a term longer than one year the seller may wish to propose a price escalation clause in the contract. There are many things that may affect future prices and sellers and buyers may agree an escalation clause specific to their locality and the sources of biomass fuel being offered. The base price for the biomass supplied would be adjusted annually on the anniversary of the contract according to any movement in the indices set out in the contract. However offering a simple percentage increase, or not including any escalation clause, can be attractive for some buyers as their fuel is then fixed for the duration of the contract.

From the fuel supplier's perspective the cost base and log sourcing arrangements for each supplier will be quite different, hence adoption of any particular type of inflator will depend on the individual business model of the supplier.

From a buyer's perspective, when they are adjudicating tender offerings they would like sellers to use common industry wide escalation formula as this makes comparison easier. Where potential suppliers each have their own unique escalation formula this makes comparison of prices more difficult for the potential buyer. In many industries there are commonly agreed escalation formula which all sellers use when making offers. This makes adjudication of offerings much easier.

The cost of source biomass which is to be made into fuel and sold can move quite independently of the log, export chip or pulp market in a region. For small volumes and for buyers without analytical staff the price over more than one year can be simply linked to the Consumer Price Index (CPI). However CPI and other simple indices are too blunt an instrument when the biomass is linked to the export chip or pulp market and more relevant indices are recommended. For longer term contracts it is important that the cost of biomass derived fuels relates as close to the cost of the main specific inputs as is reasonably practicable.

A price escalation formula suitable when dealing with residues that may be competing with the pulp log market is set out below. This type of formula ensures transparency with pricing and reduces the chances of unjustified price increases. However, there are some components of a wood energy supply chain that do not get captured in this formula. For example, price increase relating to the additional distance from forest operations. In this situation, the wood fuel supplier may wish to add a component which is related to movements in the cost of fuel.

For the purposes of the Purchase Price Adjustment the applicable indices for biomass, production and labour can be defined as follows:

$$\mathbf{APP\ (\$/GJ) = PP \times [LPI_W \times LPI_L/LPI_B + PPI_W \times PPI_L/PPI_B + LCI_W \times LCI_L/LCI_B]}$$

Where:

APP = Adjusted Purchase Price to be applied for the time period specified

PP = The original Purchase Price to be adjusted

- **LPI** means the Agri-Hq[1] S1/S2 Unpruned Log Price Index as published by NZX Limited (or any successor organisation) on a monthly basis. (The recommended index is related to pulp log price but other specific regional indices applicable to the Delivery Point may be used) The supplier should specify the regional index being used (Northern North Island, Southern North Island, Northern South Island, Southern South Island);

- **PPI** means the Producers' Price Index (Inputs – All Industries SN9) as published by Statistics New Zealand (or any successor organisation) on a quarterly basis;

- **LCI** means the Labour Cost Index (LCIQ.SH31K9) as published by Statistics New Zealand (or any successor organisation) on a quarterly basis.

LPI_W, PPI_W or LCI_W = LPI, PPI or LCI Weightings (The weightings between indices may be specific to the loacity and source of biomass. Recommended default weightings are (LPI_w - 55%; PPI_w - 30%; LCI_w - 15%)

LPI_L, PPI_L or LCI_L = Latest published values for LPI, PPI or LCI

LPI_B, PPI_B or LCI_B = LPI, PPI or LCI values used for the previous Purchase Price Adjustment or, for the first adjustment on the Commencement Date, the Base Index values in the Key Terms

Escalation of fuel costs for fuel delivery could be added as a fourth component.

[1] https://agrihq.co.nz/forestry