

Renewable Energy Association response to the Ofgem consultation on “RIIO-GDI: Supporting Document – Outputs, incentives and innovation”

Introduction

The REA represents a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are over 950 corporate members of the REA, making it the largest renewable energy trade association in the UK. REA Biogas Group has been representing the UK AD industry since 2004 and has led on the development of the nascent biomethane injection industry.

The REA welcomes the opportunity to comment on this consultation regarding “RIIO-GDI: Supporting Document – Outputs, incentives and innovation”

This response is made on behalf of the REA Biogas Group, which has a keen interest in the development of the biomethane and other alternative fuels industries in the UK. Many of our members are currently in progress with multi-million pound projects for the injection of biomethane into the gas grid. All these projects depend upon confidence and assurance to underpin the economics of what are substantial investments.

Response

The RHI was introduced in 2011; there is one project which will start injecting biomethane this month, and a further 10 projects planning to inject biomethane in 2013 .

The Ofgem-led EMIB Group was a very useful process which identified the key barriers, actual and potential, affecting grid injection schemes. However, more than 4 months have passed since the Final Report went to Ofgem and we are concerned that no feedback from Ofgem has been forthcoming in terms of implementation of the recommendations of that group.

The main recommendation was to enable the Entry Facility to be competitively sourced by the biomethane producer, adopting a specification provided by the monopoly transporter. In this way cost inefficiencies would be driven out of the supply chain while ensuring at all times GDN technical standards are maintained. This approach was referred to as the "minimum connection" solution to time and cost pressures affecting BtG projects.

One enabling measure recommended by the group related to changes to the standard of accuracy required for small biomethane flows; changes that would deliver a standard more appropriate to these facilities and a highly

useful and worthwhile contributor to reduce costs. However, the key issue is allowing competition in the provision of Entry Facilities (odorant injection, gas quality monitoring, pressure control, and energy measurement).

We understand now that Ofgem's advice is that the GDN must own the CV measurement equipment comprised in the Entry Facility. Since Entry Facilities are designed as a package, and can be supplied by various specialists under competitive tender, the advice from Ofgem means that, in effect, the entire Entry Facilities have to be GDN owned. This severely inhibits competition in service provision, unless - crucially - the GDNs agree to take ownership of the specific plant related to CV measurement; in practice this means the device that measures CV only.

An REA member reports a 40% saving on Entry Facility package compared to current monopoly provision by GDNs, and further savings may be expected as competition develops. Additional economies can be realised in design innovation as the biomethane producer can tailor the Entry Facility to meet specific site needs, avoiding duplication of instrumentation and other expensive components.

If the GDNs own the entire entry facility, two critical issues arise; firstly, the GDN becomes a monopoly supplier in any given place. Secondly, standards of service and liabilities become critical; if there is a fault within the Entry Facilities the biomethane has to be flared at significant cost to the producer and, of course, adverse environmental impact. GDNs are reluctant to accept liabilities and currently have no incentive to adopt them. Therefore the biomethane producer is exposed to the consequences of failure without any material recourse.

The industry proposes an early Consultation by Ofgem to agree a strict Performance and Liability Regime as without this it will not be possible for many biomethane projects to reach financial close. The position in EMB was that GDNs were not prepared to accept any liability – this was not an issue when the plant was a competitive activity but if it has to be a monopoly activity then this becomes a key issue.

In relation to the current RIIO Consultation, if the GDN is providing information and capacity then the proposed Licence Conditions are fine, though we would suggest that Ofgem consults with the industry in relation to the 'scorecard' of activities that are involved in the biomethane injection process so that it is clear how GDNs are performing in relation to others.

However, if the Entry Facilities plant remains a monopoly activity then a significant change in Licence Obligations is required in order to ensure that projects are not held up and there is a mechanism to have downward pressure on costs, which have to be paid by the biomethane producer. By being a monopoly activity there are additional processes such as OJEU tendering which add both time and cost. We estimate that a £250 - £300k 'Entry Facility' package available on the market today will cost around 50% more if design, procurement and installation is a regulated activity. In addition, a 16 week delivery will be more like a 30 - 40 week delivery. These

are critical issues that need regulatory focus now if the UK is to develop a competitive and dynamic biomethane industry and the level of support under the RHI is to be kept to the minimum necessary.

I hope these comments are helpful, we are happy to provide additional information if required.



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