

Response to Ofgem RIIO-2 Framework Consultation

The Anaerobic Digestion and Bioresources Association (ADBA) is the trade association that represents the range of interests and matters related to the anaerobic digestion of organic materials (AD) across the UK, including the collection of waste for use as feedstock. ADBA understands the complex range of skills required by developers of new AD plants, from feedstock management through technology to energy production, markets and resource to land. ADBA is a founder member of the World Biogas Association.

The organisation has over 400 members from across the AD industry, including plant operators and developers, farmers, local authorities, waste management companies, supermarkets, food processors, energy and water companies, equipment manufacturers and suppliers, consultants, financiers and supporting service companies. Anaerobic digestion can make a significant contribution to renewable energy, climate change, and critical resource preservation targets, subject to the right policies being in place.

Following strong growth in recent years the UK's AD sector now produces approximately 11.4TWh of biogas 24 hours a day, enough to power over 1 million homes. AD delivers an exceptional return on investment, including:

Low-carbon heat in homes, businesses and industry

AD already reduces the UK's carbon emissions by over 1% and could reduce them by as much as 4%. The CCC regards biomethane as a "low regret option" and has noted how the Government's Clean Growth Strategy provides "little or no commitment to a low-carbon supply mix in heat networks and no commitment to biomethane post-2021".

Cost effective carbon abatement

AD reduces emissions from rotting manure and farm wastes and slurries, as well as providing low-carbon biofertiliser. The CCC says that AD needs to be used more widely on farms if the UK is to meet the fifth carbon budget.

Energy security

AD is good for UK energy security. It is home grown and supplies are constant and reliable. AD is delivering home grown green energy now and can continue to do so. AD can contribute to energy security by delivering around 30% of domestic gas or electricity demand, whilst also reducing imports and curbing carbon emissions.

Meeting recycling targets

Government will not be able to meet its recycling targets without separate food waste collections and AD infrastructure to treat it. We agree with the CCC assessment that the forthcoming Resources and Waste Strategy, due later this year, must "set out firm policies to end food waste going to landfill and this should be implemented by 2025, five years earlier than currently planned." The EU's Circular Economy Package calls for separate food waste collections by 31 December 2023 and forthcoming UK policy should go further and end the incineration of food waste.

Innovation, productivity and global competitiveness

A sector already employing between 3,500-4,000 people, with the potential to employ over 30,000 more, many in rural areas and manufacturing jobs, is worth protecting. A thriving UK sector can export to the world – the potential of the global AD market is estimated at £1trn. BSI and HSE standards are sold and adopted abroad providing the opportunity to pull through the UK AD supply chain which has developed over the last 5 years.

General comments

We are responding with general comments that relate to the most important aspects of the consultation to the AD industry.

ADBA welcomes the proposed revisions to the RIIO framework to: give consumers a stronger voice; respond to how networks are used; drive innovation and efficiency; simplify price controls; and to provide fair returns and financeability. In light of technological change, consumer preferences and the need to reduce emissions necessarily leading to changes in the way energy is generated, supplied and consumed throughout the supply chain, we believe that the shortening the price control length is appropriate.

We have two observations to make, where we perceive Ofgem's priorities to be opaque and the relevant consultation proposals to be deficient. These are the side-lining of decarbonisation and climate change imperatives and the restriction of support for innovation. Further discussion on these two general observations is provided below.

Decarbonisation and climate change imperatives are side-lined

We believe Ofgem should ensure adherence to the UK carbon budgets and the wider decarbonisation agenda are central to this energy network reform and all future price controls. These drivers should have a far greater presence in RIIO-2; they should have been more prominent in the consultation. Incoming price controls should enshrine intergenerational equity, recognising Ofgem's duty to future consumers as well as its aim of keeping bills as low as possible for today's consumers: future generations should not be made to pay for today's insufficient action on climate change mitigation.

Ofgem is right to call for views on the role of network operators and system operators in encouraging end-use energy efficiency but any actions in this area must be complimented by a supportive regulatory framework and government policy. The consultation, in the brief section on end-use energy efficiency, rightly specifies biogas as a route to heat decarbonisation, but the emphasis (and the specific question asked) is on reducing demand to in turn reduce the need for and cost of future investment rather than on whole system coordination and decarbonisation per se. Contrary to the considerable uncertainty and expected evolution of the energy network system generally, the UK's decarbonisation agenda is one aspect that is already clear, established in law, and subject to binding targets through to 2050. It could be used to bring some degree of certainty to the other known unknowns.

Although long-term direction from government is desirable, especially in respect of which pathways will be taken to meet the 2050 obligations, in the absence of this Ofgem should proceed with supporting all low-regret options to its full capacity. Deployment of biomethane is one such "low-regret opportunity", and is recommended by the CCC.¹ Without support for biomethane post-2020 government will soon have no practical plans for gas grid decarbonisation: all measures should be taken to ensure new biomethane deployment continues, something that is at risk with the Renewable Heat Incentive effectively closing to new applicants in January 2020.²

Network innovation will be stymied

We are concerned that the proposed changes to network innovation for the next price control could erode a principal way by which new technology is encouraged, resulting in fewer projects coming forward with operations or commercial arrangements that would help the energy system continue to evolve and modernise.

Contrary to the consultation proposals to target funding, we believe innovation should be expanded. The Network Innovation Competitions (NICs) for electricity and gas help develop crucial knowledge and expertise to share across the industry. NIC applications are assessed to ensure they are cost-effective and provide value for money to customers. Importantly they must also meet the NIC criterion of accelerating the move to a low carbon energy sector and/or delivering environmental benefits. Unique among possible funding avenues for innovation, NIC

¹ <https://www.theccc.org.uk/wp-content/uploads/2016/10/Next-steps-for-UK-heat-policy-Committee-on-Climate-Change-October-2016.pdf> 7; <https://www.theccc.org.uk/wp-content/uploads/2018/01/CCC-Independent-Assessment-of-UKs-Clean-Growth-Strategy-2018.pdf> 16.

² This is because the Tariff Guarantees due to be introduced by government in May 2018 are currently not on offer to plants commissioning beyond 31 January 2020. The scheme is set to close to new applicants in 2021.

funding is not subject to specific rounds but remains open continually, ensuring consumers can benefit from the results of innovative projects as quickly as possible.

It is already the case that worthwhile applications for NIC funding are being denied due to overly narrow assessment criteria, with projects required to demonstrate: “innovation”, that they are “robust and ready to implement”, “involve partner organisations” and must be “relevant and timely”³. A broader criterion would ensure that research, innovation and commercialisation efforts can be pursued. This is essential to achieve the ambitions of the new price controls .e.g. to investigate further use of alternative fuels⁴, or to test how substitutes for natural gas work in the existing network.⁵

For example, Ofgem recognised the 2017 New Nwy (New Gas) submission as having the potential to be technically innovative and to increase the efficiency of producing biomethane but they did not think it delivered value for money for gas consumers – and so the project did not proceed to final submission. The reason given for the rejection was that since the innovation would be “most relevant” to biomethane producers Ofgem did “not think a substantive amount of the Project’s learning can be applied directly by gas network operators”⁶. Such reasoning appeared to take no account of the need to decarbonise the gas grid – through a mass uptake in biomethane production for example – if the asset of the grid is to remain viable.

Some of the most innovative NIC projects that promise to change fundamentally how energy is generated, supplied and consumed in the UK would, if they had applied under the next price control, not have secured funding. For example, Cadent’s Future Billing Methodology is exploring an equitable consumer billing methodology that is responsive to the calorific value of different (low-carbon) gases. It could clear the path for alternative gases, helping decarbonise heat supplies in the UK. Without the £4,799k NIC funding applied for and secured, this project would not have gone ahead⁷ and the intended outcomes of this research would not be realised: signalling whether it will be possible to transition to a (mixed) green gas grid in the UK; and strengthening the case for injecting biomethane without propanisation

ADBA is happy to discuss with Ofgem changing network innovation in a manner that ensures decarbonisation imperatives can be achieved.

³ https://www.ofgem.gov.uk/system/files/docs/2017/11/ofg1031_innovation_competitions_brochure_web.pdf 2.

⁴ https://www.ofgem.gov.uk/system/files/docs/2018/03/riio2_march_consultation_document_final_v1.pdf 41.

⁵ https://www.ofgem.gov.uk/system/files/docs/2018/03/riio2_march_consultation_document_final_v1.pdf 48.

⁶ https://www.ofgem.gov.uk/system/files/docs/2017/05/new_nwy_decision.pdf 1.

⁷ https://www.ofgem.gov.uk/system/files/docs/2017/02/16_dec_2016_master_nic_re-submission-final.pdf 2.