

REA key asks to the Government in support for the AD sector

Improving access to suitable wastes

The lack of appropriate policy measures to improve access to wastes suitable for AD, such as food wastes, mean that operators and developers are struggling to access sufficient feedstock at a gate fee which can support new plant development or ongoing operation. Millions of tonnes of food wastes are being landfilled every year, with substantial costs (estimated to be at least in the region of £ 600m¹) and environmental implications and a risk for the UK to fail to achieve its legally binding WFD recycling targets - let alone the more ambitious targets that are likely to be set within the upcoming EU Circular Economy Package.

Although revenue from landfill tax would be reduced, this would be offset by lower council expenditure and therefore reduction in public spending, since a considerable proportion of the tax is currently paid for by councils (which in turn raise revenue to cover this from council tax and central government grants). In addition to environmental benefits and avoided carbon costs, a landfill ban would also increase revenues by creating economic and business opportunities, and stimulating creation of new jobs. It would also increase market certainty regarding the development of collection, reprocessing and treatment infrastructure. Scotland has already embarked on this route and early signs indicate that good progress is being made in food diversion from landfill and, according to our members' feedback, this is already creating new business opportunities.

Urgent action by Government is needed to maximise the amount of food wastes that is diverted from landfill and made into added value outputs such as renewable energy and biofertilisers/soil improvers. Without additional policy measures and separation and collection infrastructure in place, the situation is unlikely to change.

REA asks that the following policy measures are introduced by the Government:

- **a landfill ban for biodegradable wastes**
- **a mandatory requirement for LAs and commercial businesses to have separate collection of food wastes**

Both the above measures need to be introduced with an appropriate transition period to help industry to prepare for the policy change.

¹ These are ballpark figures based on disposal costs of approximately £ 100 / tonne and an estimated approximate 6 million tonnes of food wastes being landfilled each year (see [WRAP's latest report "Estimates of Food and Packaging Waste in the UK Grocery Retail and Hospitality Supply Chains"](#), which provides an estimate of the amount of food waste currently landfilled in the UK.



Fixing the Feed-In Tariff Scheme

The current structure of the cost control mechanism in place within the Feed-In-Tariff Scheme has been unduly penalising certain sections of the market, particularly small scale AD, and has resulted into short term, accelerated growths of the sector, which creates a high risk of boom and bust for the AD sector and it also raises serious concerns on the quality, safety and efficiency of the resulting installations.

Changes to the tariffs, the structure of tariff bands and degression trigger capacities are therefore required, as well as changes to the pre-accreditation mechanism, if we are to ensure a continued and steady growth of the AD sector across all scales.

It is important that the Government recognises the excellent value provided by small scale decentralised on-site AD. In addition to well documented environmental and social benefits of small scale AD, when considering its cost effectiveness per tonne of CO₂eq abated, small scale 'on-site' AD provides excellent value for money compared to other renewable energy technologies. The REA is currently undertaking scientific work in conjunction with Bangor University aimed at producing robust estimates of the cost effectiveness of small AD per unit of CO₂ abated compared to other technologies. For more detail on the benefits of small scale AD see [HERE](#). We are planning to use the results from this work to inform the FIT review 2015.

REA's key asks on the FIT scheme are listed below.

Tariffs

- **The upcoming review of the FIT must be completed in a timely and effective manner, to avoid any unforeseen consequences for the renewables sector**
- **All scales of AD must receive a fair level of support. A balanced development at all scales is necessary if the UK is to achieve its carbon targets**
- **A review of Feed in Tariffs for sub 250 kWe AD must be undertaken as soon as possible in 2015, to re-set them at viable levels**
- **A new tariff is introduced for small scale, 'on-site'² AD < 100 kWe, in recognition of its considerable added value compared to other small scale renewable energy technologies**

Degression structure

- **Stability of financial incentives and predictability must be provided to enable the sector to make investment decisions and plan for the future. A clear 'glide path' is needed as opposed to the current short term accelerated growth, which creates a high risk of boom and bust for the AD sector and increases the risk of compromises in quality and safety**
- **The structure of the tariff bands and degression triggers are reviewed to allow the sector to grow in a steady way, whilst guarding against runaway deployment. Options for achieving the above objectives need to be carefully considered. These include (but are not limited to):**
 - **combining or consolidating the current degression triggers, thus minimising their distorting effects**

² 'On-site' AD includes on-farm AD, predominantly based on livestock slurries / manures, as well as community AD and industrial AD (treatment of on site of factory's effluents)

- **introducing a low degree of automatic degression, whilst setting much higher triggers to drive tariffs down if growth is much greater than expected**
- **introducing a rolling average mechanism enabling capacity that is unused in a certain year to be used in the following year**
- **changing the focus on annual assessment by introducing more frequent assessments with multiple smaller degressions**
- **not counting guarantees towards degression at all or applying a drop-out rate**

Pre-accreditation mechanism

The pre-accreditation mechanism must be reviewed to enable project completion before the expiry of the pre-accreditation validity period. The following options to achieve this should be considered:

- **A grace period for grid connection delays is introduced where a project would have commissioned on time but was unable to do so due to delays that are not the developer's fault**
- **The validity period of the guarantee begins at the point of granting preliminary accreditation rather than when the applicant applies for it**

Further detail on the above key asks can be found in the [joint trade body letter](#) submitted to DECC officials and Ministers on 15/03/2015 including cross-technology asks for the 2015 Feed in Tariff Review and [REA's preliminary accreditation paper](#) submitted to DECC officials on 23/02/2015.

Visibility of RHI budget beyond 2016

The Renewable Heat Incentive has so far been a success story for the sector. The RHI delivers excellent value for money compared to other renewable options, such as much large scale electricity generation. The degression mechanism built within the scheme ensures it continues to deliver value for money by reducing tariffs for technologies that deploy faster than intended. In addition, the changes to the biomethane tariff structure that came into effect in February 2015 should avoid risk of over-compensating very large plants.

However, we are a long way away from achieving our 2020 targets. On renewable heat the Government estimated we need around 12% of heat in 2020 to be renewable and the most recent data available put us only on 2.8%. Heat accounts for just under half of both UK's energy demand and greenhouse gas emissions, so it is imperative that we tackle it.

Although the Coalition Government committed to keeping the RHI open to new applications until 2020, budget decisions have only been taken to the end of March 2016. Visibility on the way ahead is crucial for industry to plan for the future and make the required investments in developing skills and supply chains. Similarly, introduction of tariff guarantees for projects with long lead in times is essential to provide certainty for future investments. DECC published a [position paper](#) in December 2014 so that future Ministers would be able to introduce this if they wish and we support³ this approach.

The RHI degression mechanism is essential to ensure the scheme delivers good value for money, but it is not without faults. We have recently been highlighting to DECC officials some aspects of the methodology that may misrepresent the growth of biomethane

³ See the REA's response [here](#).

projects. We believe an appropriate solution has been developed and would urge ministers to implement it as soon as possible.

REA asks that:

- **The Renewable Heat Incentive is funded for new applications after 2016 and that an appropriate portion of the budget is allocated to support the development of the biogas heat and biomethane sectors**
- **The issues highlighted by REA and other trade bodies on the RHI degeneration methodology is fixed with a matter of urgency so that the mechanism accurately reflects the growth of biomethane projects**
- **Certainty for projects with longer lead times must be improved through RHI rate guarantees at financial close**

Addressing electricity grid constraints

Electricity grid constraints and the urgent need for reinforcement at many locations are hindering new electrical generation across large areas of the UK. This makes obtaining a connection both costly and uncertain. Unless the government invests in new grid capacity, deployment of CHP based AD and other renewable energy technologies will grind to a halt.

REA asks that a coherent, strategic approach is taken with a matter of urgency to the need for upgrading the electricity grid, particularly in respect of distributed generation.

Regulating the sector in a fair way

There is currently a lack of clarity and transparency in the way the Environment Agency regulates the sector. Within the overall policy framework, there is considerable inconsistency of approach when interpreted by individual local officers. This often leads to an uneven playing field between operators and disproportionate requirements for some. The REA seeks proportionate, fair, consistent and transparent regulation within the sector. Industry needs clarity in order to be able to plan for the mid to long term, although it is also imperative that industry takes a leading role in improving both environmental performance and safety at AD sites. Amongst other initiatives to assist the AD sector to improve its environmental and safety record, REA has recently launched a [Safety Alert System](#) aimed at raising standards and reducing incidents by building trust across the industry to report, share and learn. The system is endorsed by National Grid and has been formally praised by then Defra Minister Dan Rogerson.

REA asks that the environmental regulator's approach to regulate the sector is proportionate, clear and consistent across the board

Simplifying the regulatory regime for biomethane injection

Elsewhere, the current regulatory regime for biomethane to grid projects enforced by the Office of The Gas and Electricity Markets (Ofgem) was designed for large-scale gas entry sites, such as those on to the National Transmission System. These technical requirements represent a disproportionate burden for biomethane to grid projects. Some operators have been unable to complete projects efficiently due to the highly complex and bespoke nature of the regulatory regime applying to grid connections. It is now appropriate to carry out a radical review of regulations in order to reduce costs and encourage innovation.

We note that Energy Networks Association (ENA) has recently issued a consultation to gather industry views on the current regulations for low-flow Biomethane sites. This consultation looks at the issues with the current regime and the potential for changes to facilitate a greater number of low-flow Biomethane connections to the grid whilst ensuring that these changes continue to protect the interests of existing and future consumers. Changes to the current regime are urgently needed as current arrangements lead to lack of competition and innovation, which result in significantly higher costs than would be expected in a competitive market.

REA asks that a substantial review of the regulatory structure for biomethane injection (e.g. Ofgem Letter of Direction) is undertaken to reduce any unnecessary burden placed on biomethane injection, reduce the associated cost and increase the speed of connection of new projects

Biomass sustainability criteria

The REA has supported the introduction of sustainability criteria from the start as it is vital to be able to demonstrate that public money is only being spent to deliver real environmental benefits. However, there are a number of ways in which the costs and uncertainty of such criteria for AD are disproportionate to the risks the Government is trying to manage.

This is a policy that was first designed to meet the RED sustainability requirements on biofuels and UK policy on large-scale solid biomass for electricity generation. The policy was not substantially redeveloped for AD to reflect risks and practicalities in this sector. Some of the current criteria for the AD sector are unnecessarily burdensome as a result. The key outstanding issues for the AD sector are:

- the GHG methodology and [the tool provided by DECC](#) to comply with the GHG criteria are too complex
- AD has a particular set of challenges, including the following:
 - A very wide range of feedstocks, which makes compliance with the criteria unnecessarily bureaucratic. Farmers will be reluctant to provide the level of information required, and obtaining such information may be impossible when feedstocks are bought on the spot market.
 - Despite the fact that AD is an inherently averaging out process, there currently is no ability under this policy to average savings between consignments. This means there is no way to hedge against the risk that a specific crop consignment fails to pass the GHG criteria due to factors outside the control of the AD operator or its supplier e.g. a particularly low crop yield due to poor weather conditions. As a result, there is no incentive to maximise the use of wastes or residues to manage uncertainties around GHG savings from crops.
 - The criteria allow taking GHG credit for digestate, but only for its energy content and not for the GHG saved by displacing mineral fertilisers.
 - There is currently considerable uncertainty about some aspects of the sustainability criteria implementation, and guidance which addresses how these should be addressed has not been issued by Ofgem yet.

For some time Government and other stakeholders have had concerns around the possible impacts of crop use in AD, mainly due to possible diversion of land use from human food supply to energy use, loss of biodiversity and environmental impact associated to monocultures. To address these concerns, the AD industry has worked with

the Government and other stakeholders to produce [voluntary guidelines on best practice for crop feedstocks for AD](#).

Crop feedstocks that are grown under best practice conditions do not present a risk to the environment. They tend to be break crops that help secure better yields of other crops in rotation and help increase the productivity of the land. The use of break crops for AD confers significant farming benefits including the displacement of mineral fertilisers, improvements in soil quality and the reduction of greenhouse gases from emissions from slurries and manures, contributing to the overall sustainability of the farm. Further detail on the benefits of crops for AD to UK farming, environment and biodiversity can be found [HERE](#). In addition they are mostly sourced and transported within minimal distances from the AD plant, as doing otherwise would adversely affect its economic viability.

Towards the end of last year the Government said it intends to work with industry and other stakeholders to [further develop RHI sustainability policy](#) for biomethane plants supported under the RHI. The criteria being introduced in October 2015 will provide hard data on actual practices. It is imperative that any changes that may be made to the criteria are evidence based and do not make operational plant unviable.

In light of the above, REA asks that:

- **Sustainability criteria for biogas and biomethane under RHI are made more suitable and proportionate to the risks posed by AD:**
 - **By allowing averaging of different consignments. This is consistent with the approach adopted in other UK policies and elsewhere in Europe**
 - **Recognising the GHG savings from digestate displacement of mineral fertilisers**
 - **Simplifying the reporting requirements as much as possible to avoid excessive administrative burden and over regulation**
- **Ofgem takes a pragmatic approach to enforcement in the first 6-12 months where the operator has made all reasonable efforts to comply, given the considerable uncertainties associated with some aspects of the criteria implementation.**
- **Any future changes to sustainability criteria are evidence based, encourage good farming and management practices, whilst ensuring that operational plants are not made unviable**
- **An informed, stable and proportionate position on crop feedstocks for AD is adopted by the Government. This needs to recognise the value and benefits to farming of crop feedstocks, such as break crops, that are grown in line with best farming practices**
- **If sustainability requirements were to be introduced under the FIT scheme, these must only apply to new plants and any adopted approach needs to be proportionate to the risks being managed**

Biomethane for transport

Biomethane has an important role to play to reduce emissions from vehicles and help achieve zero emission vehicles by 2050. As well as decreasing carbon dioxide emissions, use of compressed biomethane can improve air quality by reducing particulate and nitrogen dioxide emissions.

On 29 April 2015 the Supreme Court ruled that the Government should submit to the European Commission, by the end of 2015, the UK's revised plans on air quality in accordance with Directive 2008/50/EC. The Court noted the role played by diesel vehicles in nitrogen dioxide emissions and the REA, in response, has urged Defra to work closely with the Department for Transport in drawing up the new UK plan. This should recognise the role that biomethane can play in displacing diesel, particularly in HGVs and buses.

The [DfT / Low Carbon Vehicle Partnership Transport Energy Task Force](#) made a number of recommendations in relation to both meeting the 10% RED transport target and setting out priorities for the period post-2020. Amongst others, one of the areas where the REA feels it could provide helpful input is determining the measures that would be needed to increase the contribution to transport from biomethane.

As highlighted in the [Ricardo-AEA Study in Biomethane for Transport](#), unless there are significantly increased incentives in the transport sector and barriers to deployment for HGVs and buses are removed, biomethane will go almost entirely into the heat and power sector.

REA asks that the following policy measures should be considered, if we are to deliver CO₂ emission cuts in the transport sector, achieve our legally binding carbon targets and improve air quality:

- **Support to biomethane for transport is increased and aligned to the support available for the heat and power sectors**
- **Any barriers to deployment for HGVs and buses are removed**

25/06/2015