



Anaerobic Digestion and Biogas Association

Decarbonising the electricity and gas grid

Response to DECC Electricity Market Reform Consultation

The Anaerobic Digestion and Biogas Association (“ADBA”) is the trade association that represents the range of interests and matters related to the anaerobic digestion of organic materials (“AD”), 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.

The organisation has over 200 members from across the AD industry, including local authorities, waste management companies, plant operators, energy and water companies, equipment manufacturers and suppliers, consultants and supporting service companies.

Anaerobic Digestion can make a significant contribution to the UK’s Climate Change, renewable energy and critical resource preservation targets, subject to the right policies being in place.

In general, ADBA believes that there is an absolute requirement that energy regulation is open and transparent. There is a similar requirement that any Government incentives are easily understood, simple to operate, and give confidence to industry and financiers. To promote investment AD, as with other renewable technologies, technical and financial risks to projects need to be minimised as far as possible. In the case of biogas, issues include the difficulty and costs associated with grid connection and permitting regimes, and ongoing work on these areas should be brought to fruition as soon as possible.

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Responses to Specific Questions in the Consultation Document

1. Do you agree with the Government's assessment of the ability of the current market to support the investment in low-carbon generation needed to meet environmental targets?

ADBA agrees with the assessment that at current levels of investment, deployment of technology and development, it is unlikely that the UK will meet its environmental targets for 2020 or 2050.

2. Do you agree with the Government's assessment of the future risks to the UK's security of electricity supplies?

ADBA agrees that there are clear issues with the UK's security of energy supplies looking forward, including with electricity. Diversity of supply has the potential to help, but it is also vital to ensure that there is a 'base load' of generation technologies which are not dependent on variable factors such as sun or wind.

3. Do you agree with the Government's assessment of the pros and cons of each of the models of feed-in tariff (FIT)?

The most important thing for our members – and for the financiers who back or may back AD projects – is to have certainty and clarity over financial support mechanisms. Therefore we would be reassured if the Government could confirm that this has formed part of their assessment.

4. Do you agree with the Government's preferred policy of introducing a contract for difference based feed-in tariff (FIT with CfD)?

ADBA does not have a problem with the Contract for Difference model for FiT in itself, and understands the Government's case for it. However, we are concerned by the complexity and novelty of the model.

The AD industry is already subject to a huge number of variables, including feedstock choices and contracts, technology, environmental permitting, grid connection costs and many more. A complex and unproven system of financial incentives risks adding another level of uncertainty which would further delay the roll out of AD plants and their contribution to the UK's targets.



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ADBA has also heard first-hand from investors and potential investors about how risky they currently view the industry as a result of these. A new and more complex model for the FiT risks adding to the difficulty of attracting finance for projects. ADBA believes the Government still needs to make the case for FiT with CfD, and if it does decide to follow through with this model, ensure that it is as simple as possible and provides operators, waste producers and financiers with certainty.

5. What do you see as the advantages and disadvantages of transferring different risks from the generator or the supplier to the Government? In particular, what are the implications of removing the (long-term) electricity price risk from generators under the CfD model?

As mentioned above and in ADBA's submissions to the review of the Feed in Tariff, we believe that low returns and uncertain cost variables are some of the key factors which have held back increases in AD in the UK to this point, and are continuing to do so.

Therefore, transferring risks from the generator or supplier to the Government – including the electricity price risk – has the potential to help make more AD projects viable. This could be crucial to achieving an expansion in AD which will help meet the UK's commitments.

7. Do you agree with the Government's assessment of the impact of the different models of FITs on the cost of capital for low-carbon generators?

ADBA agrees that offering greater certainty of revenues to investors has the potential to help reduce the cost of finance. As our answer to Question Five details, this is important, and would help the AD industry. Continuity once the rates are set is also vital.

8. What impact do you think the different models of FITs will have on the availability of finance for low-carbon electricity generation investments from both new investors and existing the investor base?

As expressed in our answers above, ADBA has some concerns that the Government's preferred mechanism, FiT with CfD, adds complexity in a way that Premium or Fixed FiTs would not.



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The most important thing for both new and existing investors is creating as much certainty as possible about the level of returns which they can expect. We agree that FiT with CfD has the potential to help with this, but also would encourage the Government to ensure that plans following this consultation are announced and carried through with as much certainty as possible.

11. Should the FIT be paid on availability or output?

ADBA agrees with the analysis that as low-carbon generation in GB expands, there is a possibility that the electricity price will be low for extended periods, particularly when demand is low and the wind is blowing.

We believe that future support mechanisms should ensure that generators who are able to provide electricity when demand is high and supply is low should be rewarded, to help avoid gaps in supply.

12. Do you agree with the Government's assessment of the impact of an emission performance standard on the decarbonisation of the electricity sector and on security of supply risk?

ADBA agrees with the principle of emission performance standards for electricity production, and thinks this would have a positive impact on the roll out of renewable energy sources in the UK.

19. Do you agree with our assessment of the pros and cons of introducing a capacity mechanism?

ADBA agrees with the idea of introducing a capacity mechanism to explicitly reward the provision of capacity. This should be designed to ensure that a 'base load' of electricity generation is always available, and reward low-carbon technologies which provide it.

20. Do you agree with the Government's preferred policy of introducing a capacity mechanism in addition to the improvements to the current market?

ADBA does not have any issues with this in principle.

22. Do you agree with Government's preference for the design of a capacity mechanism:



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- a central body holding the responsibility;
- volume based, not price based; and
- a targeted mechanism, rather than market-wide.

ADBA does not have any issues with the principle of this approach, but would want to see more details on exactly how such a mechanism would work.

24. Which of the two models of targeted capacity mechanism would you prefer to see implemented:

- Last-resort dispatch; or
- Economic dispatch.

ADBA believes that economic dispatch is more likely to create a reliable base-load which will prevent shortfalls in electricity production.

25. Do you think there should be a locational element to capacity pricing?

In general, ADBA believes that energy should be produced as close to end users as practicably possible in order to minimise inefficiencies in transmission. However, we would want to see more evidence about the potential effects of a locational element specifically for capacity pricing. In the case of anaerobic digestion, factors such as feedstock availability are likely to define location.

26. Do you agree with the Government's preferred package of options (carbon price support, feed-in tariff (CfD or premium), emission performance standard, peak capacity tender)? Why?

ADBA would be keen to see more detail particularly on the future operation of the feed in tariff under the Government's plans.

30. What do you think are the main implementation risks for the Government's preferred package? Are these risks different for the other packages being considered?

The main risks for the AD industry remain the difficulty of obtaining feedstock contracts and finance. Without these, the ability of the industry to build plants and deliver renewable energy will be severely impeded. As described above, our principle issue with the Government's preferred package is the potential for greater complexity from FiT with CfD creating a further disincentive for investors. Across all the packages, transparency and clarity for the future will be vital to getting the



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expansion in AD and other technologies which the UK needs to meet its commitments.

34. Do you agree with the Government's assessment of the risks of delays to planned investments while the preferred package is implemented?

There is already clear evidence of the hiatus created by transition between mechanisms of support for renewable energy. ADBA has countless examples from members who have delayed or even cancelled projects while waiting for the Renewable Heat Incentive or because of uncertainties around the current Feed in Tariff Review. This is therefore certainly a risk, and one which should be absolutely at the forefront of the Government's considerations. Given the need to get renewable energy generation in place quickly to meet targets and avoid supply problems, the UK cannot afford more such uncertainty.

35. Do you agree with the principles underpinning the transition of the Renewables Obligation into the new arrangements? Are there other strategies which you think could be used to avoid delays to planned investments?

Again, creating certainty as early as possible is the key here. This is important not just for existing RO projects, but for renewable energy overall: the confidence that investors have in Government's ability to deliver its commitments will depend on getting these arrangements right.

36. We propose that accreditation under the RO would remain open until 31 March 2017. The Government's ambition to introduce the new feed-in tariff for low carbon in 2013/14 (subject to Parliamentary time). Which of these options do you favour:

- All new renewable electricity capacity accrediting before 1 April 2017 accredits under the RO;
- All new renewable electricity capacity accrediting after the introduction of the low-carbon support mechanism but before 1 April 2017 should have a choice between accrediting under the RO or the new mechanism.

ADBA believes that new capacity should have a choice. The RO is the best understood support mechanism at present, but for the new mechanism to take over and gain the confidence of the market it would be useful to have this lead in period. Such a choice would also allow the market to demonstrate whether the levels and mechanism for the new system are right.



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