

From: "John Baldwin" <john.baldwin@cngservices.co.uk>
Subject: EMIB Review - Incentives on GDNs
Date: 28 September 2011 17:01:12 GMT+01:00
To: "McDonnell Elizabeth \ (DECC)" <Elizabeth.McDonnell@decc.gsi.gov.uk>
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2 Attachments, 142 KB

Liz,

I represented REA Biogas Group at the Ofgem EMIB Review kick off meeting yesterday.

It was positive and constructive and I believe we can resolve the ownership and cost issues in the next 3 months which will provide clarity for the industry and promote biomethane to grid by lowering costs.

However, there is one important area where we have concerns.

In order for the market to develop, biomethane producers need a firm capacity guarantee from the grid owner. This is analogous to the firm capacity provided for electricity projects. The difficulty arises because Ofgem have decided NOT to provide GDNs with specific incentives in RIIO to connect biomethane plants. We have asked Ofgem for an explanation of this which has surprised us given we attended meetings of the Ofgem Environmental Working Group which discussed these issues. The attached pdf gives our response to the RIIO Consultation earlier this year which includes support for incentives.

The areas where we believe a specific biomethane incentive is required are:

- Incentive to make investment and incur opex to provide a firm capacity guarantee
- Incentive to operate the grid to allow blending (to reduce propane requirement whilst protecting customers)

Our view is that unless the GDNs are incentivised the market will be slow to develop. They have been supportive to date partly to act as good citizens but also, we believe, in anticipation of some form of incentive arrangement. Ofgem said at the meeting that an incentive could be considered in 2015 at a RIIO review but this is far too late.

We believe that Ofgem has the vires to consider and reward the broader benefits of biomethane entry (compared with entry of non-renewable gas) under their general duties to protect future consumers of gas, to promote reduction of GHG emissions and also security of supply of gas and to contribute to the achievement of sustainable development (Gas Act s4AA as amended by Energy Act 2010, paras 1A, 1C and 2).

RIIO stands for Incentives and Innovation. This is an ideal opportunity to help move towards DECC's 2020 targets and it will be a great shame if the opportunity to use RIIO to support this industry is missed.

We would appreciate your thoughts on this.

We will ask that this e-mail and attachment is made available on the EMIB Website given it is such an important issue.

Regards
John



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