02/11/2020

BEIS proposals on a Green Gas Levy

REA Consultation Response

The Association for Renewable Energy & Clean Technology (REA) is pleased to submit this response to the above consultation. 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 500 corporate members of the REA, making it the largest renewable energy trade association in the UK.

General comments

Industry welcomes the Green Gas Levy

Overall, the REA welcome BEIS' proposals to introduce a Green Gas Levy (GGL) as a mechanism to fund the Green Gas Support Scheme (GGSS), as this will contribute to the delivery of more green gas into the grid and help decarbonise it.

According to the energy suppliers the REA has spoken to, placing a levy on gas bills is a positive step forward and a useful stopgap, transitional measure. However, more substantial and bolder initiatives will be needed to drive heat decarbonisation.

Currently most green levies are being passed on to electricity bills, making the cost of electricity much higher than gas, even though electricity is greener. Levies on gas bills could help rebalance the costs between gas and electricity.

The introduction of the GGL at this time is right as the focus turns to reduce the carbon impact of fossil gas. In the longer term, moving to policy measures such as a carbon tax may be a simple way to address the decarbonisation challenge.

The BEIS proposals appear to be workable and identify the methods of business planning to accommodate levy payments.

Industry supports immediate move to a volumetric approach

Energy supplier members of the REA are supportive of the levy, but **don't agree with the fact that it has been set out as a regressive levy (ie applying at a flat rate regardless of usage), as this will place the most vulnerable or the smallest consumers at disadvantage.** If technical challenges can be overcome, these suppliers would support an immediate move to a volumetric approach, or at least a tiered one in the first place, which would not affect negatively the smaller and most vulnerable consumers. If a volumetric approach is not possible immediately, then they agree this should be the end goal for BEIS.

To ensure energy consumers bills costs are kept to a minimum, the Government should also ensure that they fully implement their manifesto commitment to a £9.3bn energy efficiency funding over this Parliament.

The Green Gas Support Scheme should be more ambitious

Industry believes that passing costs on to consumers can be better justified if the future scheme delivers a real impact on decarbonising the gas grid.

In our view, **the proposals set out earlier this year by BEIS to deliver an additional 2.8 TWh per annum of biomethane in the grid by 2030 under the GGSS, do not go far enough**. From a standing start in 2010, the UK has developed one of the most dynamic biomethane to grid industries in the world with over 100 plants now operational, injecting approximately 6 TWh per annum of green gas into the network. The Government's proposals for the coming decade, as set out in the GGSS and GGL consultations, is to support less than half of this level in terms of new green gas production over the coming decade. The potential for green gas production and injection in the grid is considered to be much greater, as estimated by a number of sources including the REA and the Climate Change Committee (see table below).

Biomethane is a low regret, affordable technology and is key to deliver immediate greenhouse gases emission savings and make deep inroads into greenhouse gas emissions as the market transitions to a zero carbon grid.

Recent estimates on the potential for biomethane (from AD) by 2026, 2030, and 2032 (TWh/annum)

Source	**By 2026**	**By 2030**	**By 2032**
REA's Bioenergy Strategy, 2019	31	N/A	52
ENA's Decarbonisation Pathways (Balanced scenario), 2019	N/A	22	N/A
Net Zero: Technical Report, CCC, 2019	N/A	20 (heating homes)	N/A
Biomethane: the pathway to 2030 (ADBA, 2020)	N/A	~54 (conversion from 5,677 million m^3 biomethane potential)	N/A
GGSS consultation, BEIS April 2020	N/A	2.8 [under GGSS] +6 [under RHI] = ~ 9 TWh/annum	N/A

As already highlighted in our response to BEIS proposals on the future Green Gas Support Scheme, **we would like to reiterate that the Scheme should include support to plant expansions of existing assets as well as new build.** This would deliver value for money whilst stimulating further biomethane generation.

In addition, the budget should reflect the real potential of the sector, **taking into account a wider range of sustainable, available feedstocks**, including rotational and sequential crops, as well as crops classed as 'non relevant crops' under the Renewable Transport Fuel Obligation and crops certified as low ILUC risk feedstocks in the future.

Finally, **the GGSS should also include biomethane from thermal processes such as gasification** for the reasons already set out in our response to BEIS consultation on the GGSS.

Consultation questions

Scope of the Levy

1. **Do you agree with our rationale for applying the levy to all suppliers of gas into the grid (apart from those that supply green gas exclusively)? Yes/No. Please provide evidence to support your response.**

Yes.

However, if an exemption is given to gas suppliers that supply 100% green gas, there needs to be a robust and transparent tracking system in place for them to demonstrate that they supply 100% green gas.

We strongly recommend that Guarantees of Origin (GoO)[1] are used to provide this evidence, as they are for Fuel Mix Disclosures evidencing the supply of renewable electricity and for exemptions from CfD payments.

The process by which evidence is presented must be clearly set out in the regulations and/or associated guidance and this process should be regulated by Ofgem. We recommend that the existing fuel mix disclosure for electricity supply is expanded to include gas which will provide suppliers with a familiar process for evidencing their supply of green gas.

GoOs will be increasingly important as we shift to a more diverse set of green gases flowing through the gas grid: ie not only biomethane and BioSNG, but also green hydrogen. This would allow differentiation between supplies and allow greater consumer choice.

Some energy suppliers have suggested that additional proportional exemptions should also be given to suppliers that supply a proportion of green gas to their customers (e.g. 10%), as long as these are backed by GoOs. These, for example, could be given an exemption or discount proportional to the proportion of green gas supplied. One benefit of this approach is that it would create a direct link between price and renewable content (supplies with higher renewable content would attract less levy therefore, if costs were passed on to consumers, would end up being cheaper than higher fossil fuel based supplies). The REA supports this suggestion given that, as it stands, only one supplier would benefit from this exemption.

[1] A "Guarantee of Origin" (GoO) is defined in Article 15 of the Renewable Energy Directive (RED). RED I only referred to GoO for renewable electricity, whilst in Article 19 of RED II the word *electricity* has been replaced with *energy* meaning that GoO now apply to renewable gas (and also renewable heat). Therefore, there will "officially" be GoO for renewable gas in the European Union.

Other suppliers have made a recommendation that the levy should take into account the support that some energy suppliers have already been giving to green gas over the past few years. These suppliers should have a discount based on the level of support already provided.

GoO and RED II

On a separate note related to RED II, Article 19 of the Directive states that member states must appoint a single competent authority to issue GoOs for gas. The GoOs that are issued must conform to the requirements of RED II which references conformity with standard CEN EN16325 (Guarantees of Origin related to energy).

We strongly recommend that a competent body is appointed to issue GoO in line with RED II and we recommend that the government consider appointing an existing scheme, such as the Green Gas Certification Scheme, to minimise disruption to the market and minimise costs.

Appointing a Scheme will give maximum confidence to all stakeholders in the rigour of the system being used by suppliers to receive exemptions from the Green Gas Levy.

We also want to reiterate that we strongly recommend that the UK and EU put in place an agreement "on mutual recognition of guarantees of origin issued in the Union" – as per RED II Article 19 clause 1 – which will allow the full integration of the UK GoO system for renewable gas with systems operating in the EU.

A mutual recognition agreement will maximise the value that UK biomethane producers will receive for their GoO and therefore ensure the Green Gas Support Scheme provides the best value for money possible.

Design of the Green Gas Levy

2. Do you agree with our rationale for proposing that the Green Gas Levy be charged on a per meter per day basis, according to gas supplier meter points served? Yes/No. Please provide evidence to support your response.

No.

Most energy suppliers the REA has spoken to would like to see an immediate move to a volumetric approach, as a flat rate approach is regressive and could place a greater burden on small and most vulnerable consumers.

Government must transfer the GGL to a volumetric approach as soon as possible and ensure that those users disproportionately affected by the introduction of the GGL during its period as a 'flat rate' are protected. Without an explanation that the GGL is to move to a fairer system, there is a risk of consumer resentment against the policy during a period where household costs are under pressure, and expected to worsen due to the effects of the pandemic.

3. Do you agree that the steps outlined above to provide notice to suppliers ahead of the first levy collection, and the notice period for subsequent years, are sufficient? Yes/No. Please provide evidence to support your response.

Yes

No further comments.

4. Do you agree with our proposed methodology for calculating the pence per meter per day levy rate? Yes/No. Please provide evidence to support your response.

Yes

The proposed methodology seems reasonable. However, it is very important that templates for data collection are provided to energy suppliers in advance of the new reporting requirements. Especially for smaller suppliers the data collection process can be quite burdensome and could place significant additional burden, so the process for collecting the data needs to be as smooth and straightforward as possible. A digital, centralised solution would probably be the best way forward to collect the data and manage the payments.

5. What are your views on how underspend should be managed? Please provide evidence to support your response.

Some energy suppliers have said that any reconciliation process should be avoided to minimise any additional administrative burden.

To ensure BEIS/Ofgem estimate of any underspend is as accurate as possible, we would recommend that Ofgem is given access to the Gemini data system. This is the online system used by National Grid to manage the transport of gas through pipelines and has live information on volumes of gas (biomethane plus propane) injected in the gas grid. This would give them a record of when plants are coming online in a much quicker way than the quarterly biomethane producers' submissions (which could typically be over 3 months from the point at which the information has been recorded).

BEIS should also note that access to Gemini is also key to minimise biomethane producers' administrative burden and avoid payment delays from Ofgem. The provision of information / evidence on the meter data from biomethane producers is often the cause of payment delays. Ofgem could be given access to the Gemini system (e.g. the applicant could provide them with their registration code or they could be given access by Xoserve). Ofgem would then only need to check that the data supplied by the producers ties up with the data in Gemini.

It should be noted that the regulator's access to the grid system operator's online system is already in place in other countries of Europe. As an example, in the Netherlands and Denmark the subsidy and guarantee of origin (GoO) system are integrated into the System Operator's processes so that meter readings can be taken directly from the primary source e.g. Gemini in the UK. This removes a level of administration from the producer and increases the reliability of the data used in the subsidy and GoO systems. We would be happy to provide further detail on this if needed.

6. **Do you agree with our rationale for proposing that levy payments should be made quarterly? Yes/No. Please provide evidence to support your response.**

   Yes.
   The energy suppliers we have spoken to agree with a quarterly payment schedule.

   The rules set by BEIS must be clear to ensure that businesses are able to ensure their ability in management and credit arrangements.

7. **Do you agree with our proposal that gas suppliers should provide quarterly meter point data to Ofgem to inform quarterly levy payment calculations? Yes/No. Please provide information about the availability of meter point data and the formats that it could be provided in.**

   Yes.

   The energy suppliers we have spoken to are supportive of this proposal.

8. **Do you agree with the assumptions made and the costs set out for suppliers of familiarisation with the regulations and administration in the accompanying Impact Assessment (to be published during the consultation period)? Yes/No. Please provide additional information on any other costs to business associated with the Green Gas Levy that have not been discussed that should be considered (e.g. engagement with customers and changes to billing systems).**

   We don't have any comments on this question.

9. **Do you agree with the proposal to require all suppliers to secure credit cover? Yes/No. Please provide evidence to support your response.**

   Yes.

   Lessons should be learned from other energy schemes like the CfD as to the best type of credit cover that should be required. REA would be happy to discuss this in more detail.

10. **Do you agree with the forms of credit cover that we are proposing could be provided by suppliers? Yes/No. If not, what alternatives would you recommend that could also be drawn upon quickly?**

    We don't have any comment on this question.

11. **Do you agree that credit cover should be lodged on a quarterly basis, (if there is not already sufficient cover in place), in order to cover the upcoming quarterly levy payment? Yes/No. Please provide evidence to support your response.**

    Yes.

    The energy suppliers we have spoken to are supportive of this proposal, though some energy suppliers have also suggested that it would be more efficient to do this on an annual basis.

12. **Do you agree with our proposal for a flat rate charge for the levy, without tiering, as part of a per meter point levy design? Yes/No. Please provide evidence to support your response.**

    No.

    The energy supplier members of the REA are supportive of the levy, but don't agree with the fact that it is regressive, as this will place the most vulnerable consumers at a disadvantage. If the technical challenges can be overcome, these suppliers would support an immediate move to a volumetric approach, or at least a tiered approach, which would not affect negatively the smaller and most vulnerable consumers. If a volumetric approach or a tiering approach are not possible immediately, then this should be the end goal for BEIS and should be introduced at the earliest opportunity.

Impacts on billpayers

13. **What are your views on the impact that the Green Gas Levy could have on billpayers? Please provide evidence to support your response.**

    BEIS estimates of the impact on consumers' bills indicate that the impact would be relatively low. However, this may be partly due to the low ambition and associated low budget allocation to the Green Gas Support Scheme.

    As previously highlighted, we consider that the Scheme should be more ambitious and reflect the real potential of this sector.

    As recommended previously and in our response to the consultation on the future Green Gas Support Scheme, the Scheme should be open to existing plants (e.g. existing electricity only plants or CHP plants). The impact on consumers' bills from the inclusion of these plants would be extremely limited. Most of these plants will probably reduce their current CHP output in order to operate their new biomethane plant at full capacity. This would result in lower subsidies received under FITs or the RO, leading to lower electricity bills. The overall cost to the consumer between electricity and gas bills is therefore unlikely to be any higher.

In addition, Government should implement its full proposals on energy efficiency investment in UK homes and businesses to drive down demand and ensure that impacts to users are kept to a minimum.

Greater awareness of green gas options flowing through the grid will likely reflect changes we have seen in the renewable power market over the last decade, with consumers exercising their choice in wanting to purchase renewable energy as part of their commitment to responding to the climate emergency. Government should take note of products now available in the renewable power market and facilitate consumer demand for green gas by allowing systems to provide consumers with the ability to select which green gas they wish to buy, at what time period and even at which location it was generated. The introduction of GoO and fuel mix disclosure on renewable gas supplies will provide greater information to consumers on gas choices available and allow those customers who wish to support generators of green gas (and in the future green hydrogen) to increase their output.

Budget control and financial management

14. **Do you agree with the proposed approach to budget control and financial management? Yes/No. Please provide evidence to support your response, including any views on the proposed change to the quarterly meter reading submission process for biomethane producers.**

    Yes.

    Our biomethane producer members see the change to a fixed date for quarterly submission data as a positive step forward. However, it is important to note that this could place significant strain on the annual sustainability auditors. Currently, these are required to audit sites at the end of the fourth quarter. If the dates for quarterly submissions are fixed, all the audits will need to happen at the same time. This issue should be considered by BEIS and it could be resolved by allowing more flexibility on the timing of the audits so that these can be staggered.

15. **Do you agree that the backdated payments proposal will provide the necessary certainty for biomethane developers to proceed with applying to the Green Gas Support Scheme during the gap in funding availability? Yes/No. Please provide evidence to support your response.**

    Yes.

    We don't see any issue with this proposal. It is likely that no or only a few projects will be able to commission in the first six months of the scheme. In most cases projects will apply to secure a Tariff Guarantee when the scheme opens and are likely to take several months to be ready for commissioning.

Compliance

16. **Do you agree with the proposed mutualisation process? Yes/No. If not, what alternative mechanism would you propose?**

    We don't have any comment on this proposal.

17. **Do you agree with the proposal that Ofgem may report and publish information on non-compliance and enforcement action? Yes/No. Please provide evidence to support your response.**

    We don't have any comment on this proposal.

18. **Do you have any views on how reporting can be used to best contribute to compliance with scheme obligations?**

    We don't have any comment on this proposal.

19. **Do agree with the proposed approach of applying interest to late payments? Yes/No. Please provide evidence to support your response.**

    We don't have any comment on this proposal.

20. **Do you agree with the proposed range of interest applied to late payments? Yes/No. Do you have any views on the appropriate rate of interest to mitigate against late payments?**

    We don't have any comment on this proposal.

21. **Do you agree with the proposed approach for Ofgem to issue financial penalties, including the proposed maximum limit? Yes/No. Please provide evidence to support your response.**

    We don't have any comment on this proposal.

22. **What do you consider the maximum fine should be where a gas supplier has either a low turnover or no turnover at all? Please provide evidence to support your response.**

    We don't have any comment on this proposal.

23. **Do you have any views regarding the pursuance of debts through the courts by Ofgem?**

    We don't have any comment on this proposal.

Future considerations for the Green Gas Levy

A volumetric approach to levy design

24. Do you agree with more closely aligning levy costs with consumption through a volumetric approach, as the scheme develops? Yes/No. Please provide evidence to support your response.

Yes, as previously explained in this response. The preference of energy suppliers is that this approach should be adopted immediately if possible, so that vulnerable and small consumers are not placed at disadvantage.

25. Which of the three options set out above would be the most suitable for designing a volumetric levy? We would welcome views on how to overcome any of the issues with those approaches that have been identified.

We don't have any comment on this proposal.

26. Are there any feasible alternatives to the proposals set out in this chapter for achieving a levy that is proportionate to gas volumes? Yes/No. Please provide evidence to support your response.

We don't have any comment on this proposal.

27. How could we ensure that a volumetric levy is designed in a way that promotes a competitive gas supply market and minimises costs, administrative burden, and other impacts on suppliers?

We don't have any comment on this proposal.

REA, 02/11/2020