

## REA briefing on the Green Gas Support Scheme

In March 2021 the Department for Business, Energy and Industrial Strategy (BEIS) published its response to the sections of the 'Future Support for Low Carbon Heat' consultation that focus on Green Gas, as well as its response to the later consultation on 'Green Gas Support Scheme (GGSS): digestate management and that on the Green Gas Levy.

You can find the full response [here](#).

### Summary of BEIS decisions on the Green Gas Support Scheme (GGSS)

The GGSS is expected to begin in autumn 2021 and be open for applications until Autumn 2025. It will support biomethane injection from Anaerobic Digestion (AD) only, and only new AD plants will be eligible under the Scheme. Gasification and biogas combustion will not be supported.

#### Tariff levels, structure and length

The GGSS will support biomethane injection into the gas grid through a 15-year tariff and will be based on a three-tier structure.

The following tariff rates will be set for each tier:

- Tier 1: 5.51 p/kWh (up to first 60,000 MWh/annum of eligible biomethane injected, to encourage larger plants to come online where there are suitable conditions to do so, and to take advantage of economies of scale)
- Tier 2: 3.53 p/kWh (following 40,000 MWh/annum of eligible biomethane)
- Tier 3: 1.56 p/kWh (any remaining biomethane)

#### Tariff guarantees

- There will be a Tariff Guarantee (TG) mechanism along the lines of that in the RHI, except that TGs will be compulsory.
- The commissioning window will be aligned with the end of the scheme. Projects will be required to be commissioned by the deadline nominated in their TG application (with a 183-day grace period carried over from the RHI) or by the end of the scheme, whichever is sooner. BEIS expect applicants to be realistic and timely in their nominated date as they will not be eligible for payment until they are commissioned.
- The 3 weeks window between Stage 1 and stage 2 TG will be retained.
- BEIS will update the definition of 'commission' in the scheme regulations to provide further clarity to applicants as this has caused significant confusion.
- There will be TG budget caps / allocation, as was the case in the RHI. These will be set for each financial year and will also include a cap for the first 6 months of the

scheme to mitigate against the possibility of overallocation while the tariffs are unable to degress (see section on degression below). There will also be an annual budget cap to control and monitor the scheme spend. BEIS will publish regular data on the caps so that industry can see the available capacity on the scheme.

### **Degression**

- There will be a quarterly degression mechanism with announcements made by 15th March, 15th June, 15th September and 15th December of each year. However, this is a revised mechanism that takes into account the lower volumes of biomethane application on the scheme and the relatively high cost of these plants. Degression will simply occur against a forecast expenditure trigger and not on quarter-to-quarter growth against growth thresholds. This will better match the profile of biomethane deployment that we can expect to see on the scheme. Tariffs will also be unable to degress in the first 6 months of the scheme so a separate budget cap will be included to cover this period to ensure effective budget management.
- Degression thresholds will be published outside the regulations (before the launch of the scheme), allowing the tariff review process to be more dynamic, responding and adjusting to costs without the need for a legislative change.
- There will be a 10% degression to the tariff if expenditure thresholds are breached.

### **Cost evidence collation and annual tariff review**

- An annual tariff review will be introduced as the primary mechanism to amend the tariffs offered to new applicants. This will be informed by data including the cost data collected from applicants (see below), and other evidence collected through ongoing BEIS market intelligence and analysis. Applicants with TGs will be protected against any future tariff changes.
- The outcome of the tariff review will be announced each year by a date set in the regulations, to occur in autumn 2022, 2023 and 2024. There will be a period of one month's notice before any updated tariffs take effect.
- BEIS will collect more detailed information on plant construction costs from applicants. This will help inform the annual tariff review. A full set of capital construction costs incurred by the plant will be submitted at Stage 3 of the TG application. The cost information will need to be audited by an independent auditor in line with guidance that will be published by BEIS.

### **Waste/residues threshold**

- BEIS will require 50% of all biomethane (by energy content) to be produced using waste or residue feedstocks, though they will undertake a mid-scheme review of this threshold (e.g. to review food wastes available). They are minded to increase this proportion in future as appropriate.

## **RED II and Sustainability**

- GHG savings and the methodology to calculate them will be compatible with REDII provisions. Biomethane producers will be required to meet a GHG emission saving threshold of 70%. This means that lifecycle GHG emissions for each consignment of biomethane will need to be less than or equal to 24g of CO<sub>2</sub> equivalent per MJ of biomethane injected (current threshold under the RHI is 34.8g CO<sub>2</sub> equivalent in the RHI). Participants will be able to calculate the greenhouse gas emissions using either the default value or actual value methodologies outlined in REDII. The methodology in REDII also allows the averaging of emissions across feedstock consignments and accounts for covers on digestate stores. Biomethane producers will have to submit their GHG savings as part of their annual sustainability audit.
- The Government will not be requiring the Guarantees of Origin for the GGSS, though they will continue the market for certificates.

## **FMS protocols**

- FMS procedures will be in line with those set out under the RHI, though BEIS will include provisions in the regulations for the GGSS, which would allow for BEIS in the future to approve a scheme for listing sustainable fuels within the GGSS if it is deemed to sufficiently comply with the criteria outlined in the scheme regulations.

## **Digestate**

### **Storage and covers**

- Ofgem already require proof of the permit on the RHI (or proof of why a plant should be exempted) and this will continue on the GGSS. By the time the scheme is open, all new AD plants under these regulations in England on the scheme will be required to cover stores, which will prevent a proportion of ammonia being released. The GGSS will not make any requirements for the retrofitting of cover unless required by updated Environment legislation.

### **Spreading**

- Digestate must be spread using low emission spreading techniques as defined in the Code of Good Agricultural Practice for reducing ammonia emissions. or;
- Where the participant contracts with another person to spread the digestate, that person complies with the National Association of Agricultural Contractors (NAAC) standards or equivalent.
- Participants will be required to declare to Ofgem that they are complying with one of the above during their participation.
- Given the limited data available on the costs of ammonia reduction technology, BEIS will commit to funding a technoeconomic study into ammonia reduction technologies which will inform the mid-scheme review of this aspect of the policy.

If appropriate and supported by data, they may require participants in the future to use such technologies.

### **Additional capacity**

- The scheme will allow an additional capacity mechanism and are now keen to facilitate plant expansion. Only existing GGSS participants will be able to apply and only while the scheme is open (from autumn 2021 to autumn 2025). The additional capacity will need to be in operation by the end of the scheme, in autumn 2025. BEIS will also look to streamline the process for applying for additional capacity (for example, by removing the requirement to overproduce biomethane prior to making an additional capacity application).

### **Transfer of registration**

- As for the RHI, there will be a mechanism to allow the transfer of registration of biomethane production between parties.

### **Interaction with the RHI**

- The Government will not allow scheme interaction with the RHI to minimise any overcompensation risk.

### **RHI to GGSS Transition**

- In addition, where an RHI TG application has been withdrawn after the coming into force date of the GGSS regulations, an application may not be submitted to the GGSS. This is to prevent a situation where RHI TG applicants could 'cherry-pick' between schemes.
- However, in order to prevent high-value stranded assets, where an RHI TG application has failed to meet the 31 March 2022 commissioning deadline they will be able to apply to the GGSS, so long as the anaerobic digester was not used to produce biogas prior to the coming into force date of the GGSS regulations.

### **Interaction with other schemes**

- Like in the amended RHI, the government will include a payment formula which allows biomethane producers to split payments between the GGSS and the RTFO (i.e. to enable different consignments of biomethane to receive payments from either the GGSS or the RTFO within the same quarter).
- BEIS will work with Ofgem and Department for Transport (DfT) to ensure these regulations can be robustly applied to this pathway for GGSS claimants. Effective data sharing will be established to assure both administrators of the source and destination of biomethane.

### **Longer term green gas mechanism**

- There may be scope in the scheme's future to open it up to supporting other green gases, such as hydrogen, if the current barriers to deployment are overcome during the scheme's lifetime. Beyond the GGSS, BEIS are continuing to engage with stakeholders on potential revenue mechanisms to support hydrogen and are aiming to consult on a 'preferred' hydrogen business model, or models, in 2021. Any future policy decision on longer-term future of green gas support will consider the outcome of this consultation, future consultations and of BEIS wider strategic work on hydrogen.

### **Green Gas Levy response**

- Along with decisions on the Green gas Support Scheme, BEIS has issued its response to the Green Gas Levy (GGL) consultation. The GGL is expected to launch alongside the GGSS in autumn 2021, with the first levy payment from gas suppliers being collected in April 2022.
- Levy payments will be collected for the duration of the GGSS tariff payments. Ofgem will manage the collection of the GGL from gas suppliers along with the distribution of payments to biomethane producers.

### **Backdating payments for biomethane producers**

- The government has decided to 'backdate' eligible payments for any biomethane injected by registered biomethane participants from the launch of the GGSS in 2021 until Q1 2022/23.

### **95 -100% green gas exemption**

- The GGL will apply to "designated fossil fuel suppliers" of gas, as defined under section 100 of the Energy Act 2008. Gas suppliers who can evidence – with retired green gas certificates by a specified date- that they have serviced 95% to 100% of their gas portfolio with green gas for the entirety of a levy scheme year (i.e. 1 April to 31 March) will be excluded from paying the levy for that year.
- There will be no other exemptions (for example, proportional exemptions as we suggested in our response).

### **Flat rate vs volumetric approach**

- The government will launch the levy with a per meter design that would see levy costs distributed amongst gas suppliers according to the number of gas meters that they supply. However, BEIS recognises the strong preference from stakeholders (including the REA) for a volumetric levy design and are actively considering how to address the current feasibility challenges with implementing a volumetric approach to ensure a transition to a volumetric levy can happen as soon as possible.

- For domestic consumers, bill impacts are expected to peak at £4.70 by 2028, assuming a transition to a volumetric approach.

### **Notice period**

Suppliers will be told 6 month notice ahead of the first levy collection what the first two levy rates are.

Further details on how the levy will be calculated can be found in the Government response [here](#).

If you have any questions on the above, please do get in [touch](#).

### **Further clarifications provided by BEIS in April 2021**

Following the publication of BEIS response to the consultation on the future Green gas Support Scheme, we have been in touch with the key civil servants working on the GCSS and sought some clarifications. Our full briefing on the Government response can be found [here](#).

BEIS officials hope that the regulations will be laid before summer recess, but this is by no means certain. Ofgem are in the early stages of thinking about their administrative approach for the whole GGSS and they will reach out to the stakeholders at the appropriate stage by carrying out a comprehensive consultation.

BEIS have provided the following clarifications:

#### **GGSS budget caps**

BEIS are currently working on further and full guidance on scheme budget management mechanisms and will publish it in due course and in advance of scheme launch. This will include information on budget caps and TG allocation across the scheme's lifetime and these will be monitored on a regular basis.

#### **Sustainability criteria**

The GGSS will allow averaging of GHG emissions across different consignments of feedstocks, in line with REDII. As outlined in the government response, the GHG emission threshold and calculation methodology will be compatible with that outlined in REDII. At this stage BEIS are unable to give more detail to answer your specific questions, but this will be outlined in the regulations.

#### **Inflation adjustment**

Under the RHI, the regulations didn't account for inflation that occurred between when a TG application was made and that application's tariff start date, however BEIS

understand this was highlighted to Ofgem by some RHI participants so Ofgem updated accordingly at an operational level. For certainty, the GGSS will make this explicit in the regulations, which will in turn make it easier for Ofgem to administer the updating.