

# Response to VRF Product and Tariff Methodology Consultation

January 2025

A thick, teal-colored wave graphic that starts from the left edge of the page and curves upwards and then downwards towards the right edge, positioned in the lower third of the cover.

Evolve welcomes the opportunity to respond to the GMO NI consultation on the changes to the Virtual Reverse Flow (VRF) product and the associated tariff methodology.

We understand the benefit of the changes being proposed in relation to increasing the availability of VRF IP capacity however we have serious concerns with the proposed level of increase in the VRF tariff and the timing of this in relation to the infancy of the biomethane market in Northern Ireland (NI). We note that GMO NI state in the consultation that it is not their intention to target the biomethane sector, however we believe that the proposal is likely to have a considerable negative impact on the existing biomethane producers and any new producers considering connecting to the gas network.

While the consultation sets out in detail the considerations around how the proposed changes could be implemented and the timeframe for them becoming operational, it does not appear to adequately consider the signal that this significant change in VRF tariff will send to the biomethane market. Unlike other jurisdictions, there is currently no government support available to biomethane producers in NI who inject into the gas network. This means that, despite the abundance of potential biomethane available in the region, the market has been comparatively slow to develop and the only viable route to market currently is to VRF the biomethane to GB and beyond to avail of support schemes in other regions.

The introduction of increased charges will place considerable additional financial burden on biomethane producers, creating a further barrier to market entry. Premature changes to the VRF tariff in the absence of financial support from government could have the unintended consequence of drastically impeding the development of biomethane in NI. The Utility Regulator should give this serious consideration when making any decision on changes to the VRF tariff. The current proposal sets out an increase that could see the tariff increase from 17p per year to around £200k per year for a producer with an agreed injection capacity of 1200m<sup>3</sup> per hour. This represents a significant increase in costs for the existing biomethane producer and could be enough to discourage further biomethane connections.

In the absence of any support scheme for biomethane producers in NI, and until such times as a support scheme is put in place, Evolve believe it would be more appropriate to consider a transitional approach to the tariff increase, which instead should span a significant number of years, increasing very gradually over time. The annual review of the tariff, which is already in place, could easily facilitate this.

This approach would soften the impact of the change for producers but also allow GMO NI to proceed with the necessary IT and process changes for implementation. It would also ensure that further compliance with the EU tariff can be achieved with evidence of this being provided via a glidepath for tariff increase.